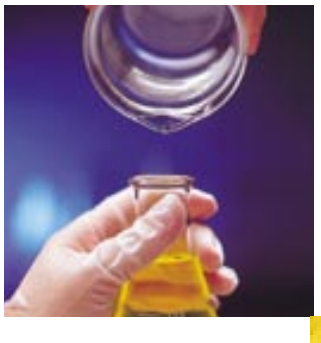
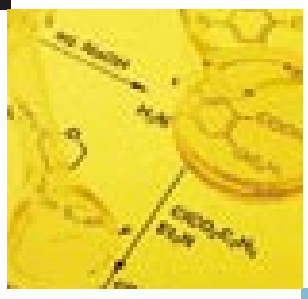




Annual Report 2004

For the year ended March 31, 2004

DAINIPPON PHARMACEUTICAL CO., LTD.

Corporate Profile

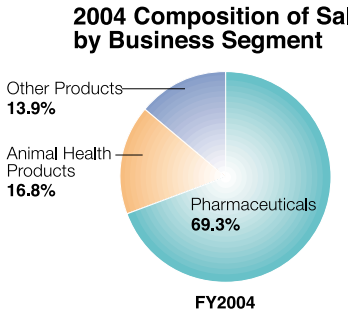
Dainippon Pharmaceutical Co., Ltd., as one of the pioneers of the modern pharmaceutical industry in Japan, has continuously striven to contribute to society with its research and development of better pharmaceuticals and in the supply of those products to the health care world.
Since its foundation in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

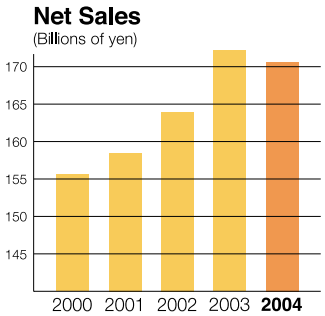
● Contents

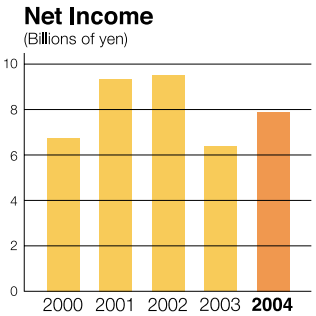
Financial Highlights

	Millions of Yen		Percent Change	Thousands of U.S. Dollars (Note)
	2004	2003	2004/2003	**2004**
For the Year:				
Net sales	**¥ 170,842**	¥ 172,162	-0.8%	**$ 1,611,717**
Operating income	**9,283**	12,876	-27.9	**87,575**
Net income	**7,968**	6,364	25.2	**75,170**
R&D costs	**15,929**	15,218	4.7	**150,274**
Capital expenditures	**4,294**	6,532	-34.3	**40,509**
Depreciation and amortization	**5,821**	5,316	9.5	**54,915**
At Year-End:				
Total assets	**193,238**	187,416	3.1	**1,823,000**
Shareholders' equity	**129,569**	116,044	11.7	**1,222,349**
	Yen			U.S. Dollars (Note)
Per Share Data:				
Net income	**¥ 48.05**	¥38.02	26.4	**$ 0.45**
Net income assuming full dilution		36.36		
Cash dividends	**10.00**	10.00		**0.09**
	Percent			
Key Ratios:				
Return on equity (ROE)	**6.5%**	5.5%		
Return on assets (ROA)	**4.2**	3.4		

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106 to US$1 prevailing on March 31, 2004.







Message from the Management

Overview

This report covers the performance of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries (the Dainippon Pharmaceutical Group) for fiscal 2004, the year ended March 31, 2004.

Dainippon Pharmaceutical strives to be a company that widely contributes to society through value creation, based on its continual research and development for the betterment of healthcare and fuller lives for all people 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 business environment. Dainippon Pharmaceutical's strategy for medium- to long-term growth is its Phase II 5-Year Management Plan, which was launched in fiscal 2003. To succeed amid increasingly severe competition through a basic aim of "realization of qualitative operations," Dainippon Pharmaceutical is striving to expand the profitability of its domestic pharmaceutical operations and maximize the potential of products while ensuring close collaboration among its divisions of research, development, sales and production. We are also continuing to work toward developing non-pharmaceutical operations into fully independent businesses with solid earnings and profit bases. Finally, we aim to reduce costs and increase operating efficiency throughout the Company.

Main Management Tasks of the Revised Phase II 5-Year Management Plan

1. Strengthening domestic pharmaceutical operations
   Strategically allocate management resources to products that contribute to profits, with the aim of increasing sales to the fullest extent by maximizing those products' potential.
2. Active investment in research and development
   As in the original Phase II plan, target investment toward research and development to create compounds with new value and ensure speedy market launches of the products developed. In addition, focus on further increasing R&D efficiency.
3. Acceleration of overseas development
   Work to accelerate overseas development by promoting the global development of Dainippon Pharmaceutical's international strategic products based on proactive strategies for out-licensing.
4. Implementation of further cost reduction measures
   Promote further streamlining and increased efficiency in areas including reducing fixed costs by reviewing the functions of administrative divisions, and cutting costs by strengthening procurement.
5. Introduction of a new personnel system
   Promote business competitiveness by establishing a thorough results-oriented system and reviewing the remuneration system, while working to revitalize the Company by introducing a new personnel system that aims to improve employee motivation.

Results

In the pharmaceutical industry, measures to restrain healthcare costs such as revisions to the National Health Insurance Law in April 2003, caused the growth rate of the domestic market to slow. Amid these conditions, foreign-owned companies have increased their presence and competition has intensified. Consequently, net sales declined 0.8 percent from the previous fiscal year to ¥170.8 billion. Operating income decreased 27.9 percent year-on-year to ¥9.2 billion due to an increase in the cost of sales ratio resulting from changes in the product mix and higher depreciation expenses in connection with the construction of new facilities necessitated by the consolidation of plant operations. Net income rose 25.2 percent compared with the previous year to ¥7.9 billion due to an increase in royalty income and gains on transfer of the substitutional portion of the government pension program.

Looking at results by business segment, in the pharmaceuticals business, sales of the main products GASMOTIN®, a gastroprokinetic agent, and PRORENAL®, an agent for the improvement of peripheral circulation, grew substantially. However, sales of the new quinolone antibacterial, GATIFLO®, declined unavoidably, in keeping with its lowered marketability. As a result, net sales in this business segment declined 2.9 percent year-on-year to ¥118.4 billion.

In the animal health products business, net sales rose 6.9 percent year-on-year to ¥28.6 billion, due in part to the first full-year contribution

to sales of the product lineup acquired from Tanabe Seiyaku Co., Ltd. during the previous fiscal year. Net sales in other businesses, including food and food additives, totaled ¥23.7 billion, a 1.4 percent increase over the previous fiscal year.

Dainippon Pharmaceutical revised the sales and income targets of the Phase II 5-Year Management Plan, implemented since April 2002, based on recent developments such as the previously unreported side effects that affected the marketability of GATIFLO®—a product that was expected to become a cornerstone of the Company's earnings and profit base under the plan—and suspension of the development of a diabetes treatment originally positioned to become an international strategic product. Although the numerical management targets have changed in the Revised Phase II 5-Year Management Plan, the basic aim of the "realization of qualitative operations" remains unchanged as Dainippon Pharmaceutical continues with the rapid implementation of the following operational goals.

Final year targets (by fiscal 2007)

Operating income ratio:	11.0 percent
Return on equity (ROE):	6.8 percent
Earnings per share (EPS):	¥55

Outlook

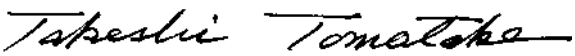
In fiscal 2005, Dainippon Pharmaceutical will work toward further growth by prioritizing investment of management resources in high-margin products, particularly GASMOTIN®, a gastroprokinetic agent, PRORENAL®, for the improvement of peripheral circulation, and QVAR™, an inhaled steroid asthma treatment. However, net sales are expected to increase only slightly year-on-year, due to revisions to NHI drug prices (an average decrease of 4.2 percent throughout the industry) enacted at the beginning of the fiscal year.

In addition, we expect operating income, ordinary income and net income to decrease year-on-year, due to the Company's plans to increase investment in R&D over the level of the previous year in order to enhance the pipeline and expedite development, as well as a projected increase in operating expenses, such as promotional costs associated with the aggressive market development of strategic products.

Dainippon Pharmaceutical will work in concert to achieve the objectives of the Phase II 5-Year Management Plan, aiming for profit-focused management. We look forward to our stakeholders' continued cooperation and support.

Takeshi Tomotake
Chairman

Kenjiro Miyatake
President



Takeshi Tomotake
Chairman

Kenjiro Miyatake
President

Phase II 5-Year Management Plan Revised

Following a review of its Phase II 5-Year Management Plan (fiscal 2003—fiscal 2007), Dainippon Pharmaceutical announced the Revised Phase II 5-Year Management Plan in February 2004. The basis for this review was the necessity to revise the forecasted net sales and profits in the Phase II 5-Year Management Plan for both the Japanese and overseas markets due to changes in the domestic marketability of GATIFLO® *(gatifloxacin)*—a new quinolone antibacterial agent that was expected to be a primary source of revenue flow—and suspension of the development of an antidiabetic agent positioned as an international strategic product. Both a Corporate Cost Restructuring Committee and a Product Portfolio and Marketing Strategy Committee were promptly established to review key operational issues, and each Committee's subsequent findings and solutions were incorporated into this revised plan.

(Please refer to the Revised Phase II 5-Year Management Plan on pages 2 and 3)

Dainippon Licenses Out Antidementia Agent to Aventis

In February 2004, Dainippon Pharmaceutical concluded an agreement to license out its original antidementia agent AC-3933 to French pharmaceutical company Aventis Pharma S.A. Under the agreement, Aventis has acquired worldwide development and marketing rights for AC-3933, excluding Japan. Dainippon is currently conducting Phase IIa clinical trials in Europe, after which Aventis will then pursue the subsequent development of AC-3933 in its licensed territories.

AC-3933, a benzodiazepine receptor partial inverse agonist, has an innovative mechanism of action, and is one of Dainippon's foremost products under development, with the potential to become a key product for Dainippon. Through its collaboration with Aventis, Dainippon will accelerate AC-3933's development in order to quickly launch it as a next-generation antidementia agent.

Development of Antidiabetic Agent Halted

In September 2003, Dainippon Pharmaceutical and Takeda Pharmaceutical Company Limited announced that they would discontinue the domestic and worldwide development of AJ-9677 (TAK-677), a $ß_3$-adrenaline receptor agonist discovered by Dainippon. In Japan, Dainippon had been conducting Phase II clinical trials on patients with diabetes mellitus, while licensee Takeda had been conducting Phase II clinical trials in the U.S. and Europe for diabetes mellitus and obesity. However, while there were no safety concerns during the course of the clinical studies, the studies did not show sufficient efficacy to continue development of this agent.

Dainippon Launches OPSO® and Starts Co-Promotion of Morphine Preparation with TAIHO Pharmaceutical Co., Ltd.

In June 2003, Dainippon Pharmaceutical introduced OPSO® (morphine hydrochloride solution), its original, liquid-based cancer pain medication. OPSO® is the first liquid morphine product to be standardized in Japan. The liquid formulation masks the bitterness of morphine, and can be stored for a long time at room temperature. It is also useful as an analgesic for patients unable to tolerate a solid formulation.

In addition, Dainippon has begun co-promoting two of its morphine products, OPSO® and the long-acting cancer pain reliever KADIAN®, with TAIHO Pharmaceutical Co., Ltd. Through the partnership with TAIHO—a prominent company in the field of anticancer drugs—Dainippon expects that KADIAN® will become even more popular and OPSO® will quickly penetrate the market.

OPSO®, a liquid-based cancer pain medication

Marketing Application Filed for *Zonisamide* in Europe, with a New Formulation Launched in the U.S., and a Transfer of Licensing Rights

In November 2003, Ireland-based Elan Pharma International Ltd. filed a marketing application using the centralized procedure of the European Agency for the Evaluation of Medicinal Products (EMEA) for the anti-epilepsy medication *zonisamide* (marketed as ZONEGRAN® in the U.S.). Also, in January 2004 two new dosage strengths—a 25-mg capsule and a 50-mg capsule—were launched in addition to the 100-mg capsule in the U.S.

In March 2004, Dainippon signed an agreement that transferred licensing for *zonisamide* in North America and Europe from Elan to Eisai Co., Ltd. Due to Elan's recent realignment of its business strategy, ZONEGRAN® no longer fitted the company's profile for one of its core products. Furthermore, Eisai, which has successfully developed and marketed an anti-Alzheimer's agent in the U.S. and Europe, has shown a strong interest in ZONEGRAN®. As a result, Dainippon believes this transfer of rights for ZONEGRAN® is beneficial for all parties involved. This new arrangement is expected to further expand Dainippon's *zonisamide* business worldwide.

Launch of Inactivated Combined Vaccine "BIKEN" for Iridovirus-Streptococcicosis for aquaculture use

In April 2003, Dainippon Pharmaceutical launched Inactivated Combined Vaccine "BIKEN" for Iridovirus-Streptococcicosis, manufactured by The Research Foundation for Microbial Diseases of Osaka University. It is a combined vaccine that can protect fish of genus yellowtail with one injection against both iridoviral disease and α-hemolytic streptococcicosis, which are major causes of mortality in cultivated fish of genus yellowtail. The vaccine is the world's first inactivated combined vaccine for iridovirus and streptococcicosis.

Production Consolidated at the Suzuka Plant

With the closure of the Osaka Plant on April 1, 2003, Dainippon Pharmaceutical's production activities were consolidated at the Suzuka Plant. To allow such consolidation to proceed, the Suzuka Plant was equipped with packaging, warehousing and quality control functions. Construction of the new GMP-compliant Pharmaceutical Manufacturing Plant was completed in April 2003. It is anticipated that these developments will further optimize the productivity of Dainippon Pharmaceutical's production system.

New Pharmaceutical Manufacturing Plant at the Suzuka Plant

Overseas Expansion of the Food Business

In Thailand, Betagro-Dainippon Techno-Ex Co., Ltd. (BDT) completed construction of a new production facility in January 2004. BDT is a joint venture between Dainippon Pharmaceutical, Sumitomo Corporation, and Betagro Agro Group Co., Ltd.—one of Thailand's largest poultry growing, pig farming and animal feed manufacturing interests. The completion of the plant provides Dainippon Pharmaceutical with a stable source of raw materials for its extracts business from Thailand in addition to its existing sources in Japan, allowing the company to further expand this area of its business in the future.

In China, Kunshan Dafu Food Technology Co., Ltd., a joint venture between Dainippon Pharmaceutical and Sanwa Shoji Co., Ltd., completed construction of a foodstuffs production facility in March 2004. With the completion of the production facilities, combined with the R&D and quality control functions that have been operational since October 2003, the company formally launched its foodstuffs operations in China producing among other products, thickeners, stabilizers, and flavorings.

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. Reflecting the needs of this exciting environment, Dainippon Pharmaceutical has established both a separate Drug Research Division and a Drug Development Division, thereby establishing and clarifying their independent roles and responsibilities.

A lateral "project system" has also been introduced that allows the Research and Development Divisions to more effectively collaborate together, while creating synergies from their independent strengths. The "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, an electronic R&D Project Support System was also introduced. 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, with the Company's separated research and development functions, 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.

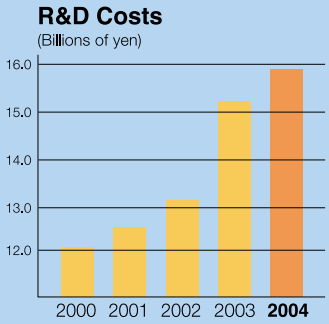
Dainippon Pharmaceutical's research organization is comprised of four laboratory facilities—the Chemistry Research Laboratories, the Pharmacology & Microbiology Research Laboratories, the Safety Research Laboratories and the Pharmacokinetics Research Laboratories. This organizational structure has served to clarify each laboratory's roles and responsibilities regarding the selection of new candidates and the focus of resources in the development of new drugs.

Areas of Exploratory Research

Dainippon Pharmaceutical 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 target period from the start of clinical trials to application for approval is 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.

Pharmacovigilance & Medical Information is part of the Drug Development Division. This structure allows for a unified development strategy encompassing the entire process from Phase I clinical trials to post-marketing activities, 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 Pharmaceutical 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 Pharmaceutical Company Limited in the U.S. In Europe, Almirall Prodesfarma, S.A. is conducting Phase II trials for *blonanserin* and Novartis Pharma AG is conducting Phase I trials for AC-5216. In addition, during fiscal 2004 Elan Pharma International Ltd. filed through the European centralized procedure a European Marketing Authorization Application for *zonisamide* and it transferred its interests in *zonisamide* in North America and Europe to Eisai Co., Ltd.

Summary of Major Development Candidates

Blonanserin

Blonanserin has a novel chemical structure that is completely different from existing antipsychotic agents. The results of recently completed clinical trials have proven that this serotonin-2 (5-HT_2) and dopamine-2 receptor antagonist has efficacy on both the positive and negative symptoms of schizophrenia, and suggest that *blonanserin* causes fewer extrapyramidal adverse reactions compared to older agents. In addition, the undesirable side effects, such as weight gain and elevated blood sugar levels, that are associated with other 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. A 12-week clinical biopsy study was completed within fiscal 2004, which showed that AS-3201 inhibits the polyol pathway in sural nerve, improves nerve function, and tends to improve some clinical measures.

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. Compared with antidementia agents already marketed, it is expected that AC-3933 will demonstrate better efficacy for improving memory deficit 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.

(See Highligts of the Year)

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.

New Drugs in the R&D Pipeline

(As of June 30, 2004)

Stage	Brand name	Generic name	Formulation	Category	Remarks
Approved	GLIMICRON HA® *New Formulation: 20mg tablet	*gliclazide*	Tablet	Oral hypoglycemic	Developed in-house
Stage	Brand name	Generic name	Formulation	Category	Remarks
NDA filed	ANPEC® *New Administration Route: epidural injection	*morphine hydrochloride*	Injection	Analgesic	Co-developed with 4 other companies
	EPHEDRINE NAGAI® *New Administration Route: intravenous injection	*ephedrine hydrochloride*	Injection	Hypotension during anesthesia	Co-developed with 2 other companies
	QVAR™ *Additional Use: Pediatric	*beclomethasone dipropionate*	Non-CFC Metered dose inhaler	Bronchial asthma	Licensed from 3M
	EBASTEL® *New Formulation	*ebastin*	OD Tablet	Antiallergic	Licensed from Almirall
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
Stage	Brand name	Generic name	Formulation	Category	Remarks
Late Phase II / Phase III	EXCEGRAN® *New Indication	*zonisamide*	Tablet	Antiparkinson disease	Developed in-house
Stage	Brand name (Code name)	Generic name	Formulation	Category	Remarks
Phase II	AURORIX®	*moclobemide*	Tablet	Antidepressant	Licensed from Roche
	AS-3201	Not determined	Tablet	Aldose reductase inhibitor	Developed in-house Preparation for phase IIb trials in the U.S. and Canada
	AC-3933	Not determined	Tablet	Antidementia	Developed in-house Phase II trials under way in Europe Phase I trials under way in Japan
	GASMOTIN® *New Indication	*mosapride citrate*	Tablet	Post-gastrectomy syndrome	Developed in-house
Stage	Code name	Generic name	Formulation	Category	Remarks
Phase I	AC-5216	Not determined	Tablet	Antianxiety & Antidepressant	Developed in-house

Business Development

Being a research-driven pharmaceutical company, Dainippon Pharmaceutical'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 Pharmaceutical is constantly challenging to improve its strategy for growth in the pursuit of ever-higher performance. While promoting these ideals, Dainippon Pharmaceutical 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.

During fiscal 2004, Dainippon Pharmaceutical entered into two agreements with other companies, establishing new collaborations that will maximize the potential of our mutual activities and fulfill potential opportunities.

In February 2004, Dainippon Pharmaceutical concluded an agreement to grant Aventis Pharma S.A. exclusive world-wide development and marketing rights (except Japan) of Dainippon Pharmaceutical's novel antidementia agent AC-3933. AC-3933 acts as a partial inverse agonist at the GABA-benzodiazepine receptor complex, and thus enhances cholinergic function. Currently under development in Europe by Dainippon Pharmaceutical, it is expected to demonstrate better efficacy for improving memory deficit than the existing treatments.

In October 2003, Dainippon Pharmaceutical licensed out Dainippon Pharmaceutical's original topoisomerase II inhibitor anticancer, AG-7352 to Sunesis Pharmaceuticals, Inc., an American company that has received the exclusive worldwide development and marketing rights. Being a quinolone analogue, AG-7352 is expected to expand the antitumor spectrum, and to show potent activities against various multi-drug-resistant cancers.

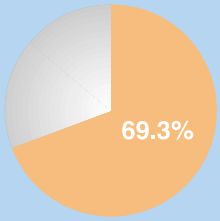
Dainippon Pharmaceutical believes that these strategic alliances will allow both Dainippon Pharmaceutical and its partnering companies to continuously activate our mutual pipelines in these collaborative fields and promote us to stronger positions in the marketplace.

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

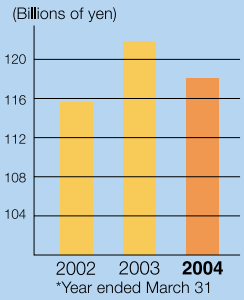
Dainippon Pharmaceutical and Aventis Pharma S.A. signing an agreement for AC-3933.

Pharmaceuticals

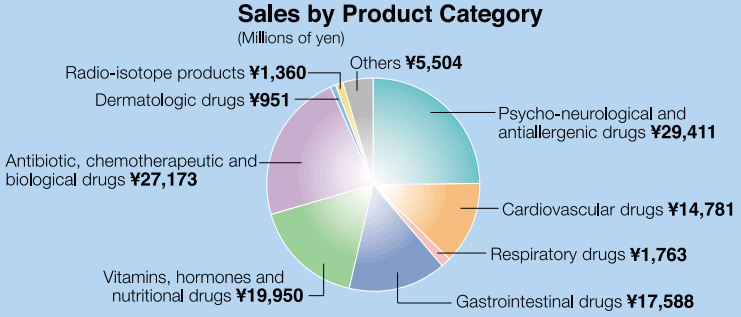
2004 Composition of Sales



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 strategic and effective marketing with an area team marketing system. This 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 the medical prescription and dispensing functions. In fiscal 2004, pharmaceuticals sales totaled ¥118,481 million, accounting for 69.3 percent of total sales.

Ethical Pharmaceuticals

■ Domestic Operations

Dainippon Pharmaceutical is progressing positively with its efforts to increase productivity in its sales operations, through such initiatives as the organizational restructure of MRs, which now emphasizes solutions-based marketing activities. By extending the skills and efficiency of Dainippon Pharmaceutical's MRs, it is believed that the present sales force of 700 can effectively perform with the creativity of 1,000. In October 2003, the project system implemented in the Research and Development Divisions was also introduced in the Sales Division to nurture existing product lines and strengthen product life-cycle management, in conjunction the number of product managers was also increased to strengthen product-specific marketing.

Management resources for sales are being allocated strategically, with a priority focus on GASMOTIN®, PRORENAL® and QVAR™, with the goal of realizing the full potential of each product. Specific measures include implementation of an evidence-based medicine (EBM) strategy, product-focused promotional activities, and the rapid establishment of a structure incorporating 750 MRs.

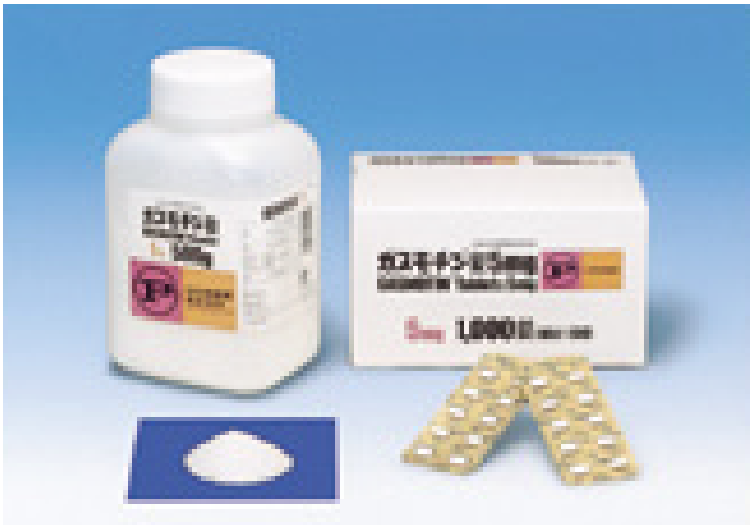
During fiscal 2004, in an environment of intensifying market competition, net sales decreased 2.9 percent year-on-year to ¥118.4 billion. A brief overview highlighting the performance of major pharmaceutical products follows below.

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 in fiscal 2004 increased 20.8 percent to ¥15.7 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. Through efforts to increase awareness of functional dyspepsia and establish evidence in the treatment of this disease, the Company plans to further cement its position as a mainstay product.

Sales of PRORENAL® *(limaprost alfadex)*—an orally administered prostaglandin agent for the improvement of peripheral circulation, which was jointly developed with Ono Pharmaceutical Co., Ltd.—increased 36.4 percent year-on-year to ¥8.3 billion. 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 yet well recognized. Therefore, to further grow the market for PRORENAL®, Dainippon Pharmaceutical will concentrate its efforts to better educate about this disease.

Sales of the inhaled steroid asthma treatment QVAR™ *(beclomethasone dipropionate)*, launched in August 2002, were ¥1.5 billion. Licensed from 3M Pharmaceuticals, QVAR™ is an MDI that uses an ozone-safe non-CFC propellant. Because it is an extrafine aerosol, it is as effective as previous products at only half the dosage. Reflecting the asthma prevention guidelines enacted in Japan in 1998, the market for inhaled steroid medications is expected to continue to expand further. Additionally, QVAR™ was filed for pediatric use in January 2004. Dainippon Pharmaceutical co-markets QVAR™ in Japan with Schering-Plough K.K.

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. In fiscal 2004, sales of EXCEGRAN® decreased 10.0 percent to ¥5.9 billion due to a decline in exports. Dainippon Pharmaceutical intends to further expand the potential of this prod-



GASMOTIN®, a gastroprokinetic agent

uct, with therapeutic trials for the additional indication of Parkinson's disease now under way.

EBASTEL® *(ebastine)*, an antiallergy drug licensed from Almirall Prodesfarma, S.A., experienced a year-on-year decrease in sales of 8.3 percent to ¥10.2 billion due to a sharp decline in the dispersal of cedar pollen in the past season and intensified competition in the market. Although competition has increased, EBASTEL® exhibits potent antihistamine action and superior efficacy with a single daily dose, in combination with a low incidence of undesirable effects such as drowsiness. By promoting greater awareness of EBASTEL®'s advantages, the Company will work to maintain its market share.

The macrolide antibiotic KLARICID® *(clarithromycin)*, the enteral nutrition product ENSURE LIQUID®, and the humanized monoclonal antibody for prevention of respiratory syncytial virus (RSV) infection SYNAGIS® *(palivizumab)*, which were developed by Dainabot Co., Ltd. (now Abbott Japan Co., Ltd.), posted sales of ¥18.9 billion, ¥13.8 billion, and ¥5.4 billion, respectively.

Sales of the oral hypoglycemic GLIMICRON® *(glicazide)*, the psychotropic drug SERENACE® *(haloperidol)* and the ACE inhibitor CETAPRIL® *(alacepril)*, mid-level products in terms of net sales, were limited to ¥5.0 billion, ¥3.1 billion, and ¥2.8 billion, respectively.

Sales of the new quinolone antibacterial GATIFLO® *(gatifloxacin)*, which Dainippon Pharmaceutical co-markets with Kyorin Pharmaceutical Co., Ltd., were ¥1.3 billion.

Overseas Operations

Dainippon Pharmaceutical's international operations have for many years been centered in Asia. However, overseas sales and earnings have increased substantially in other markets following the April 2000 launch of *zonisamide* in the United States. Although export sales of *zonisamide* were ¥2.5 billion in fiscal 2004 (a decrease of 23.6 percent compared with the previous fiscal year), this was not due to a decline in net sales or the number of prescriptions but merely an adjustment from fiscal 2003, when Elan, Dainippon Pharmaceutical's U.S. licensee, caused sales of bulk pharmaceuticals to exceed anticipated demand by stockpiling products in preparation for relocating a manufacturing facility. Elan filed a marketing authorization application for *zonisamide* in Europe in November 2003, and Dainippon Pharmaceutical will continue seeking business opportunities for *zonisamide* outside of the U.S. and Europe, with the hope of expanding sales and further developing it as major export product. In addition, Dainippon Pharmaceutical signed an agreement that transferred licensing for *zonisamide* in the U.S. and Europe from Elan to Eisai Co., Ltd. in March 2004. Since the agreement went into effect, Eisai has begun marketing *zonisamide* in the U.S., and Dainippon Pharmaceutical's *zonisamide* business is expected to expand even further.

Mosapride citrate, a gastroprokinetic agent introduced in Japan in 1998, was launched in June 2001 in China and in April 2002 in South Korea. In fiscal 2004, export sales totaled ¥0.5 billion. Approval is also expected in Taiwan during the first half of 2005, and Takeda Pharmaceutical Company Limited are seeking approval in other countries as *mosapride citrate* firmly establishes itself as Dainippon Pharmaceutical's second major export product following *zonisamide*.

Dainippon Pharmaceutical also markets a wide range of other products internationally,

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

from ethical pharmaceuticals—such as quinolone antibacterials, a cardiovascular agent, an intravenous iron preparation and an antiallergic agent—to animal health products, food additives and diagnostic products.

All of these ethical pharmaceuticals are introduced under licensing agreements, and are marketed in each country by the licensee. However, Dainippon Pharmaceutical is considering marketing its own products in the future, should such an opportunity arise.

Overseas bases consist of Dainippon Pharmaceutical U.S.A. Corporation, as well as offices in Beijing and London, which provide support for overseas product development, facilitate communication with licensees, and collect information on local markets. A wholly owned subsidiary in Taiwan, Taiwan Dainippon Pharmaceutical Co., Ltd., is involved not only in product development but also in marketing. Currently, Dainippon Pharmaceutical is reviewing its operations in South Korea, where the largest number of its products are out-licensed, and is considering expanding its activities in the country by establishing an office in Seoul.

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 the blood concentration of given drugs.

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

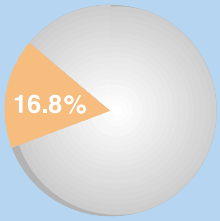
Other products in the MARKIT® series include MARKIT®-M PA, which measures prostate-specific antigen (PSA) in blood and is used in the diagnosis of prostate cancer, and MARKIT®-M PSA-ACT, which measures the new diagnostic prostate marker PSA-α_1-antichymotrypsin complex (PSA-ACT). Hyperlipemia diagnostics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

The MARKIT® series of diagnostic kits to measure the blood concentration of drugs include MARKIT®-M Haloperidol II and MARKIT®-M Bromperidol II, which test for the anti-schizophrenic drugs *haloperidol* and *bromperidol*. Introduced in May 2003, the MARKIT®-G series of automated kits now allow the automated testing for *haloperidol* or *bromperidol*. MARKIT®-M Zonisamide was designed to measure blood levels of the in-house developed antiepileptic drug *zonisamide*. In October 2003, Dainippon Pharmaceutical also launched MARKIT®-M Morphine, a new product to measure the blood concentration of morphine. All of these kits are used for therapeutic drug monitoring (TDM).

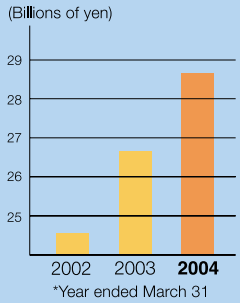
Dainippon Pharmaceutical was the first company in Japan to develop such diagnostic kits and obtain manufacturing approval for their in vitro use. The kits are now widely used in hospitals and clinical assay laboratories throughout Japan.

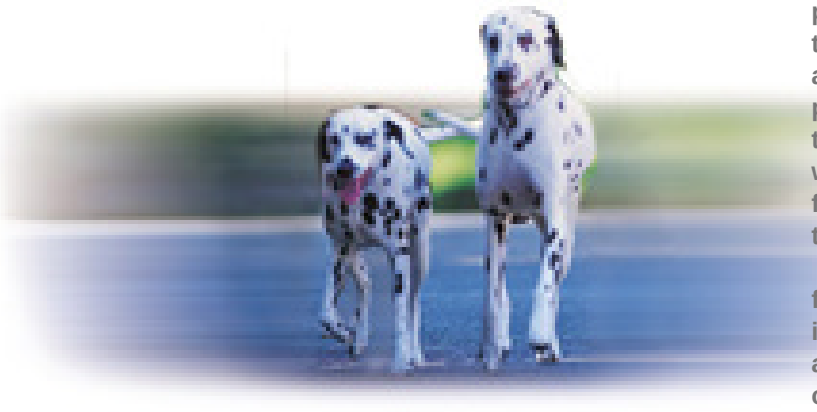
Animal Health Products

2004 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 is also further expanding its business activities in the farm animal and aquaculture fields after the transfer to Dainippon Pharmaceutical of the animal health business of Tanabe Seiyaku Co., Ltd. in fiscal 2003.

In fiscal 2004, sales in the animal health business totaled ¥28,654 million, accounting for 16.8 percent of total sales.

Animal Health Products

Based on the theme of comprehensive healthcare for pets, Dainippon Pharmaceutical's animal health business operations focus on the veterinary market for companion animals. Our product lineup includes wide-ranging pharmaceuticals used in the prevention or treatment of various animal diseases and the specialized pet foods, 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.

The sales and marketing activities of Dainippon Pharmaceutical in the animal health field is based on the database it developed to cover the members of the Veterinarians & Maru-P Association (VMA)—a membership network of animal hospitals throughout Japan that Dainippon Pharmaceutical organizes. Such an approach enables Dainippon Pharmaceutical's sales and marketing activities to be more efficient and effective by allowing Dainippon Pharmaceutical to comprehend the current needs of veterinarians and then systematically linking products for the prevention and treatment of animal diseases. In addition, Dainippon Pharmaceutical's subsidiary, Marupi Lifetech Co., Ltd., with operations dedicated to clinical lab tests for companion animals, has enjoyed strong support from veterinarians for its superior testing and diagnostic services in such areas as histopathology, viral tests 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 animal health business for livestock and fish from Tanabe Seiyaku Co., Ltd. in November 2002. Through this business transfer, Dainippon Pharmaceutical not only established a foothold for full-scale entry into the farm animal field—the largest market for animal health products—but significantly bolstered its marketing capabilities in the field of companion animals by increasing the number of experienced sales and marketing staff.

In fiscal 2004, sales of animal health products were ¥28.6 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.; the VICTAS®-S series of new quinolone antibacterial preparations containing the active ingredient *orbifloxacin*, originated and developed by Dainippon Pharmaceutical; CARDOMEC®, a preventative for canine heartworm disease from Merial, Ltd; and ISOFLU®, an inhaled anesthetic in-licensed from Abbott Laboratories.

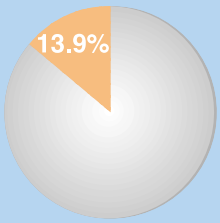
In fiscal 2004, Dainippon Pharmaceutical launched Inactivated Combined Vaccine "BIKEN" for Iridovirus-Streptococcicosis for aquaculture use—manufactured by The Research Foundation for Microbial Diseases of Osaka University—which contributed strongly to the increase in sales of animal health products business. The launches in fiscal 2002 of RIMADYL®, a canine non-steroidal anti-inflammatory and analgesic in-licensed from Pfizer Japan Inc., and TEAROSE®, a non-steroidal treatment for canine conjunctivitis in-licensed from Senju Pharmaceutical Co., Ltd., also contributed to the overall increase in sales.

Dainippon Pharmaceutical is also in the leading position in the electronic identification system for companion animals. The number of companion animal hospitals using LIFECHIP®, an ID microchip in-licensed from Digital Angel Corporation, continues to steadily increase, reflecting the December 2000 enactment of the Law Concerning the Protection and Control of Animals.

VICTAS®-S series, new quinolone autibacterial

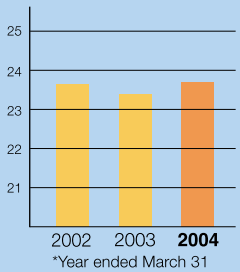
Other Products

2004 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 laboratory use. In fiscal 2004, sales of other businesses totaled ¥23,707 million, accounting for 13.9 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 2004, the business conditions for this segment of the Company's operations and the Japanese food industry overall continued to be severe, due in part to the continuing domestic discoveries of bovine spongiform encephalopathy (BSE) and the addition of domestic discoveries of avian influenza within this fiscal year.

Dainippon Pharmaceutical expanded its overseas operations in fiscal 2004. In Thailand, Betagro-Dainippon Techno-Ex Co., Ltd., an affiliated extract production company, completed construction of a new factory in January 2004, thereby ensuring a stable supply source for the extracts business from both Japan and Thailand. In China, Kunshan Dafu Food Technology Co., Ltd., an affiliated food ingredient company that has integrated operations covering research and development to production and quality management, completed construction of a manufacturing plant and commenced sales activities in China in March 2004. In April 2004, Dainippon Pharmaceutical opened the Tokyo Techno Center, a research facility in Tokyo that is equipped for product development together with guests from food processing companies. In pursuit of new business opportunities, Dainippon Pharmaceutical is currently also undertaking new projects related to food ingredients.

Industrial Chemicals

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

In fiscal 2004, sales of the mainstay GARO® series of sensitizers for photoresists increased substantially in a strong market for IT-related fields. This offset a decrease in sales of personal care products used in cosmetics and other applications, resulting in an overall increase in sales for this business.

Research Materials

The main research materials imported and marketed by Dainippon Pharmaceutical are research reagents, cell culture products and measuring equipment for laboratory use. The Company offers approximately 5,000 research reagents, including antibody reagents, cytokine-related reagents and genetic reagents, and in April 2004, succeeded in developing and marketing the world's first guinea pig IgE measurement reagent (Guinea Pig IgE ELISA Marupi) for use in allergy research. Dainippon Pharmaceutical markets tissue culture materials, supplying Japanese researchers with a variety of animal-derived cells, particularly human-derived cells. In particular, human adipocytes used in diabetes research and mouse embryonic stem (ES) cells used in regenerative medicine research, have been highly evaluated.

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 a Single Nucleotide Polymorphisms (SNPs) scoring device.

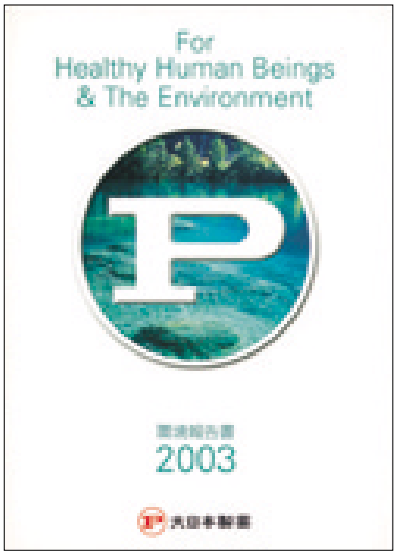
In fall 1998, Dainippon Pharmaceutical began sales of FLUCLET®, the first software system developed in-house, which provides fully automated measurement of circulatory dynamics and the activity of the autonomic nervous system. This innovative system, which performs analysis in a matter of seconds using 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

Principal Directive on Environmental Conservation

"As a company focused on the health and prosperity of people around the world, Dainippon Pharmaceutical endeavors to make our society a better place to live by actively promoting environmental conservation in all of its operating activities."

Dainippon Pharmaceutical's principal directive on environmental conservation governs all its efforts to protect the environment. Key initiatives include implementation of an environmental management system that encompasses the activities of all divisions; ensured compliance with all laws and regulations; and reduction of environmental impact.



Implementation

The Suzuka Plant obtained ISO14001 certification for its environmental management system in December 2000, and likewise in May 2004 the Research Laboratories succeeded in obtaining its ISO14001 certification. In addition, Dainippon Pharmaceutical is endeavoring to further implement environmental management systems throughout the organization.

Dainippon Pharmaceutical is committed to fulfilling its environmental responsibilities as a corporate enterprise and adheres to all environment-related laws and regulations, as well as conducting itself in accordance with its principal directive on environmental conservation. Not only does the Company fully comply with laws and Prefectural ordinances regarding emissions that affect air and water, but it has also established its own, stricter criteria for self-management of emissions.

Furthermore, Dainippon Pharmaceutical has targeted reductions in carbon dioxide emissions, industrial waste and chemical substance emissions throughout R&D and manufacturing operations as a priority issue, and has established specific policies to achieve these goals. In particular, as a pharmaceutical company, self-management of chemical substances is regarded as an issue of the utmost importance. As a result, in September 2003 Dainippon built a chloroform recovery system, which has drastically reduced atmospheric emissions. In addition, Dainippon Pharmaceutical established an Energy Service Company business at the Research Laboratories as a means of reducing CO_2 emissions, and is working to develop energy conservation measures.

In 2001, Dainippon Pharmaceutical established a page on its website devoted to the Company's environmental protection efforts, and began publishing an annual Environmental Report. Dainippon Pharmaceutical's third Environmental Report was published in 2003. The Company also introduced the practice of publicly disclosing the results of environmental accounting in 2003.

Future Direction

In fiscal 2005, Dainippon Pharmaceutical will consider building a 1,2-dichloroethane recovery system as a measure to further reduce chemical emissions, and will continue working to reduce its chemical emissions into the environment. In addition, the Company will establish an Energy Service Company business at the Suzuka Plant, and develop measures to halt global warming. Dainippon Pharmaceutical will also work to reduce the final amount of industrial waste disposed of by promoting thorough waste separation and expanded recycling.

Financial Section

CONTENTS

Six-Year Summary

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

	Millions of Yen						Thousands of U.S. Dollars
	2004	2003	2002	2001	2000	1999	**2004**
RESULTS OF OPERATIONS:							
Net sales	**¥ 170,842**	¥ 172,162	¥ 164,117	¥ 158,873	¥ 155,497	¥ 146,452	**$ 1,611,717**
Cost of sales	**110,013**	108,046	100,073	97,126	97,195	92,889	**1,037,859**
Selling, general and administrative expenses	**51,546**	51,240	46,863	45,597	45,616	45,603	**486,283**
Operating income	**9,283**	12,876	17,181	16,150	12,686	7,960	**87,575**
Income before income taxes and minority interests	**13,836**	12,718	17,863	17,619	13,595	9,438	**130,528**
Net income	**7,968**	6,364	9,596	9,376	6,884	3,319	**75,170**
FINANCIAL POSITION:							
Current assets	**118,562**	116,241	119,247	117,877	117,548	120,128	**1,118,509**
Net property, plant and equipment	**34,473**	35,374	33,637	31,487	31,188	32,640	**325,217**
Total assets	**193,238**	187,416	186,834	187,309	171,064	172,978	**1,823,000**
Current liabilities	**46,712**	61,507	49,784	56,409	44,836	55,413	**440,679**
Long-term debt	**7,000**		11,118	11,119	17,005	17,005	**66,038**
Shareholders' equity	**129,569**	116,044	115,985	109,267	98,092	89,012	**1,222,349**
OTHER STATISTICS:							
R&D costs	**15,929**	15,218	13,124	12,565	12,079	12,276	**150,274**
Capital expenditures	**4,294**	6,532	6,414	4,074	2,041	5,699	**40,509**
Depreciation and amortization	**5,821**	5,316	4,334	4,267	3,936	3,629	**54,915**

	Yen						U.S. Dollars
PER SHARE OF COMMON STOCK:							
Basic net income	**¥ 48.05**	¥ 38.02	¥ 57.06	¥ 55.75	¥ 40.93	¥ 19.73	**$ 0.45**
Diluted net income		36.36	54.18	52.70	39.05	19.16	
Cash dividends applicable to the year	**10.00**	10.00	10.00	8.50	8.50	7.50	**0.09**

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 ¥106 to $1, the approximate rate of exchange at March 31, 2004.

Management's Discussion and Analysis

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

Results of Operations

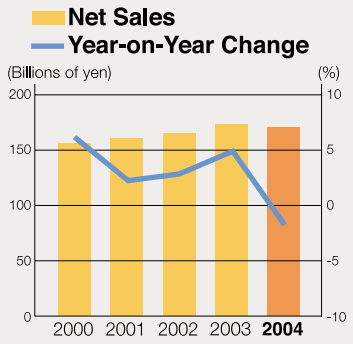
For the fiscal year ended March 31, 2004, net sales decreased 0.8 percent to ¥170,842 million. This decrease in net sales was related to the adverse impact of the discovery of previously unreported side effects that lowered the market potential of GATIFLO®, a new quinolone antibacterial that had been anticipated to be a major source of earnings under the Phase II 5-Year Management Plan. However, sales of two drugs developed in-house that contribute strongly to profit, GASMOTIN® (a gastroprokinetic agent) and PRORENAL® (a prostaglandin agent for the improvement of peripheral circulation) increased substantially.

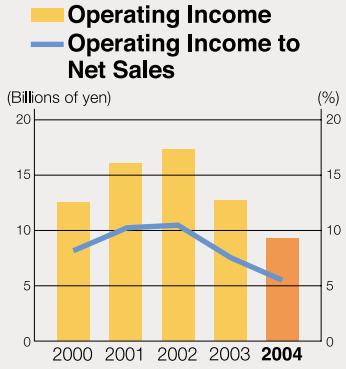
Operating income decreased 27.9 percent to ¥9,283 million, continuing the unfavorable operating income performance of the previous fiscal year. Two major reasons caused an increase in the cost of sales ratio. One is change in Dainippon Pharmaceutical's product lineup. The other is an increase in depreciation expenses for launching new manufacturing facilities at Suzuka Plant resulting consolidation of its production facilities. In addition, Dainippon Pharmaceutical increased research and development costs to accelerate product development.

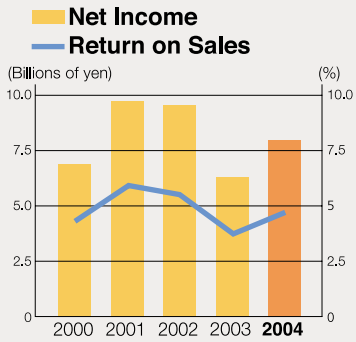
Research and development costs increased 4.7 percent to ¥15,929 million.

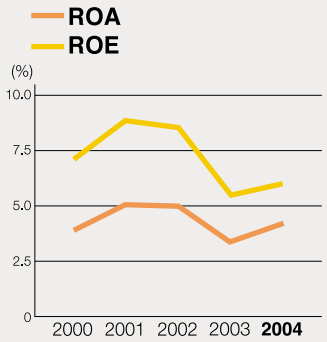
Net income increased 25.2 percent to ¥7,968 million. Dainippon Pharmaceutical incurred a loss in connection with the discontinuation of development of a new in-house compound for treating diabetes that had previously been expected to become a strategic international product. The closure of the Osaka Plant also incurred a loss on disposal of property, plant and equipment. However, royalty income increased with Dainippon Pharmaceutical's out-licensing of an antidementia agent developed in-house to Aventis Pharma S.A. of France. The Company also sold a portion of its shares held in Abbott Japan Co., Ltd. to Abbott Finance Company S.A., which resulted in gains on sales of investment securities. Moreover, Dainippon Pharmaceutical recorded substantial gains on transfer of the substitutional portion of the government pension program in connection with the implementation of the Defined Benefit Pension Plan Law.

As a result of the above, the operating margin was 5.4 percent, return on average total shareholders' equity (ROE) was 6.5 percent, and earnings per share (EPS) amounted to ¥48.05.









Operating Performance by Business Segment

Sales of pharmaceuticals decreased 2.9 percent to ¥118,481 million. Operating income in this segment decreased 22.9 percent to ¥10,227 million due to an increase in the cost of sales ratio and higher research and development costs. Sales of the core product GASMOTIN®, a gastroprokinetic agent, increased 20.8 percent to ¥15.7 billion. In addition, sales of PRORENAL®, an agent for the improvement of peripheral circulation, increased 36.4 percent to ¥8.3 billion. Sales of PRORENAL® have grown rapidly since 2001, when it was approved for an additional indication. However, sales of GATIFLO®, a new quinolone antibacterial, decreased 75.7 percent to ¥1.3 million due to the discovery of previously unreported side effects that lowered its market potential. The Company also continued to aggressively promote sales of other core pharmaceuticals, including EBASTEL®, a long-lasting antiallergenic agent, EXCEGRAN®, an antiepileptic agent developed in-house, GLIMICRON®, an oral hypoglycemic, and QVAR™, an inhaled steroid asthma treatment introduced during the previous fiscal year.

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

Sales of animal health products increased 6.9 percent to ¥28,654 million. Operating income in this segment increased 22.3 percent to ¥1,257 million. The Company aggressively marketed core animal health pharmaceuticals, such as CARDOMEC®, which helps prevent canine heartworm disease and VICTAS®, a synthesized quinolone antibacterial developed in-house, as well as canine nutritional formulas. In addition, this segment's sales reflected the first full-year contribution of the product lineup acquired from Tanabe Seiyaku Co., Ltd. in November 2002.

Sales of other products increased 1.4 percent to ¥23,707 million. Operating income in this segment decreased 4.6 percent to ¥1,486 million. Dainippon Pharmaceutical aggressively marketed these products, including ECHO GUM® and GLYLOID®, which are natural hydrocolloid stabilizers used as food additives; AJIPOL® natural seasonings; industrial chemical products; as well as research reagents and instruments.

Financial Position

As of March 31, 2004, total assets were ¥193,238 million, an increase of ¥5,822 million from a year earlier. Factors included a substantial increase in unrealized gains on investment securities resulting from the recovery in stock prices during the past fiscal year. In addition, cash and time deposits increased, due in part to decrease in trade notes and accounts receivable and inventories.

Current assets increased ¥2,321 million from a year earlier to ¥118,562 million. With the aim of increasing cash

Sales of Major Pharmaceutical Products

(Fiscal Years ended March 31; Billions of Yen)

Brand name (Generic name)	Category	Sales for Fiscal Year 2003	Sales for Fiscal Year 2004
KLARICID® (*clarithromycin*)	Macrolide antibiotic	19.4	**18.9**
GASMOTIN® (*mosapride citrate*)	Gastroprokinetic	13.0	**15.7**
ENSURE LIQUID® (–)	Enteral nutrition	14.4	**13.8**
EBASTEL® (*ebastine*)	Antiallergic	11.1	**10.2**
PRORENAL® (*limaprost alfadex*)	Vasodilator	6.1	**8.3**
EXCEGRAN® (*zonisamide*)	Antiepileptic	6.5	**5.9**
SYNAGIS® (*palivizumab*)	Monoclonal antibody	3.9	**5.4**
GLIMICRON® (*gliclazide*)	Oral hypoglycemic	5.2	**5.0**
SEVOFRANE® (*sevoflurane*)	Anesthetic	3.9	**4.1**
LOPEMIN® (*loperamide hydrochloride*)	Antidiarrheal	3.3	**3.2**
SERENACE® (*haloperidol*)	Psychotropic	3.5	**3.1**
CETAPRIL® (*alacepril*)	Antihypertensive	3.2	**2.8**
RISUMIC® (*amezinium metilsulfate*)	Antihypotensive	2.6	**2.5**
PIMENOL® (*pirmenol hydrochloride*)	Antiarrhythmic	2.0	**1.8**
ERYTHROCIN® (*erythromycin stearate*)	Macrolide antibiotic	1.9	**1.7**
QVAR™ (*beclomethasone dipropionate*)	Bronchial asthma	1.4	**1.5**
ANPEC® (*morphine hydrochloride*)	Analgesic	1.7	**1.4**
GATIFLO® (*gatifloxacin*)	New quinolone antibacterial	5.2	**1.3**
KADIAN® (*morphine sulfate*)	Analgesic	1.6	**1.2**

flow, Dainippon Pharmaceutical worked to accelerate collection of receivables, resulting in a reduction in trade notes and accounts receivable. Moreover, inventories decreased because Dainippon Pharmaceutical completed consolidation of production facilities at the Suzuka Plant and manufactured using safety stocks. As a result, cash and time deposits increased substantially from a year earlier.

Property, plant and equipment decreased ¥901 million from a year earlier to ¥34,473 million. Dainippon Pharmaceutical completed the construction of a packaging and material center as part of the consolidation of production at the Suzuka Plant. The completed projects were transferred to buildings and structures and machinery and equipment, resulting in a substantial decrease in construction in progress. An increase in depreciation also reduced reported property, plant and equipment.

Investments and other assets increased ¥4,402 million from a year earlier to ¥40,203 million. Factors included a substantial increase in unrealized gains on investment securities resulting from the recovery in stock prices. However, deferred tax assets decreased.

Current liabilities decreased ¥14,795 million to ¥46,712 million. The Company redeemed 1.4% unsecured convertible bonds on their redemption date of September 30, 2003. In addition, lower taxable income resulted in a decrease in income taxes payable.

Long-term liabilities increased ¥7,010 million from a year earlier to ¥16,258 million. The Company borrowed ¥7,000 million in long-term debt from financial institutions to redeem 1.4% unsecured convertible bonds due to September 30, 2003. However, liability for retirement benefits decreased substantially because of the impact of the transfer of the substitutional portion of the government pension program, mainly.

Shareholders' equity increased ¥13,525 million from a year earlier to ¥129,569 million. Retained earnings increased resulting in appropriation of net income, and unrealized gains on available-for-sale securities, net of tax increased due to the recovery in stock prices during the past fiscal year. The ratio of shareholders' equity to total assets therefore increased 5.2 percentage points to 67.1 percent. Shareholders' equity per share of common stock outstanding at the end of the period increased ¥82.15 from a year earlier to ¥784.24.

Cash Flows

Net cash provided by operating activities increased ¥6,384 million year-on-year to ¥12,522 million. Factors included the increase of ¥1,118 million in income before income taxes and minority interests to ¥13,836 million, and the contribution to cash flow from the substantial decrease in trade notes and accounts receivable and inventories.

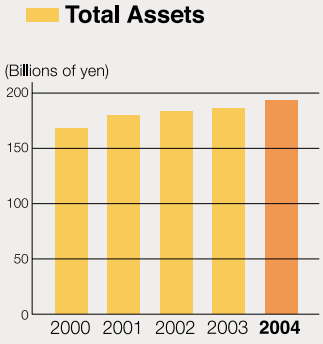
Net cash used in investing activities decreased ¥7,679 million to ¥66 million, primarily because of a reduction in purchases of property, plant and equipment and purchases of investment securities.

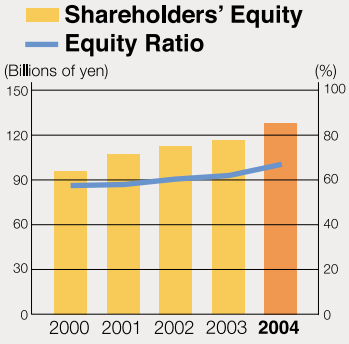
Net cash used in financing activities increased ¥445 million to ¥5,872 million. While the redemption of 1.4% unsecured convertible bonds due to September 30, 2003 used cash totaling ¥11,118 million, proceeds from long-term debt totaled ¥7,000 million because of borrowings from financial institutions.

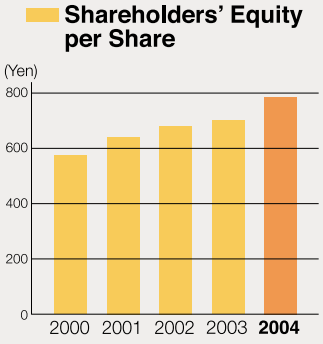
As a result, cash and cash equivalents as of March 31, 2004 totaled ¥23,483 million, an increase of ¥6,584 million from a year earlier.

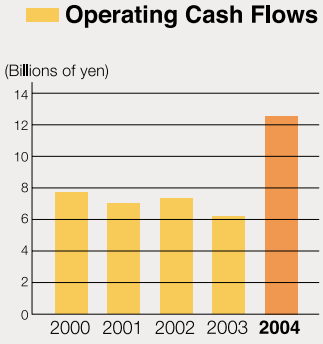
Dividend Policy

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 dividend payments to corporate performance, while promoting the Company's financial structure to support future growth. 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, 2004 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
CURRENT ASSETS:			
Cash and time deposits (Note 3)	**¥ 20,441**	¥ 13,907	**$ 192,839**
Marketable securities (Notes 3 and 5)	**4,797**	5,090	**45,255**
Receivables:			
Trade notes	**5,392**	6,274	**50,868**
Trade accounts	**59,316**	61,040	**559,585**
Due from affiliates	**65**	50	**613**
Allowance for doubtful receivables	**(86)**	(85)	**(811)**
	64,687	67,279	**610,255**
Inventories (Note 4)	**21,808**	24,134	**205,736**
Deferred tax assets (Note 7)	**3,399**	3,095	**32,066**
Prepaid expenses and other current assets	**3,430**	2,736	**32,358**
Total current assets	**118,562**	116,241	**1,118,509**
PROPERTY, PLANT AND EQUIPMENT (Note 2.e):			
Land	**5,148**	5,175	**48,566**
Buildings and structures	**37,635**	36,058	**355,047**
Machinery and equipment	**38,983**	35,712	**367,764**
Construction in progress	**1,268**	4,778	**11,963**
Total	**83,034**	81,723	**783,340**
Accumulated depreciation	**(48,561)**	(46,349)	**(458,123)**
Net property, plant and equipment	**34,473**	35,374	**325,217**
INVESTMENTS AND OTHER ASSETS:			
Investment in unconsolidated subsidiaries and associated companies	**816**	738	**7,698**
Investment securities (Note 5)	**31,615**	22,154	**298,255**
Deferred tax assets (Note 7)	**114**	4,024	**1,076**
Other assets	**7,658**	8,885	**72,245**
Total investments and other assets	**40,203**	35,801	**379,274**
TOTAL	**¥ 193,238**	¥ 187,416	**$ 1,823,000**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	**¥ 970**	¥ 1,020	**$ 9,151**
1.4% unsecured convertible bonds due September 2003 (Note 6)		11,118	
Payables:			
Trade notes	**2,951**	3,565	**27,840**
Trade accounts	**30,987**	32,565	**292,330**
Due to affiliates	**387**	323	**3,651**
	34,325	36,453	**323,821**
Income taxes payable	**2,922**	3,975	**27,566**
Accrued expenses	**5,547**	5,581	**52,330**
Other current liabilities (Note 6)	**2,948**	3,360	**27,811**
Total current liabilities	**46,712**	61,507	**440,679**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**7,000**		**66,038**
Liability for retirement benefits (Notes 2.f and 8)	**6,503**	9,248	**61,349**
Deferred tax liabilities (Note 7)	**1,196**		**11,283**
Other liabilities	**1,559**		**14,708**
Total long-term liabilities	**16,258**	9,248	**153,378**
MINORITY INTERESTS	**699**	617	**6,594**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 13):			
SHAREHOLDERS' EQUITY (Notes 6, 9 and 14):			
Common stock: authorized - 600,000,000 shares; issued, 168,184,154 shares	**13,444**	13,444	**126,830**
Capital surplus	**15,860**	15,860	**149,623**
Retained earnings	**95,579**	89,300	**901,689**
Unrealized gains on available-for-sale securities, net of tax	**8,048**	761	**75,924**
Total	**132,931**	119,365	**1,254,066**
Treasury stock - at cost			
3,004,357 shares in 2004 and 2,946,313 shares in 2003	**(3,362)**	(3,321)	**(31,717)**
Total shareholders' equity	**129,569**	116,044	**1,222,349**
TOTAL	**¥ 193,238**	¥ 187,416	**$ 1,823,000**

Consolidated Statements of Income

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
NET SALES	**¥ 170,842**	¥ 172,162	**$ 1,611,717**
COST OF SALES	**110,013**	108,046	**1,037,859**
Gross profit	**60,829**	64,116	**573,858**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**51,546**	51,240	**486,283**
Operating income	**9,283**	12,876	**87,575**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**883**	858	**8,330**
Interest expense	**(133)**	(204)	**(1,255)**
Gains on transfer of the substitutional portion of the government pension program (Note 8)	**2,273**		**21,443**
Gains on sales of investment securities (Note 5)	**1,960**	1,853	**18,491**
Loss on discontinued development of new compound	**(426)**		**(4,019)**
Loss on devaluation of investment securities		(1,494)	
Special retirement expenses (Note 8)		(845)	
Other - net	**(4)**	(326)	**(37)**
Other income (expenses) - net	**4,553**	(158)	**42,953**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**13,836**	12,718	**130,528**
INCOME TAXES (Note 7):			
Current	**6,010**	7,966	**56,698**
Deferred	**(210)**	(1,661)	**(1,981)**
Total income taxes	**5,800**	6,305	**54,717**
MINORITY INTERESTS IN NET INCOME	**68**	49	**641**
Net income	**¥ 7,968**	¥ 6,364	**$ 75,170**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.l):			
Basic net income	**¥ 48.05**	¥ 38.02	**$ 0.45**
Diluted net income		36.36	
Cash dividends applicable to the year	**10.00**	10.00	**0.09**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	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, 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)
Net income				7,968		
Cash dividends, ¥10.00 per share				(1,652)		
Bonuses to directors and corporate auditors				(32)		
Loss on sales of treasury stock				(5)		
Increase in treasury stock (58,044 shares)						(41)
Net unrealized gains on available-for-sale securities					7,287	
BALANCE, MARCH 31, 2004	**168,184,154**	**¥ 13,444**	**¥ 15,860**	**¥ 95,579**	**¥ 8,048**	**¥ (3,362)**

	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, 2003	$ 126,830	$ 149,623	$ 842,453	$ 7,179	$ (31,330)
Net income			75,170		
Cash dividends, $0.09 per share			(15,585)		
Bonuses to directors and corporate auditors			(302)		
Loss on sales of treasury stock			(47)		
Increase in treasury stock (58,044 shares)					(387)
Net unrealized gains on available-for-sale securities				68,745	
BALANCE, MARCH 31, 2004	**$ 126,830**	**$ 149,623**	**$ 901,689**	**$ 75,924**	**$ (31,717)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 13,836**	¥ 12,718	**$ 130,528**
Adjustments for:			
Depreciation and amortization	**5,821**	5,316	**54,915**
Provision for liability for retirement benefits, less payments	**764**	(174)	**7,208**
Interest and dividend income	**(883)**	(858)	**(8,330)**
Interest expense	**133**	204	**1,255**
Gains on transfer of the substitutional portion of the government pension program	**(2,273)**		**(21,443)**
Gains on sales of investment securities	**(1,960)**	(1,853)	**(18,491)**
Loss on devaluation of investment securities		1,494	
Changes in assets and liabilities:			
Decrease (increase) in receivables	**2,590**	(2,150)	**24,434**
Decrease (increase) in inventories	**2,326**	(1,364)	**21,943**
Increase (decrease) in payables	**(2,127)**	3,700	**(20,066)**
Other - net	**603**	(2,603)	**5,689**
Sub-total	**18,830**	14,430	**177,642**
Interest and dividend received	**883**	858	**8,330**
Interest paid	**(129)**	(204)	**(1,217)**
Income taxes paid	**(7,062)**	(8,946)	**(66,623)**
Net cash provided by operating activities	**12,522**	6,138	**118,132**
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	**(4,449)**	(6,472)	**(41,972)**
Proceeds from sales of investment securities	**4,132**	3,905	**38,981**
Proceeds from sales of marketable securities	**1,078**	1,638	**10,170**
Purchases of investment securities	**(848)**	(3,398)	**(8,000)**
Other - net	**21**	(3,418)	**198**
Net cash used in investing activities	**(66)**	(7,745)	**(623)**
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	**(50)**	(350)	**(472)**
Proceeds from long-term debt	**7,000**		**66,038**
Redemption of convertible bonds	**(11,118)**		**(104,887)**
Increase in treasury stock	**(45)**	(3,275)	**(424)**
Dividends paid	**(1,652)**	(1,795)	**(15,585)**
Dividends paid to minority interests	**(7)**	(7)	**(66)**
Net cash used in financing activities	**(5,872)**	(5,427)	**(55,396)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,584**	(7,034)	**62,113**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**16,899**	23,933	**159,425**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	**¥ 23,483**	¥ 16,899	**$ 221,538**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 2003 financial statements to conform to the classifications used in 2004.

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 ¥106 to $1, the approximate rate of exchange at March 31, 2004. 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 Group has the lump-sum plan and two types of pension plans for employees: a non-contributory and a contributory funded defined benefit pension plan. The liability for retirement benefit is 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, 2004 and 2003 of ¥497 million ($4,689 thousand) and ¥543 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, 2004 and 2003 were ¥15,929 million ($150,274 thousand) and ¥15,218 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

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. The number of shares used in the calculation of basic net income per share was 165,212 thousand for the year ended March 31, 2004 and 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.

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.

m. New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, “Accounting for Impairment of Fixed Assets”, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, “Guidance for Accounting Standard for Impairment of Fixed Assets”. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2004 and 2003 for purposes of the consolidated statements of cash flows consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Cash and time deposits	**¥ 20,441**	¥ 13,907	**$ 192,839**
Time deposits with maturity over three months	**(19)**	(19)	**(179)**
Marketable securities with a maturity of three months or less when purchased	**3,061**	3,011	**28,878**
Cash and cash equivalents	**¥ 23,483**	¥ 16,899	**$ 221,538**

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Finished goods	**¥ 13,551**	¥ 16,490	**$ 127,840**
Semi-finished goods and work in process	**3,622**	3,448	**34,170**
Raw materials and supplies	**4,635**	4,196	**43,726**
Total	**¥ 21,808**	¥ 24,134	**$ 205,736**

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2004 and 2003 consisted of the following :

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current:			
Government and corporate bonds	**¥ 1,736**	¥ 2,079	**$ 16,377**
Commercial paper and other	**3,061**	3,011	**28,878**
Total	**¥ 4,797**	¥ 5,090	**$ 45,255**
Non-current:			
Equity securities	**¥ 25,996**	¥ 16,958	**$ 245,245**
Government and corporate bonds		2,580	
Trust fund investments and other	**5,619**	2,616	**53,010**
Total	**¥ 31,615**	¥ 22,154	**$ 298,255**

The carrying amounts and aggregate fair values of marketable and investments securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 12,038**	**¥ 13,411**	**¥ (136)**	**¥ 25,313**
Bonds and debentures	**80**	**156**		**236**
Other securities	**4,433**	**285**	**(99)**	**4,619**
Held-to-maturity	**1,500**		**(306)**	**1,194**

	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

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 113,566**	**$ 126,519**	**$ (1,283)**	**$ 238,802**
Bonds and debentures	**755**	**1,471**		**2,226**
Other securities	**41,821**	**2,689**	**(934)**	**43,576**
Held-to-maturity	**14,151**		**(2,887)**	**11,264**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Available-for-sale:			
Equity securities	**¥ 1,683**	¥ 1,774	**$ 15,877**
Money management funds (MMF) and other	**61**	11	**576**
Held-to-maturity:			
Commercial paper	**3,000**	3,000	**28,302**
Total	**¥ 4,744**	¥ 4,785	**$ 44,755**

Proceeds from sales of available-for-sale securities were ¥2,037 million ($19,217 thousand) and ¥1,900 million for the years ended March 31, 2004 and 2003, respectively. On those sales, gross realized gains and losses computed on a moving average cost basis were ¥1,960 million ($18,491 thousand) and ¥1 million ($9 thousand), respectively for the year ended March 31, 2004 and ¥1,853 million and ¥0 million, respectively for the year ended March 31, 2003. Gross realized gains of ¥1,853 million ($17,481 thousand), respectively, for the years ended March 31, 2004 and 2003 resulted from sales of equity securities of ABBOTT JAPAN 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, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due in one year or less	**¥ 4,736**	¥ 5,079	**$ 44,679**
Due after one year through five years		579	
Due after five years through ten years		2,000	
Total	**¥ 4,736**	¥ 7,658	**$ 44,679**

At March 31, 2004, investment securities of ¥16 million ($151 thousand) were pledged as collateral for accounts payable of ¥76 million ($717 thousand).

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

Short-term bank loans consist of unsecured loans from banks bearing interest of 0.69% to 0.79% and of 0.53% to 2.49% at March 31, 2004 and 2003, respectively. Other current liabilities as of March 31, 2004 and 2003 include deposits received from customers in the amount of ¥738 million ($6,962 thousand) and ¥736 million, respectively, bearing interest of 1.7% and 2.7%, respectively. Unused short-term bank loan credit lines were ¥10,000 million ($94,340 thousand) at March 31, 2004 and 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 remaining portion of the bonds were redeemed at the due date.

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 banks 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.

Long-term debt at March 31, 2004 and 2003 comprise the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
1.4% unsecured convertible bonds due to 2003		¥ 11,118	
Unsecured loan from banks and financial institutions due to 2008	**¥ 7,000**		**$ 66,038**
Total	**7,000**	11,118	**66,038**
Less current portion		(11,118)	
Long-term debt, less current portion	**¥ 7,000**		**$ 66,038**

The annual maturities of long-term debt were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 7,000	$ 66,038
Total	¥ 7,000	$ 66,038

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, 2004 and 2003.

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, and to increase income taxes-deferred by ¥167 million, and net unrealized gain on available-for-sale securities by ¥20 million, respectively, for the year ended March 31, 2003.

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Deferred tax assets:			
Liability for retirement benefits	**¥ 2,199**	¥ 2,191	**$ 20,745**
Accrued enterprise taxes	**291**	363	**2,745**
Accrued bonuses to employees	**1,664**	1,475	**15,698**
Accrued other expenses	**379**	352	**3,576**
Loss on devaluation of investment securities	**1,080**	1,266	**10,189**
Other	**2,445**	2,155	**23,066**
Total deferred tax assets	**8,058**	7,802	**76,019**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**(5,532)**	(520)	**(52,188)**
Deferred gain on sales of fixed assets	**(156)**	(159)	**(1,472)**
Other	**(53)**	(4)	**(500)**
Total deferred tax liabilities	**(5,741)**	(683)	**(54,160)**
Net deferred tax assets	**¥ 2,317**	¥ 7,119	**$ 21,859**

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, 2004 and 2003 was as follows:

	2004	2003
Normal effective statutory tax rate	**42.0%**	42.0%
Increase (decrease) in taxes due to:		
Expenses not deductible for tax purposes	**6.9**	8.3
Non-taxable dividend income	**(2.3)**	(1.4)
Tax credits for research and development costs	**(6.7)**	
Adjustment of deferred tax assets and liabilities due to change in tax rates		1.3
Other	**2.0**	(0.6)
Actual effective tax rate	**41.9%**	49.6%

8. RETIREMENT AND SEVERANCE BENEFITS

The liability (asset) for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligation	**¥ 39,093**	¥ 65,879	**$ 368,802**
Fair value of plan assets	**(28,314)**	(30,525)	**(267,113)**
Unrecognized prior service benefit	**3,807**	2,879	**35,915**
Unrecognized actuarial loss	**(9,019)**	(29,528)	**(85,085)**
Prepaid pension cost	**439**		**4,141**
Liability for employee's retirement benefit	**¥ 6,006**	¥ 8,705	**$ 56,660**

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
	2004	2003	**2004**
Service cost	**¥ 1,769**	¥ 1,914	**$ 16,689**
Interest cost	**1,320**	1,834	**12,453**
Expected return on plan assets	**(570)**	(922)	**(5,377)**
Amortization of prior service cost	**(223)**	(223)	**(2,104)**
Recognized actuarial loss	**1,671**	1,354	**15,764**
Net periodic benefit costs	**¥ 3,967**	¥ 3,957	**$ 37,425**

In addition to the above costs, the special retirement costs charged to income are ¥845 million for the years ended March 31, 2003.

The Company has two types of pension plans for employees: a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labor and Welfare on September 25, 2003 and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥2,273 million ($21,443 thousand) for the year ended March 31, 2004. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥13,426 million ($126,660 thousand) as at March 31, 2004.

Also, according to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company will implement a defined contribution pension plan in April 2, 2004 by which the part of the lump-sum payment plan were terminated. The Company applied accounting treatments specified in the guidance issued by the Accounting Standards Board of Japan. The effect of this transfer was to decrease income before income taxes and minority interests by ¥154 million ($1,453 thousand) and was recorded as loss on transfer of pension plans in the income statement for the year ended March 31, 2004.

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

Method of attributing benefits to periods of service	straight-line basis
Discount rate	2.5%
Expected rate of return on plan assets	2.5%
Amortization period for prior service cost	15 years
Recognition period for actuarial loss	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, 2003, the Company's shareholders authorized the Company to repurchase up to 5,000,000 shares of the Company's common stock (aggregate amount of ¥5,000 million) as treasury stock until the closing of the next general shareholders meeting in accordance with the Code. The Company repurchased none of share because of consideration of economic and market environment.

The amount of retained earnings available for dividends under the Code was ¥88,277 million ($832,802 thousand) as of March 31, 2004, 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. TRANSACTIONS WITH AFFILIATES

Transactions of the Group with affiliates for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Sales	**¥ 203**	¥ 230	**$ 1,915**
Purchases	**2,623**	2,673	**24,745**

11. LEASES

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

Total rental expenses for the years ended March 31, 2004 and 2003 were ¥2,471 million ($23,311 thousand) and ¥2,407 million, respectively, including ¥699 million ($6,594 thousand) and ¥493 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, 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Machinery and equipment:			
Acquisition cost	**¥ 2,663**	¥ 2,583	**$ 25,122**
Accumulated depreciation	**(1,245)**	(964)	**(11,745)**
Net leased property	**¥ 1,418**	¥ 1,619	**$ 13,377**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 603**	¥ 611	**$ 5,689**
Due after one year	**815**	1,008	**7,688**
Total	**¥ 1,418**	¥ 1,619	**$ 13,377**

Depreciation expenses, which are not reflected in the accompanying statements of income, computed by the straight-line method were ¥699 million ($6,594 thousand) and ¥493 million for the years ended March 31, 2004 and 2003, respectively.

12. 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, 2004 and 2003 was as follows:

	Millions of Yen					
	2004					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	**¥ 118,481**	**¥ 28,654**	**¥ 23,707**	**¥ 170,842**		**¥ 170,842**
Intersegment sales/transfers			**1,389**	**1,389**	**¥ (1,389)**	
Total	**118,481**	**28,654**	**25,096**	**172,231**	**(1,389)**	**170,842**
Operating expenses	**108,254**	**27,397**	**23,610**	**159,261**	**2,298**	**161,559**
Operating income	**¥ 10,227**	**¥ 1,257**	**¥ 1,486**	**¥ 12,970**	**¥ (3,687)**	**¥ 9,283**
II. Identifiable assets, depreciation and capital expenditures						
Identifiable assets	**¥ 114,988**	**¥ 9,403**	**¥ 13,583**	**¥ 137,974**	**¥ 55,264**	**¥ 193,238**
Depreciation	**5,090**	**237**	**140**	**5,467**	**266**	**5,733**
Capital expenditures	**3,691**	**167**	**121**	**3,979**	**315**	**4,294**

	Thousands of U.S. Dollars					
	2004					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	**$ 1,117,745**	**$ 270,321**	**$ 223,651**	**$ 1,611,717**		**$ 1,611,717**
Intersegment sales/transfers			**13,104**	**13,104**	**$ (13,104)**	
Total	**1,117,745**	**270,321**	**236,755**	**1,624,821**	**(13,104)**	**1,611,717**
Operating expenses	**1,021,264**	**258,463**	**222,736**	**1,502,463**	**21,679**	**1,524,142**
Operating income	**$ 96,481**	**$ 11,858**	**$ 14,019**	**$ 122,358**	**$ (34,783)**	**$ 87,575**
II. Identifiable assets, depreciation and capital expenditures						
Identifiable assets	**$ 1,084,792**	**$ 88,708**	**$ 128,142**	**$ 1,301,642**	**$ 521,358**	**$ 1,823,000**
Depreciation	**48,019**	**2,236**	**1,321**	**51,576**	**2,509**	**54,085**
Capital expenditures	**34,821**	**1,575**	**1,141**	**37,537**	**2,972**	**40,509**

	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

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, 2004 and 2003 were less than 10% of consolidated net sales.

13. CONTINGENT LIABILITIES

Contingent liabilities for guarantees of indebtedness of an associated company, and employees' housing loans guaranteed at March 31, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of indebtedness	¥1,557	$14,689
Loans guaranteed	21	198

14. SUBSEQUENT EVENT

On June 29, 2004, the shareholders of the Company approved payment of a year-end cash dividend to shareholders of record at March 31, 2003 of ¥5.00 ($0.05) per share or a total of ¥826 million ($7,792 thousand), and bonuses to directors and corporate auditors of ¥25 million ($236 thousand).

Independent Auditors' Report

Deloitte.

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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, 2004 and 2003, 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 generally accepted 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles 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 29, 2004

Member of
Deloitte Touche Tohmatsu

Corporate Information

Corporate Data
(As of March 31, 2004)

Foundation
May 14, 1897

Capital
13,444 million yen

Number of Employees
2,445

Head Office
6-8, Doshomachi 2-chome, Chuo-ku, Osaka 541-8524
Tel 06-6203-5307
Fax 06-6203-6581

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

Osaka Business Affairs Office
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, Kobe, Hiroshima, Takamatsu, Fukuoka

Board of Directors
(As of June 29, 2004)

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
Tetsuya Oida

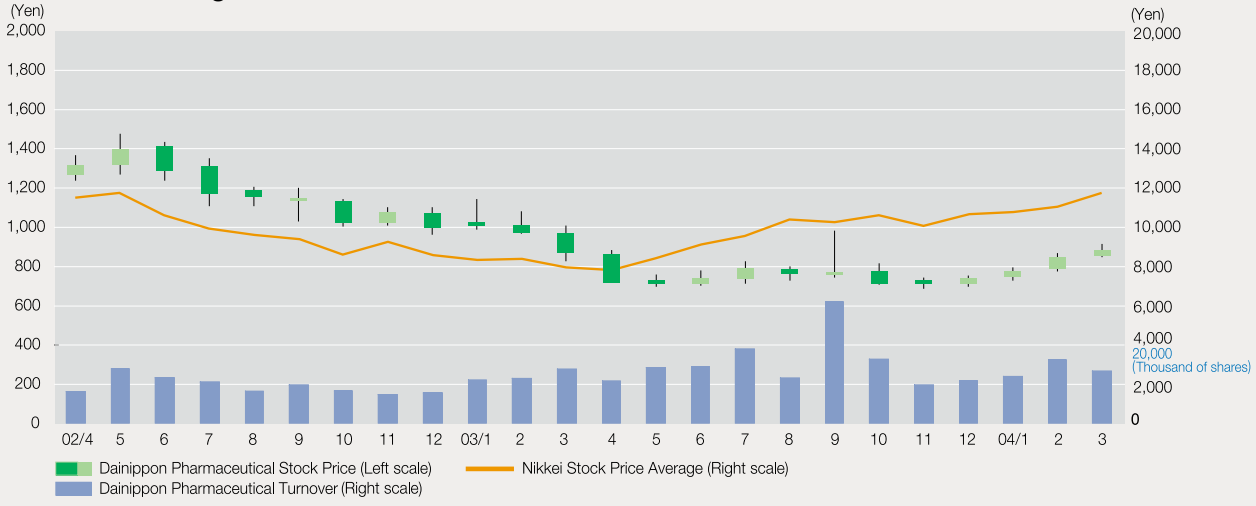
Full-Time Corporate Auditors
Toshiro Funakura
Fuminori Hashimoto

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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