

To Our *Shareholders*

During the year ended March 31, 2003, the Japanese prescription ophthalmic pharmaceuticals market decreased marginally due to National Health Insurance (NHI) drug price reductions in April 2002 and increased co-payments of medical expenses for the elderly in October 2002. These healthcare reforms had a large impact on the anti-infective ophthalmics market, our core business area, which declined by nearly 10 percent. Our other core business area, the corneal disorder treatment market, grew nearly 10 percent, led by the growth of *Hyalein*. The market for corneal disorder treatments in Japan is, however, becoming more competitive due to the launch of generic drugs. In addition, foreign pharmaceutical companies have increased their activities in the Japanese ophthalmics market, resulting in an increasingly intense operating environment.

To maintain our competitiveness amid this environment, we focused our management resources on our primary products and increased our promotional activities both quantitatively and qualitatively in our Japanese prescription ophthalmics business. In the United States, we reorganized the management structure of our local subsidiary in April 2002 and expanded sales of the anti-infective ophthalmic *Quixin* (brand name in Japan: *Cravit*). In research and development, we accelerated the development of three glaucoma treatments. We also strengthened our research and development capabilities through the injection of resources in targeted therapeutic areas. At the same time, we continued to reduce production costs and have maintained our emphasis on maximizing returns on sales promotion and R&D expenses.

As a result, net sales for the year ended March 31, 2003 increased 1.4 percent over the previous fiscal year to ¥90,253 million (US\$751 million). Operating income increased 7.7 percent to ¥12,697 million (US\$106 million). This increase in operating income after two years of decreases reflected our progress in reducing expenses. Net income increased 60.3 percent to ¥8,503 million (US\$71 million) due to a decrease in income taxes resulting from the liquidation of a subsidiary.

Cash dividends per share were set at ¥20.00, the same as the previous fiscal year. This reflects our policy of maintaining a stable level of cash dividends as a means to emphasize returns for our shareholders. We repurchased 2.7 million shares in March 2003 at a total cost of ¥3,237 million (US\$27 million) to help improve capital efficiency and increase our shareholder value. This was the third consecutive year in which we repurchased our shares.

We view return on equity (ROE) as an important way to measure performance. We are working to continuously increase corporate value as the means of achieving our goal for ROE of 10 percent by the year ending March 31, 2006.

In February 2003, we announced the 2003-2005 Medium-term Management Plan, a three-year plan that started in April 2003. Over the entire term of the plan, we will devote our every effort to fully accomplishing our objectives of improving profitability, strengthening research and development, and reinforcing our organizational strength.

By doing so, we will develop our own ability to create new products and further improve our sales and marketing capabilities, which have long been our strengths. We are determined to further enhance our approach toward maximizing profits and increasing corporate value.



Takakazu Morita
President and Chief Executive Officer
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