

Consolidated Balance Sheets

Santen Pharmaceutical Co., Ltd. and Subsidiaries
As of March 31, 2003 and 2002

| ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|--|-----------------|-----------------|--|
| | 2003 | 2002 | 2003 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 25,054 | ¥ 25,620 | \$ 208,431 |
| Short-term investments (Note 4) | 6,354 | 3,902 | 52,866 |
| Trade receivables: | | | |
| Notes..... | 685 | 1,183 | 5,701 |
| Accounts..... | 31,831 | 38,232 | 264,818 |
| Less allowance for doubtful receivables | (13) | (67) | (109) |
| Net trade receivables | 32,503 | 39,348 | 270,410 |
| Inventories (Note 6) | 11,684 | 12,371 | 97,205 |
| Deferred tax assets (Note 13) | 1,202 | 1,871 | 9,999 |
| Other current assets..... | 6,634 | 2,952 | 55,191 |
| Total current assets..... | 83,431 | 86,064 | 694,102 |
| Property, plant and equipment (Note 7): | | | |
| Land | 10,991 | 11,010 | 91,437 |
| Buildings and structures..... | 39,574 | 36,145 | 329,239 |
| Machinery and equipment | 11,059 | 11,815 | 92,005 |
| Tools, furniture and vehicles..... | 10,744 | 10,245 | 89,384 |
| Construction in progress..... | 4,967 | 8,200 | 41,320 |
| Total | 77,335 | 77,415 | 643,385 |
| Less accumulated depreciation..... | (36,485) | (35,256) | (303,532) |
| Net property, plant and equipment..... | 40,850 | 42,159 | 339,853 |
| Investments and other assets: | | | |
| Investments in and advances to affiliates..... | 254 | 350 | 2,111 |
| Investment securities (Note 4) | 9,692 | 9,560 | 80,628 |
| Goodwill | 1,599 | 2,261 | 13,298 |
| Other intangibles | 3,183 | 2,904 | 26,477 |
| Deferred tax assets (Note 13) | 2,331 | 2,515 | 19,396 |
| Other assets | 5,808 | 6,290 | 48,326 |
| Total investments and other assets..... | 22,867 | 23,880 | 190,236 |
| Total assets (Note 15)..... | ¥147,148 | ¥152,103 | \$1,224,191 |

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------|--|
| | 2003 | 2002 | 2003 |
| Current liabilities: | | | |
| Current portion of long-term debt (Note 8)..... | ¥ 20,361 | ¥ 1,418 | \$ 169,393 |
| Trade accounts payable | 5,476 | 4,798 | 45,559 |
| Other payables..... | 9,117 | 12,240 | 75,850 |
| Accrued expenses..... | 4,165 | 3,816 | 34,652 |
| Income taxes payable (Note 13)..... | 2 | 3,428 | 15 |
| Other current liabilities..... | 516 | 634 | 4,291 |
| Total current liabilities..... | 39,637 | 26,334 | 329,760 |
| Noncurrent liabilities: | | | |
| Long-term debt (Note 8) | 2,686 | 23,049 | 22,346 |
| Retirement and severance benefits (Note 9) | 5,754 | 5,602 | 47,872 |
| Deferred tax liabilities (Note 13)..... | 32 | 34 | 267 |
| Other liabilities..... | 1,913 | 1,983 | 15,910 |
| Total noncurrent liabilities..... | 10,385 | 30,668 | 86,395 |
| Shareholders' equity: | | | |
| Common stock (Notes 10 and 11): | | | |
| Authorized – 155,585 thousand shares (155,585 thousand shares in 2002) | | | |
| Issued – 90,704 thousand shares (90,704 thousand shares in 2002) | 6,214 | 6,214 | 51,698 |
| Additional paid-in capital (Notes 10 and 11) | 6,909 | 6,909 | 57,477 |
| Retained earnings (Note 10) | 90,552 | 83,893 | 753,342 |
| Unrealized holding gains on securities (Note 4)..... | 294 | 474 | 2,444 |
| Foreign currency translation adjustments | (3,566) | (2,383) | (29,667) |
| | 100,403 | 95,107 | 835,294 |
| Treasury stock at cost (Note 10): | | | |
| 2,771,565 shares in 2003 and 2,852 shares in 2002 | (3,277) | (6) | (27,258) |
| Total shareholders' equity..... | 97,126 | 95,101 | 808,036 |
| Contingent liabilities (Note 14) | | | |
| Total liabilities and shareholders' equity..... | ¥147,148 | ¥152,103 | \$1,224,191 |

Consolidated Statements of Income

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|---------|---------|--|
| | 2003 | 2002 | 2001 | 2003 |
| Net sales (Note 15) | ¥90,253 | ¥88,966 | ¥88,449 | \$750,855 |
| Cost of sales (Notes 7 and 9)..... | 32,272 | 32,701 | 33,385 | 268,482 |
| Gross profit..... | 57,981 | 56,265 | 55,064 | 482,373 |
| Selling, general and administrative expenses (Notes 7, 9 and 12)..... | 45,284 | 44,475 | 38,546 | 376,742 |
| Operating income (Note 15)..... | 12,697 | 11,790 | 16,518 | 105,631 |
| Other income (expenses): | | | | |
| Interest and dividend income..... | 268 | 304 | 579 | 2,230 |
| Interest expense..... | (480) | (465) | (430) | (3,995) |
| Loss on valuation of securities..... | (602) | (179) | — | (5,007) |
| Impairment losses on golf membership rights..... | (101) | (45) | (446) | (837) |
| Special premium payment on the separation from the composite pension fund..... | (2,203) | — | — | (18,326) |
| Expenses for the withdrawal of OTC products | — | — | (907) | — |
| Gain on settlement of Princeton Notes lawsuit..... | — | 886 | — | — |
| Other, net..... | 368 | 388 | 207 | 3,060 |
| Income before income taxes..... | 9,947 | 12,679 | 15,521 | 82,756 |
| Income taxes (Note 13): | | | | |
| Current..... | 463 | 6,932 | 8,973 | 3,853 |
| Deferred | 981 | 441 | (1,166) | 8,164 |
| | 1,444 | 7,373 | 7,807 | 12,017 |
| Net income | ¥ 8,503 | ¥ 5,306 | ¥ 7,714 | \$ 70,739 |

Per share data:

| | Yen | | | U.S. dollars (Note 3) |
|--|----------------|---------|---------|--------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| Net income..... | ¥ 93.67 | ¥ 57.34 | ¥ 81.32 | \$ 0.78 |
| Net income-diluted..... | 85.97 | 53.07 | 75.01 | 0.72 |
| Cash dividends applicable to period..... | 20.00 | 20.00 | 20.00 | 0.17 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|-----------|-----------|--|
| | 2003 | 2002 | 2001 | 2003 |
| Common stock (Notes 10 and 11): | | | | |
| Balance at beginning of year..... | ¥ 6,214 | ¥ 6,206 | ¥ 6,180 | \$ 51,698 |
| Exercise of stock options | — | 8 | 26 | — |
| Balance at end of year..... | ¥ 6,214 | ¥ 6,214 | ¥ 6,206 | \$ 51,698 |
| Additional paid-in capital (Notes 10 and 11): | | | | |
| Balance at beginning of year..... | ¥ 6,909 | ¥ 6,900 | ¥ 6,875 | \$ 57,477 |
| Exercise of stock options | — | 9 | 25 | — |
| Balance at end of year..... | ¥ 6,909 | ¥ 6,909 | ¥ 6,900 | \$ 57,477 |
| Retained earnings (Note 10): | | | | |
| Balance at beginning of year..... | ¥83,893 | ¥83,735 | ¥82,664 | \$697,941 |
| Net income..... | 8,503 | 5,306 | 7,714 | 70,739 |
| Cash dividends paid | (1,814) | (1,854) | (1,521) | (15,090) |
| Bonuses to directors and corporate auditors..... | (30) | (36) | (37) | (248) |
| Retirement of treasury stock | — | (3,258) | (5,085) | — |
| Balance at end of year..... | ¥90,552 | ¥83,893 | ¥83,735 | \$753,342 |
| Unrealized holding gains on securities (Note 4): | | | | |
| Balance at beginning of year..... | ¥ 474 | ¥ 1,290 | ¥ — | \$ 3,946 |
| Net change..... | (180) | (816) | 1,290 | (1,502) |
| Balance at end of year..... | ¥ 294 | ¥ 474 | ¥ 1,290 | \$ 2,444 |
| Foreign currency translation adjustments: | | | | |
| Balance at beginning of year..... | ¥ (2,383) | ¥ (3,256) | ¥ — | \$ (19,824) |
| Net change..... | (1,183) | 873 | (3,256) | (9,843) |
| Balance at end of year..... | ¥ (3,566) | ¥ (2,383) | ¥ (3,256) | \$ (29,667) |
| Treasury stock at cost (Note 10): | | | | |
| Balance at beginning of year..... | ¥ (6) | ¥ (41) | ¥ (50) | \$ (50) |
| Repurchase of treasury stock, net..... | (3,271) | (3,223) | (5,076) | (27,208) |
| Retirement of treasury stock | — | 3,258 | 5,085 | — |
| Balance at end of year..... | ¥ (3,277) | ¥ (6) | ¥ (41) | \$ (27,258) |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Santen Pharmaceutical Co., Ltd. and Subsidiaries
For the years ended March 31, 2003, 2002 and 2001

| | Millions of yen | | | Thousands of U.S. dollars (Note 3) |
|---|-----------------|----------------|----------------|--|
| | 2003 | 2002 | 2001 | 2003 |
| Cash flows from operating activities: | | | | |
| Income before income taxes..... | ¥ 9,947 | ¥12,679 | ¥15,521 | \$ 82,756 |
| Depreciation and amortization | 4,311 | 5,334 | 5,683 | 35,867 |
| Increase (decrease) in retirement and severance benefits | 133 | 98 | (330) | 1,105 |
| Interest and dividend income..... | (268) | (304) | (579) | (2,230) |
| Interest expense..... | 480 | 465 | 430 | 3,995 |
| Write down of investment securities..... | 602 | 179 | — | 5,007 |
| Impairment losses on golf membership rights..... | 101 | 45 | 446 | 837 |
| Decrease (increase) in trade receivables..... | 6,966 | 1,804 | (8,372) | 57,950 |
| Decrease (increase) in inventories..... | 647 | (184) | (765) | 5,383 |
| Increase (decrease) in trade accounts payable..... | 660 | (2,138) | 1,813 | 5,492 |
| Other, net..... | (1,456) | (2,733) | 1,081 | (12,112) |
| Subtotal..... | 22,123 | 15,245 | 14,928 | 184,050 |
| Interest and dividend income received | 140 | 227 | 529 | 1,164 |
| Interest expense paid..... | (458) | (465) | (406) | (3,812) |
| Income taxes paid | (5,997) | (8,066) | (8,219) | (49,889) |
| Net cash provided by operating activities..... | 15,808 | 6,941 | 6,832 | 131,513 |
| Cash flows from investing activities: | | | | |
| Capital expenditures | (7,046) | (6,586) | (4,943) | (58,616) |
| Purchase of investment securities..... | (3,704) | (267) | (708) | (30,810) |
| Proceeds from sale of investment securities | 473 | 857 | 1,976 | 3,931 |
| Purchase of short-term investments..... | (5,252) | (2,841) | (3,421) | (43,698) |
| Proceeds from sale of short-term investments | 4,854 | 1,898 | 3,867 | 40,381 |
| Investment in a subsidiary | — | (537) | — | — |
| Proceeds from collection of loans receivable | 12 | 1,012 | 159 | 98 |
| Other, net..... | 712 | 90 | (102) | 5,923 |
| Net cash used in investing activities | (9,951) | (6,374) | (3,172) | (82,791) |
| Cash flows from financing activities: | | | | |
| Repayment of long-term debt..... | (1,421) | (624) | (654) | (11,821) |
| Repurchase of treasury stock, net..... | (3,274) | (3,223) | (5,076) | (27,236) |
| Dividends paid..... | (1,812) | (1,854) | (1,520) | (15,080) |
| Other, net..... | — | 17 | 57 | — |
| Net cash used in financing activities | (6,507) | (5,684) | (7,193) | (54,137) |
| Effect of exchange rate changes on cash and cash equivalents | | | | |
| | 84 | 177 | 360 | 705 |
| Net decrease in cash and cash equivalents | (566) | (4,940) | (3,173) | (4,710) |
| Cash and cash equivalents at beginning of year ... | 25,620 | 30,555 | 33,728 | 213,141 |
| Cash and cash equivalents of a newly consolidated subsidiary | — | 5 | — | — |
| Cash and cash equivalents at end of year | ¥25,054 | ¥25,620 | ¥30,555 | \$208,431 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Santen Pharmaceutical Co., Ltd. and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in Japan. Santen Pharmaceutical Co., Ltd. (the "Company") and all domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and the accounts and records of its overseas subsidiaries in conformity with those of the countries of their domicile.

In preparing these consolidated financial statements, however, certain reclassifications have been made to the consolidated financial statements, which were originally issued and filed with the Director of the Kanto Local Finance Bureau for domestic reporting purposes in Japan, in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include additional information, which is not required under accounting principles and practices generally accepted in Japan but is presented herein as additional information.

Change in accounting policy

In 2001, the Company and its subsidiaries (the "Companies") changed the presentation of royalty income, which had been

classified as other income, to include it in sales since royalty income is earned from the main operating activities of the Companies and the amount became significant. This change in accounting method resulted in operating income being ¥208 million higher for the year ended March 31, 2001 than would have been if the prior method had been used.

The Companies have accounted for a provision for sales returns, which has been included in accrued expenses in the consolidated balance sheets, for loss on returned goods based on the net trade receivables at the end of fiscal year. The Companies also changed the method of accounting for provision for sales returns from the method which was in accordance with corporate tax laws to the estimated loss on returned goods, in order to reflect the actual status more accurately.

This change in accounting method resulted in operating income being ¥31 million less for the year ended March 31, 2001 than would have been if the prior method had been used.

2. Summary of Significant Accounting Policies

i) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Companies. All significant intercompany balances and transactions are eliminated on consolidation.

Investments in affiliated companies are stated at cost, because the Companies' equity in earnings of these companies is not significant.

ii) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

iii) Short-term investments, investment securities and golf membership rights (see Note 4)

The Company and all domestic subsidiaries have adopted the new Financial Accounting Standard on Accounting for Financial Instruments, which was issued by the Financial Accounting Deliberation Council. In accordance with this standard, securities are

classified into three categories; trading, held-to-maturity, or other securities.

Based on this classification, all trading securities and, any held-to-maturity and other securities with a maturity of less than one year, are included in current assets. All other securities are included in investment securities as noncurrent assets.

Those classified as other securities with a market value would be reported at fair value with unrealized gains, net of related taxes reported in equity. Other securities with no market value are carried at cost. The cost is determined by the moving average method.

In addition, this standard also requires the recognition of an impairment loss on golf membership rights, included in other assets, on the consolidated balance sheet, when the market value has permanently declined.

iv) Derivative instruments (see Note 5)

Derivative instruments are stated at fair value, and accounted for using deferral hedge accounting. Deferral hedge accounting requires unrealized gains or losses to be deferred as liabilities or assets. Foreign exchange contracts that meet the criteria are accounted for under the allocation method. The allocation method requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates. Interest rate swaps that meet the criteria are accounted for under the special method, as regulated in the accounting standard, as if the interest rates under interest rate swaps were originally applied to underlying borrowings. The Company has also developed a hedging policy to control various aspects of derivative instruments including authorization levels and transaction volumes. Based on this policy, the Company hedges the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates, and price of securities. The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows from hedged items and corresponding changes in hedging derivative instruments.

v) Allowance for doubtful receivables

Allowance for doubtful receivables is provided principally at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the individual analysis of certain receivables.

vi) Inventories (see Note 6)

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

vii) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of buildings, acquired prior to April 1, 1998, and other property, plant and equipment is computed over the estimated useful lives of the assets by the declining-balance method for the Company and all domestic subsidiaries. Buildings (other than leasehold improvements) which were acquired on or after April 1, 1998 are depreciated using the straight-line method for the Company and all domestic subsidiaries. Depreciation is computed over the estimated useful lives of the assets by the straight-line method for all overseas subsidiaries.

The principal estimated useful lives are as follows:

| | |
|-------------------------------|----------------|
| Buildings and structures | 31 to 50 years |
| Machinery and equipment | 7 years |
| Tools, furniture and vehicles | 4 to 10 years |

viii) Goodwill

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over a period of ten years.

ix) Leases (see Note 7)

In Japan, finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

x) Retirement and severance benefits (see Note 9)

Employees of the Company and all domestic subsidiaries are generally entitled to lump-sum severance and, in certain cases, annuity payments on retirement, based on current rates of pay, length of service and certain other factors. A portion of the prescribed benefit plan is covered by funded defined benefit pension plans.

The Company and all domestic subsidiaries have adopted the new Accounting Standard for Retirement Benefits which was issued by the Financial Accounting Deliberation Council. In accordance with this standard, the allowance for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets. Actuarial gains and losses are amortized, from the year in which the actuarial gains and losses are incurred, using the straight-line method, over the estimated average remaining service years of employees.

In addition, the Company has an unfunded retirement benefit plan for directors and corporate auditors. The amounts required under the plan have been fully accrued. Accrued severance indemnities for the members of the board and corporate auditors of the Company are provided based on internal regulations that are similar to those for employees. The accrued provision for severance indemnities of the members of the board and corporate auditors is not funded.

Certain overseas subsidiaries have a defined contribution plan covering substantially all of their employees. The amounts contributed under the plan are charged to income.

xi) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing on the balance sheet date, except for those items covered by forward exchange contracts.

The Company and all domestic subsidiaries have adopted the revised Accounting Standard for Foreign Currency Transactions which was issued by the Financial Accounting Deliberation Council, and requires all monetary assets and liabilities denominated in foreign currencies to be translated at the rate of exchange prevailing on the balance sheet date, except for those items covered by forward exchange contracts.

Financial statements of overseas subsidiaries are translated into Japanese yen at year-end rates for all assets and liabilities and at weighted average rates for income and expense accounts. Adjustments resulting from the translation of financial statements were reflected under the caption, "Foreign currency translation adjustments", which are included in "Shareholders' equity".

xii) Research and development and computer software
(see Note 12)

Research and development expenditures are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred except if they contribute to the generation of income or to future cost savings. Such expenditures are capitalized as an asset and are amortized using the straight-line method over their estimated useful life, five years.

xiii) Net income and dividends per share (see Note 10)

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation is 90,452 thousand, 92,536 thousand and 94,855 thousand for the years ended March 31, 2003, 2002 and 2001, respectively.

The diluted net income per share assumes full conversion of outstanding convertible bonds at the beginning of the year (or at the time of issuance, if after the beginning of the year), and full exercise of outstanding warrants at the end of the year. The average number of shares used in the computation is 99,635 thousand, 101,731 thousand and 104,063 thousand for the years ended March 31, 2003, 2002 and 2001, respectively.

Cash dividends per share shown in the accompanying consolidated statements of income are the amounts applicable to the respective years.

xiv) Income taxes (see Note 13)

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and foreign tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

xv) Cash and cash equivalents

Cash and cash equivalents mainly include cash in hand, readily available deposits and all highly liquid debt investments, generally with a maturity of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

3. Translation into United States Dollars

The accompanying consolidated financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥120.20=US\$1, the approximate exchange rate prevailing on March

31, 2003. The translation should not be construed as a representation that the Japanese yen have been, could have been, or could in the future be converted into United States dollars at that rate or any other rate.

4. Short-term Investments and Investment Securities

The following is a summary of held-to-maturity debt securities and other securities at March 31, 2003 and 2002:

| | Millions of yen | | | | | | | |
|------------------------------------|----------------------------------|-------------------------------|-------------------------------|---|----------------------------------|-------------------------------|-------------------------------|---|
| | 2003 | | | | 2002 | | | |
| | Held-to-maturity debt securities | | | | Held-to-maturity debt securities | | | |
| Book value (Carrying amount) | Gross unrealized gains | Gross unrealized losses | Estimated fair value | Book value (Carrying amount) | Gross unrealized gains | Gross unrealized losses | Estimated fair value | |
| Bonds and debentures..... | ¥3,737 | ¥0 | ¥(16) | ¥3,721 | ¥3,766 | ¥7 | ¥(36) | ¥3,737 |
| | Other securities | | | | Other securities | | | |
| | Cost | Gross unrealized gains | Gross unrealized losses | Book value (Estimated fair value) | Cost | Gross unrealized gains | Gross unrealized losses | Book value (Estimated fair value) |
| Equity securities | ¥4,913 | ¥998 | ¥(420) | ¥5,491 | ¥4,536 | ¥1,286 | ¥(377) | ¥5,445 |
| Other securities..... | 943 | 4 | (75) | 872 | 1,106 | 3 | (94) | 1,015 |
| | ¥5,856 | ¥1,002 | ¥(495) | ¥6,363 | ¥5,642 | ¥1,289 | ¥(471) | ¥6,460 |

| Thousands of U.S. dollars | | | | |
|------------------------------------|------------------------------|-------------------------------|---|-----------------|
| 2003 | | | | |
| Held-to-maturity debt securities | | | | |
| Book value (Carrying amount) | Gross unrealized gains | Gross unrealized losses | Estimated fair value | |
| Bonds and debentures..... | \$31,086 | \$ 1 | \$(132) | \$30,955 |
| Other securities | | | | |
| Cost | Gross unrealized gains | Gross unrealized losses | Book value (Estimated fair value) | |
| Equity securities | \$40,876 | \$8,301 | \$(3,495) | \$45,682 |
| Other securities..... | 7,841 | 30 | (623) | 7,248 |
| | \$48,717 | \$8,331 | \$(4,118) | \$52,930 |

Maturities of investments at March 31, 2003 and 2002 are as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|-------------------------|---------------------|-------------------------|---------------------|---------------------------|---------------------|
| | 2003 | | 2002 | | 2003 | |
| | Bonds and debentures | Other securities | Bonds and debentures | Other securities | Bonds and debentures | Other securities |
| Due within one year | ¥6,705 | ¥ — | ¥3,066 | ¥ — | \$55,782 | \$ — |
| Due after one year through five years..... | 1,542 | 270 | 2,710 | 426 | 12,825 | 2,248 |
| Due after five years through ten years..... | — | 393 | — | 397 | — | 3,270 |
| | ¥8,247 | ¥663 | ¥5,776 | ¥823 | \$68,607 | \$5,518 |

5. Derivative Instruments

The Company principally utilizes derivative instruments such as foreign exchange contracts, interest rate swaps, currency interest rate swaps, currency options and equity options to hedge the exposure risk arising from fluctuations in foreign currency exchange rates, interest rates and market price of securities.

The Company is exposed to the risk that the counterparties will not be able to fully satisfy their obligations under contracts, but the Company believes that such risk is mitigated by the high credit ratings of the counterparties.

The interest rate swap contracts outstanding at March 31, 2003 and 2002 are as follows:

| | Currency | Millions of yen | | | | | |
|--|----------|---------------------|-----------------|---------------------------|---------------------|-----------------|---------------------------|
| | | 2003 | | | 2002 | | |
| | | Notional amounts | Market value | Unrealized gain (loss) | Notional amounts | Market value | Unrealized gain (loss) |
| Variable-rate into fixed-rate obligations..... | Yen | ¥1,000 | ¥(23) | ¥(23) | ¥1,000 | ¥(44) | ¥(44) |

| | Currency | Thousands of U.S. dollars | | |
|--|----------|---------------------------|-----------------|---------------------------|
| | | 2003 | | |
| | | Notional amounts | Market value | Unrealized gain (loss) |
| Variable-rate into fixed-rate obligations..... | Yen | \$8,319 | \$(188) | \$(188) |

6. Inventories

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

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------------|------------------------------|
| | 2003 | 2002 | 2003 |
| Merchandise..... | ¥ 2,117 | ¥ 2,142 | \$17,613 |
| Finished goods..... | 6,877 | 7,124 | 57,212 |
| Work in process and semi-finished goods..... | 662 | 930 | 5,504 |
| Raw materials and supplies..... | 2,028 | 2,175 | 16,876 |
| | ¥11,684 | ¥12,371 | \$97,205 |

7. Leases

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for as operating leases.

Finance leases:

Equivalent purchase amount, accumulated depreciation and future minimum lease payments on an "as if capitalized" basis at March 31, 2003 and 2002 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------------|------------------------------|
| | 2003 | 2002 | 2003 |
| Machinery and equipment: | | | |
| Equivalent purchase amount..... | ¥11,005 | ¥ 9,536 | \$91,553 |
| Equivalent accumulated depreciation amount..... | 9,372 | 9,082 | 77,966 |
| Equivalent balance at year-end..... | 1,633 | 454 | 13,587 |
| Tools: | | | |
| Equivalent purchase amount..... | 484 | 299 | 4,024 |
| Equivalent accumulated depreciation amount..... | 152 | 94 | 1,266 |
| Equivalent balance at year-end..... | 332 | 205 | 2,758 |
| Total: | | | |
| Equivalent purchase amount..... | 11,489 | 9,835 | 95,577 |
| Equivalent accumulated depreciation amount..... | 9,524 | 9,176 | 79,232 |
| Equivalent balance at year-end..... | ¥ 1,965 | ¥ 659 | \$16,345 |
| Future minimum lease payments: | | | |
| Due within one year..... | ¥ 426 | ¥ 557 | \$ 3,548 |
| Due after one year..... | 1,592 | 222 | 13,241 |
| | ¥ 2,018 | ¥ 779 | \$16,789 |

Lease payments, equivalent depreciation and equivalent interest expense for the years ended March 31, 2003 and 2002 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------|-----------------|---------|------------------------------|
| | 2003 | 2002 | 2003 |
| Lease payments..... | ¥ 638 | ¥ 1,880 | \$ 5,309 |
| Equivalent depreciation..... | ¥ 486 | ¥ 1,692 | \$ 4,044 |
| Equivalent interest expense..... | ¥ 18 | ¥ 46 | \$ 147 |

Operating leases:

Future minimum rents under non-cancellable operating leases at March 31, 2003 and 2002 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|--------------|------------------------------|
| | 2003 | 2002 | 2003 |
| Due within one year..... | ¥ 189 | ¥ 187 | \$ 1,576 |
| Due after one year..... | 300 | 379 | 2,492 |
| | ¥ 489 | ¥ 566 | \$ 4,068 |

8. Long-term Debt

Long-term debt at March 31, 2003 and 2002 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2003 | 2002 | 2003 |
| Unsecured yen loans from domestic banks, due in installments through 2011, interest 1.78% to 4.75% | ¥ 2,718 | ¥ 3,086 | \$ 22,612 |
| Unsecured loans from governmental institutions, due in installments through 2010, interest 0.00% to 0.25% | 384 | 436 | 3,195 |
| Unsecured yen loans from an insurance company, due in installments through 2002, interest 3.45% | — | 1,000 | — |
| Unsecured convertible bonds, due in installments through 2003, interest 0.8% | 19,945 | 19,945 | 165,932 |
| Total | 23,047 | 24,467 | 191,739 |
| Less: Current portion shown in current liabilities | (20,361) | (1,418) | (169,393) |
| | ¥ 2,686 | ¥23,049 | \$ 22,346 |

The 0.8 per cent convertible bonds maturing in 2003 are convertible into approximately 9,184 thousand shares of common stock at ¥2,171.80 per share on March 31, 2003 at the option of the holders. The conversion price of bonds is subject to adjustment for certain subsequent events such as the issue of common stock at less than par value and stock splits.

As is customary in Japan, long-term bank loans are made under

general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank. To date, the Company has not received such a request from its banks.

The aggregate annual maturities of long-term debt at March 31, 2003 are as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---------------------------|-----------------|------------------------------|
| 2004 | ¥20,361 | \$169,393 |
| 2005 | 416 | 3,461 |
| 2006 | 416 | 3,461 |
| 2007 | 416 | 3,461 |
| 2008 | 416 | 3,461 |
| 2009 and thereafter | 1,022 | 8,502 |
| Total | ¥23,047 | \$191,739 |

9. Retirement and Severance Benefits

The following tables set forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2003 and 2002.

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2003 | 2002 | 2003 |
| For employees: | | | |
| Benefit obligation at end of year | ¥(12,003) | ¥(10,046) | \$(99,860) |
| Fair value of plan assets at end of year | 4,591 | 4,534 | 38,193 |
| Funded status (benefit obligation in excess of plan assets) | (7,412) | (5,512) | (61,667) |
| Unrecognized actuarial loss | 2,124 | 355 | 17,672 |
| For directors and corporate auditors: | | | |
| Accrued retirement benefit | (466) | (445) | (3,877) |
| Retirement and severance benefits recognized in the consolidated balance sheets | ¥ (5,754) | ¥ (5,602) | \$(47,872) |

Note: All domestic subsidiaries have adopted the permitted alternative treatment, accrual for 100% of the amount required if all employees were to voluntarily terminate their employment as of the balance sheet date, prescribed by the accounting standard for retirement benefits for small business entities.

Retirement and severance costs of the Companies include the following components for the year ended March 31, 2003 and 2002.

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------|---------------------------|
| | 2003 | 2002 | 2003 |
| For employees: | | | |
| Service cost | ¥ 796 | ¥ 706 | \$ 6,618 |
| Interest cost | 259 | 288 | 2,157 |
| Expected return on plan assets | (142) | (132) | (1,185) |
| Recognized actuarial loss | 170 | 58 | 1,417 |
| Expense for multi-employer pension plan | 198 | 346 | 1,648 |
| Net periodic benefit cost | ¥1,281 | ¥1,266 | \$10,655 |
| For directors and corporate auditors: | | | |
| Accrual for retirement benefit | ¥ 21 | ¥ 228 | \$ 175 |

Assumptions used in the accounting for retirement and severance benefits for the year ended March 31, 2003 and 2002 are as follows:

| | 2003 | 2002 |
|--|----------------------------|---------------------|
| Method of attributing benefit to period of service | Straight-line basis | Straight-line basis |
| Discount rate | 2.00% | 3.00% |
| Expected return on plan assets | 3.00% | 3.00% |
| Amortization period for actuarial losses* | 14 years | 14 years |

* Amortized on a straight-line basis over the average remaining service period for employees in service starting from the year in which the losses occur.

10. Shareholders' Equity

Under the Code, at least 50% of the issue price of new shares is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital have been credited to additional paid-in capital.

The Code provided that an amount equal to at least 10% of cash payments for appropriation of retained earnings with respect to each fiscal period be appropriated to a legal reserve until such reserve equals to 25% of the stated capital. The Code, amended effective on October 1, 2001, provides that an amount equal to at least 10% of cash payments for appropriation of retained earnings with respect to each fiscal period be appropriated to a legal reserve until the aggregated amount of additional paid-in capital and the legal reserve equals 25% of the stated capital. Additional paid-in capital and the legal reserve may be used to reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. The portion in excess of 25% of the stated capital may be used for dividend distribution. The legal reserve, which is included in retained earnings, amounted to ¥1,551 million (\$12,907 thousand) and ¥1,551 million as of March 31, 2003 and 2002, respectively.

Cash dividends charged to retained earnings during the years ended March 31, 2003, 2002 and 2001 represent dividends paid out during the years. The accompanying consolidated financial

statements do not include any provision for the semi-annual dividend of ¥10 (\$0.08) per share, aggregating ¥879 million (\$7,316 thousand) which was approved at the Company's shareholders' meeting on June 26, 2003 in respect of the year ended March 31, 2003.

Under the Code, the amount available for dividends is based on retained earnings, net of treasury stock, as recorded on the Company's book. At March 31, 2003, retained earnings, net of treasury stock, recorded on the Company's book were ¥85,315 million (\$709,779 thousand). Such retained earnings included ¥84,109 million (\$699,742 thousand) which are designated as general reserves, but are available for distribution as future dividends subject to approval of the shareholders' meeting and legal reserve requirements. Unrealized holding gains on securities, net of related taxes is not available for distribution as dividends and bonuses to directors and corporate auditors.

During the years ended March 31, 2003 and 2002, the Company repurchased 2,768,713 shares and 2,027,546 shares with aggregate value of ¥3,271 million (\$27,208 thousand) and ¥3,258 million, respectively.

On June 26, 2003, the Company's shareholders' meeting approved that the Company would be able to repurchase common shares, limited in aggregate to 4,000,000 shares and ¥5,000 million in value, in accordance with the provisions of Article 210 of the Code.

11. Stock Options

The Company has stock-based compensation plans under which stock options are granted annually to directors and

corporate officers at the market price on the date of the grant. The grants are fully exercisable after two years and span ten years.

Information concerning option activities and balances is as follows:

| | Number of shares | Weighted average exercise price | |
|---------------------------------|------------------|---------------------------------|--------------|
| | | Yen | U.S. dollars |
| Balance at March 31, 1998 | — | — | |
| Granted | 106,000 | 1,540 | |
| Balance at March 31, 1999 | 106,000 | 1,540 | |
| Granted | 66,000 | 2,480 | |
| Balance at March 31, 2000 | 172,000 | 1,901 | |
| Granted | 60,000 | 2,705 | |
| Exercised | 33,000 | 1,540 | |
| Balance at March 31, 2001 | 199,000 | 2,203 | |
| Granted | 55,000 | 2,299 | |
| Exercised | 11,000 | 1,540 | |
| Balance at March 31, 2002 | 243,000 | 2,255 | 18.76 |
| Granted | 92,000 | 1,326 | 11.03 |
| Balance at March 31, 2003 | 335,000 | 2,000 | 16.64 |

On June 26, 2003, the Company's shareholders' meeting approved that the Company's stock acquisition rights as stock options would be allotted to directors and corporate officers of the Company and directors of major overseas subsidiaries. These stock

option rights are exercisable from June 27, 2005 to June 25, 2013. The total number of stock acquisition rights is limited in aggregate to 145,200 common shares.

12. Research and Development Expenditures

Research and development expenditures charged to income for the years ended March 31, 2003, 2002 and 2001 amounted to

¥12,719 million (\$105,819 thousand), ¥12,187 and ¥10,511 million, respectively.

13. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on earnings which, in the aggregate, resulted in an average normal tax rate of approximately 42.0 % for

the years ended March 31, 2003, 2002 and 2001. Overseas subsidiaries are subject to income taxes of the countries in which they operate.

The effective rates for the years ended March 31, 2003, 2002 and 2001 differ from the normal tax rates for the following reasons:

| | 2003 | 2002 | 2001 |
|--|---------------|--------|--------|
| Normal tax rate..... | 42.0 % | 42.0 % | 42.0 % |
| Change in valuation allowance allocated to income tax expenses | 12.2 | 14.0 | 3.0 |
| Lower tax rates of subsidiaries..... | 4.6 | 4.2 | — |
| Expenses not deductible for tax purposes | 3.2 | 3.0 | 2.3 |
| Unrecognized deferred tax of an overseas subsidiary..... | — | — | 4.8 |
| Tax credit for research and development expenses..... | — | (4.6) | — |
| Loss on the liquidation of affiliates | (49.3) | — | — |
| Others | 1.8 | (0.4) | (1.8) |
| Effective tax rate | 14.5 % | 58.2 % | 50.3 % |

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2002 are presented below:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2003 | 2002 | 2003 |
| Deferred tax assets: | | | |
| Tax loss carryforwards..... | ¥5,095 | ¥ 3,295 | \$ 42,387 |
| Retirement and severance benefits..... | 1,847 | 1,733 | 15,364 |
| Accrued expenses..... | 953 | 922 | 7,929 |
| Deferred assets for tax purposes..... | 351 | 494 | 2,921 |
| Unrealized profits of other intangibles..... | 321 | 321 | 2,668 |
| Impairment losses on golf membership rights..... | 229 | 206 | 1,910 |
| Accrued enterprise tax..... | — | 336 | — |
| Other..... | 669 | 1,563 | 5,566 |
| Total gross deferred tax assets..... | 9,465 | 8,870 | 78,745 |
| Less valuation allowance..... | (5,296) | (4,009) | (44,059) |
| Net deferred tax assets..... | 4,169 | 4,861 | 34,686 |
| Deferred tax liabilities: | | | |
| Reserve for special depreciation..... | (226) | (131) | (1,877) |
| Net unrealized holding gains on securities..... | (213) | (344) | (1,770) |
| Refundable enterprise tax..... | (197) | — | (1,641) |
| Other..... | (32) | (34) | (270) |
| Total gross deferred tax liabilities..... | (668) | (509) | (5,558) |
| Net deferred tax assets..... | ¥3,501 | ¥ 4,352 | \$ 29,128 |

Net deferred tax assets at March 31, 2003 and 2002 are reflected in the accompanying consolidated balance sheets under the following captions:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------|------------------------------|
| | 2003 | 2002 | 2003 |
| Current assets — deferred tax assets..... | ¥1,202 | ¥1,871 | \$ 9,999 |
| Investments and other assets — deferred tax assets..... | 2,331 | 2,515 | 19,396 |
| Non current liabilities — deferred tax liabilities..... | (32) | (34) | (267) |
| Net deferred tax assets..... | ¥3,501 | ¥4,352 | \$29,128 |

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries as distributions of such income are not taxable under present circumstances.

The Company has not recognized deferred tax liabilities for the portion of undistributed earnings of overseas subsidiaries because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future, except for the amount that will be probably distributed. Deferred tax liabilities will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments.

14. Contingent Liabilities

At March 31, 2003, the Company has provided guarantees to financial institutions covering employee loans totaling ¥819 million (\$6,814 thousand).

15. Segment Information

The Companies operate predominantly in a single industry segment, the production, sale and marketing of pharmaceuticals.

Intercompany sales between geographic areas are recorded at cost plus a mark up and intercompany sales and profits are

eliminated on consolidation. Corporate assets are composed mainly of cash and cash equivalents, short-term investments and investment securities.

Information by geographic area and overseas sales are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|----------|----------|------------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| Geographic areas: | | | | |
| Net sales: | | | | |
| Japan: | | | | |
| External customers | ¥ 81,858 | ¥ 82,624 | ¥ 84,138 | \$ 681,012 |
| Intersegment..... | 660 | 519 | 295 | 5,489 |
| Total..... | 82,518 | 83,143 | 84,433 | 686,501 |
| Europe: | | | | |
| External customers | 6,643 | 4,845 | 3,017 | 55,265 |
| Intersegment..... | 983 | 1,098 | 863 | 8,180 |
| Total..... | 7,626 | 5,943 | 3,880 | 63,445 |
| Other: | | | | |
| External customers | 1,752 | 1,498 | 1,294 | 14,579 |
| Intersegment..... | 7,648 | 7,414 | 4,600 | 63,625 |
| Total..... | 9,400 | 8,912 | 5,894 | 78,204 |
| Corporate and eliminations..... | (9,291) | (9,032) | (5,758) | (77,295) |
| Consolidated..... | ¥ 90,253 | ¥ 88,966 | ¥ 88,449 | \$ 750,855 |
| Operating income (loss): | | | | |
| Japan..... | ¥ 20,652 | ¥ 18,879 | ¥ 24,461 | \$ 171,814 |
| Europe | (3,816) | (3,384) | (2,307) | (31,749) |
| Other..... | (1,083) | (474) | 45 | (9,009) |
| Corporate and eliminations..... | (3,056) | (3,231) | (5,681) | (25,425) |
| Consolidated..... | ¥ 12,697 | ¥ 11,790 | ¥ 16,518 | \$ 105,631 |
| Assets: | | | | |
| Japan..... | ¥129,750 | ¥117,864 | ¥ 94,170 | \$1,079,450 |
| Europe | 9,865 | 21,397 | 19,447 | 82,068 |
| Other..... | 7,030 | 7,936 | 3,676 | 58,489 |
| Corporate and eliminations..... | 503 | 4,906 | 35,950 | 4,184 |
| Consolidated..... | ¥147,148 | ¥152,103 | ¥153,243 | \$1,224,191 |
| Note: The main countries included in Europe and Other are as follows: Europe: Finland, Sweden, Germany and the Netherlands Other: United States of America, Taiwan and Korea | | | | |
| Overseas sales: | | | | |
| Europe | ¥ 3,506 | ¥ 3,009 | ¥ 2,252 | \$ 29,165 |
| North America | 4,650 | 3,500 | 2,206 | 38,685 |
| Other | 2,364 | 1,809 | 1,238 | 19,668 |
| Total..... | ¥ 10,520 | ¥ 8,318 | ¥ 5,696 | \$ 87,518 |
| Consolidated net sales | ¥ 90,253 | ¥ 88,966 | ¥ 88,449 | \$ 750,855 |
| Percentage of overseas sales to consolidated net sales | 11.7% | 9.3% | 6.4% | 11.7% |

Notes: 1. Overseas sales represent the total amount of export sales of the Company and domestic subsidiaries and sales of overseas subsidiaries (intercompany sales between consolidated subsidiaries are eliminated upon consolidation).

2. The main countries included in Europe, North America and Other are as follows:

Europe: Finland, Sweden, Norway, Denmark and Russia
North America: United States of America and Canada
Other: Korea, China and Taiwan