Yamanouchi

Speed with Vision

Yamanouchi Pharmaceutical Co., Ltd. Annual Report 2002

Speed with Vision

— Move quickly in preparation, implementation and achievement of goals —

Corporate Philosophy: **“Creating and Caring ... for Life”**
— Products that contribute to the well-being of people everywhere

Goal: **Become a Market-Oriented, R&D-Driven Global Enterprise**

In Pursuit of Future Prosperity

- **Accelerate global clinical development**
- **Start our own sales activities in the U.S. and turn profitable quickly**
- **Bolster genomics-based discovery research**

Growing Profits

- **Expand sales of mainstay products and quickly launch new products**

Raising Corporate Value

- **Aim for continuous growth**
- **Raise management transparency**
- **Uphold the highest ethical standards**
- **Raise employee motivation**

Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report includes forward-looking statements based on a number of assumptions and beliefs in light of the information currently available to management and subject to significant risks and uncertainties. Actual financial results may differ materially depending on a number of factors, including adverse economic conditions, currency exchange rate fluctuations, adverse legislative and regulatory developments, delays in new product launches, the pricing and product initiatives of competitors, the inability of the company to market existing and new products effectively, interruptions in production, infringements of the company’s intellectual property rights and the adverse outcome of material litigation.

Financial Highlights

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002, 2001, 2000, 1999 and 1998

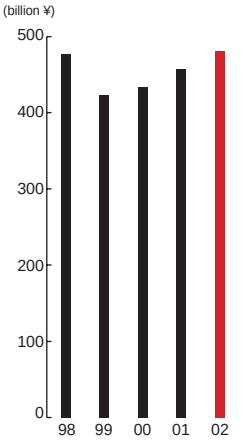
	Millions of yen				
	2002	2001	2000	1999	1998
Net sales	¥481,328	¥457,913	¥433,653	¥423,217	¥477,356
Operating income	94,291	97,844	96,069	89,445	102,845
Net income	55,160	40,341	57,175	48,002	6,092
Total assets	896,949	896,280	829,286	776,031	802,735
Shareholders' equity, net	666,067	677,713	620,221	549,972	507,535
Research and development expenses	65,169	54,567	54,821	54,299	43,639
Capital expenditures	29,730	36,828	29,831	51,405	57,575
Depreciation	26,342	30,804	23,460	29,338	18,454

	Yen				
Per share:					
Net income:					
Basic	¥ 154.73	¥ 111.80	¥ 162.35	¥ 140.79	¥ 18.18
Diluted	152.07	109.95	155.97	129.21	17.51
Shareholders' equity	1,952.47	1,876.54	1,721.77	1,596.65	1,498.91
Cash dividends applicable to the year	25.00	25.00	25.00	23.00	25.00

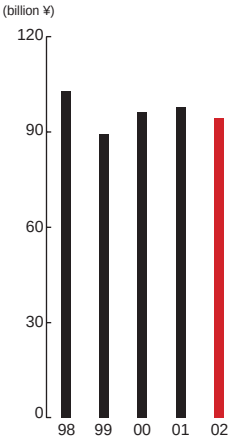
Notes:

1. Effective April 1, 1999, the company changed its method of accounting for retirement benefits to recognizing the liability for retirement benefits at the present value of the estimated retirement benefits to be paid upon the future termination of its employees' services, less the balance of the plan assets at fair value. The effect of this change was to increase operating income by ¥573 million and to decrease income before income taxes and minority interests by ¥12,587 million for the year ended March 31, 2000.
2. Effective April 1, 1997, the company changed its methods of accounting for the excess of cost over net assets acquired and for income taxes. The effect of the change in the accounting for the excess of cost over net assets acquired was to increase the amortization of the excess of the cost over net assets acquired by ¥72,730 million and to decrease net income by the same amount for the year ended March 31, 1998. Also, the effect of the change in the accounting for income taxes was to decrease the income tax expense by ¥24,477 million and to increase net income by the same amount for the year ended March 31, 1998.
3. Due to a change effective the year ended March 31, 2000 in the regulations relating to the presentation of translation adjustments, the company has presented translation adjustments as a component of shareholders' equity instead of as a component of assets or liabilities. Accordingly, the amounts for 1999, 1998 and 1997 were restated in the above table.
4. A new accounting standard for financial instruments, which became effective on April 1, 2000, requires that securities be classified into three categories; trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. The cost of securities sold is determined by the moving-average method. The effect of the adoption of the new standard for financial instruments was to decrease net income by ¥1,809 million for the year ended March 31, 2001.

NET SALES



OPERATING INCOME



Message From Management

The past year reconfirmed the marketing power of our leading drugs, Harnal® and Lipitor®, and of our new products. We also overcame the effects on net sales of the expiry of the U.S. patent on Gaster®, one of our best-selling drugs. More than compensating for this were expanded sales of Harnal®, Lipitor® and other mainstays, a continued high level of sales of Gaster® in Japan, and the contribution of a new product, Advaferon®, which was launched in December 2001. However, we must continue to strengthen our foundations for growth by stepping up efforts directed at our goal of becoming a market-oriented, R&D-driven global enterprise.

Results for Fiscal Year Ended March 2002

Operating Results—In the year ended March 31, 2002, we recorded favorable growth in net sales, to ¥481.3 billion, while operating income declined to ¥94.3 billion, mainly due to the expiry of the exclusivity period of Gaster® in the U.S. and higher R&D expenses. The top-line gains highlighted successful expansion in domestic and overseas sales of Harnal®, a treatment for the functional symptoms of benign prostatic hyperplasia (BPH), and strong growth from Lipitor®, a treatment for hypercholesterolemia that is now in a major phase of expansion following its launch in Japan in May 2000. The December 2001 launch in Japan of Advaferon®, a treatment for chronic hepatitis C, also contributed to sales. With Gaster®, a treatment for peptic ulcers and gastritis, we saw higher numbers of prescriptions in Japan for Gaster® D, an orally disintegrating tablet. This mitigated the effects of the expiry of the exclusivity period in the U.S. in April 2001 for Gaster®, which led to a reduction in bulk sales and royalty income. On a consolidated basis, therefore, sales of Gaster® were held to a marginal decline.

President and Chief Executive Officer
Toichi Takenaka, Ph.D.

Creating More Corporate Value—During the year, we took some specific actions to promote management more focused on creating corporate value. Specifically, in August 2001, we established three cross-functional committees: the Business Reform Committee, the Investor Relations Committee and the Compliance Committee.

We established the Business Reform Committee with the aim of achieving higher earnings through cost cutting and structural reforms spanning all business activities. The Committee's efforts to quickly reengineer our business processes helped us to bolster operating income in the past fiscal year.

The Investor Relations Committee's brief is no less important. This Committee's mission is to perpetually earn the trust of capital markets through an effective, two-way communication process. Its primary responsibility is planning and executing strategies for IR activities. It has formulated a disclosure policy, put in place a system to feed back the views of shareholders and other investors on the performance of company management, including myself, and implemented other measures that contribute to value-creation management.

The mission of the Compliance Committee is to establish an internal compliance system to gain the confidence of all stakeholders and eventually enhance Yamanouchi's corporate value. The Committee was responsible for the creation of the Yamanouchi Compliance Conduct Code, a set of guidelines for all Yamanouchi managers and employees in complying with laws and regulations governing R&D, manufacturing, sales and other business activities. Another manifestation of the Committee's work is the Yamanouchi Compliance Handbook, which has been distributed to all managers and employees. In the future, we hope to obtain international standard certification for comprehensive compliance management systems.

Another way we are creating more value for shareholders is through share buy-backs, which simultaneously give us greater flexibility with respect to our financial policy. We have been doing this since November 2001. By March 2002, we had bought back 20 million shares, or 5.5% of outstanding shares. We plan to buy back an additional 10 million shares during the one-year period after the annual general meeting of shareholders held in June 2002. And to widen our shareholder base and make our shares easier to trade, we reduced the number of shares constituting one unit from 1,000 shares to 100 shares effective from April 1, 2002.

Looking Ahead to More Growth

A Stronger Presence in the Japanese Pharmaceuticals Market—To secure further growth, we are investing proactively on several fronts. These include the establishment of our own marketing and sales network in the U.S., a global business development drive, and genomics-based drug discovery research programs. To support those investments, it is vital that we continue to boost our presence in the Japanese pharmaceuticals market through the Yamanouchi-brand franchise.

We will boost our competitive position in the Japanese market by developing a full pipeline of drugs through the prioritized allocation of resources to five therapeutic areas—gastrointestinal, cardiovascular, urology, the endocrine system, and locomotorium/inflammation. We are already seeing this strategy bear fruit in the value of our current pipeline. Besides our three leading products Harnal®, Lipitor®, and Gaster®, we have Advaferon® in the gastrointestinal area, and telmisartan (filed in Japan; launch planned in the fiscal year ending March 2003) in the cardiovascular domain. In locomotorium/inflammation, we expect to complete a regulatory filing in Japan for YM177 (celecoxib) during the current calendar year. Celecoxib, a selective COX-II (cyclooxygenase-2) inhibitor that is being developed with Pharmacia K.K., is currently in the Phase III stage. I believe this drug will help strengthen our operating base in Japan and give us a beachhead in the locomotorium and inflammation areas.

One of our major goals in the Japanese ethical pharmaceuticals market is to increase our total share to 6%. By generating growth with our main products and bringing our lead development compounds to market as quickly as possible, I believe we can attain this goal.

U.S. Independent Marketing and Sales Network—To date, several Yamanouchi-developed products have penetrated the U.S. market through licencees, notably Gaster® and Harnal® (also known in the U.S. as Pepcid® and Flomax®, respectively). But we have come to the conclusion that if Yamanouchi is to achieve greater growth and corporate value, we have no option but to establish and sell products through our own independent marketing and sales network in the U.S., the world's largest pharmaceuticals market.

To ensure steady success while avoiding excessive levels of investment, our plan is to enter the U.S. market through the field of urology—one of our most strategically important therapeutic fields and one where we can expect to achieve excellent growth. The first drug that we plan to launch in the U.S is our lead product in this area, YM905, a treatment for urinary frequency, urinary urgency and incontinence associated with overactive bladder. Currently, YM905 is in the final stage of Phase III clinical development, and we expect to file an application with the Food and Drug Administration (FDA) in the first quarter of 2003.

In October 2001, we established Yamanouchi Pharma America, Inc. (YPA) to control the development of our pharmaceutical business in the U.S. In April 2002, we integrated our pharmaceutical functions and subsidiaries into YPA to simplify the organization and to bring the value chain comprising clinical development, manufacturing, and marketing and sales under unified control.

The commencement of independent marketing and sales operations in the U.S. will not only constitute a major step on the way toward Yamanouchi becoming a truly global enterprise, but will also be key to the creation of corporate value over the long term. Our initial goal is to establish a successful presence in the field of urology.

Securing a Strong Presence in Genomics-Based Drug Discovery—I believe that securing a strong presence in genomics-based drug discovery research will be one of the keys to business development in the 21st century. We are undertaking several initiatives to ensure that we secure a competitive position in genomics-based drug discovery research. We are applying a "triangular" method to this process, focusing on three types of approaches: "from gene to disease," in which we seek to link genome-derived information to diseases; "from disease to gene," which seeks drug discovery targets from the study of particular diseases; and "from compound to gene," in which we try to find novel drug discovery targets starting from existing compounds. By combining these three approaches, we hope to raise the accuracy and speed of our R&D efforts. Alongside these moves, we are seeking to accelerate our programs and boost their effectiveness through a number of proactive strategic alliances with leading research institutions and bioventures, both in Japan and overseas. Examples include collaboration with Japanese firm TransGenic Inc. and U.S. bioventure Metabolex, Inc.

We expect that within five years our various genomics-based drug discovery research programs will have yielded several compounds that are in clinical development. We also expect that within ten years half of all our compounds in clinical development will have originated from such programs. Our aim is to make effective use of genome-derived information in R&D and thus reduce research lead-times and bolster our pipeline.

Restructuring of Consumer Products Businesses—In October 2001, we formulated a restructuring plan to strengthen the earnings structure of the nutritional products and food and roses businesses. Actions we have taken include subcontracting sales promotional activities to external call centers, cutting total personnel numbers by around 20%, and merging distribution centers to form a new, efficient distribution center. We will also strengthen the financial positions of each business by reducing interest-bearing debt through the disposal of non-productive assets.

In February 2002, we transferred all the shares in Shaklee Japan K.K., owned by the parent company as an investment in kind, to Yamanouchi Consumer Inc.

In these and other ways, we are taking measures to improve management of the consumer products business and boost the value generated so that this business contributes to raising the overall performance of the Yamanouchi Group.

In the meantime, we will continue to consider various alternatives, from a medium- to long-term perspective, for the consumer products business that take into account such factors as the business environment, competitiveness and the views of stakeholders.

Toward a Brighter Future

Moves to restrict growth in drug expenses in Japan have continued to intensify through revisions to the systems governing medical treatment fees and medical care for elderly people as part of broader healthcare reforms. At the same time, U.S. and European pharmaceutical firms continue to enhance their sales

capabilities within Japan. The business environment for the Japanese pharmaceuticals industry has therefore become increasingly harsh. Overseas, the industry is being shaped by mega-mergers.

In this climate, we must set our direction clearly. We must clearly decide how to allocate our limited resources. Foremost in our mind must be to determine how to make higher profits that will fund future investments. Our people are naturally key to this process. To guide their activities and help them add their creative spark to the company's activities, we have clarified our mission and vision. We believe that common dedication to this mission and vision will build the corporate morale required for prosperity in the 21st century.

The current business climate shows that the pharmaceuticals industry is facing a major turning point. It faces consolidation and reforms of the healthcare insurance system in Japan and an intensification of global competition. Turning these changes into opportunities for future prosperity depends on our ability to respond to change and implement reform. This ability reflects a company's sense of urgency.

A company can hope to thrive only if it maintains a sense of urgency at all times, clearly identifies the problems it faces, and solves them or undertakes reform.

Indeed, to continue to earn the trust of all stakeholders and become a truly global enterprise, we must be prepared to undertake bold structural reforms. While acting in a socially responsible manner, every employee needs to translate the desire of Yamanouchi Pharmaceutical—to create value and pursue profit—into a personal sense of mission. By doing so, we will promote "new product-driven management," the essence of Yamanouchi, as quickly as possible.

In closing, I would like to pay tribute to Mr. Masayoshi Onoda, who retired as chairman of the board at the annual general meeting of shareholders held in June 2002. His efforts to guide the company's growth over more than a decade, as president and then as chairman, have been an inspiration to all.

Toichi Takenaka, Ph.D.
President and Chief Executive Officer

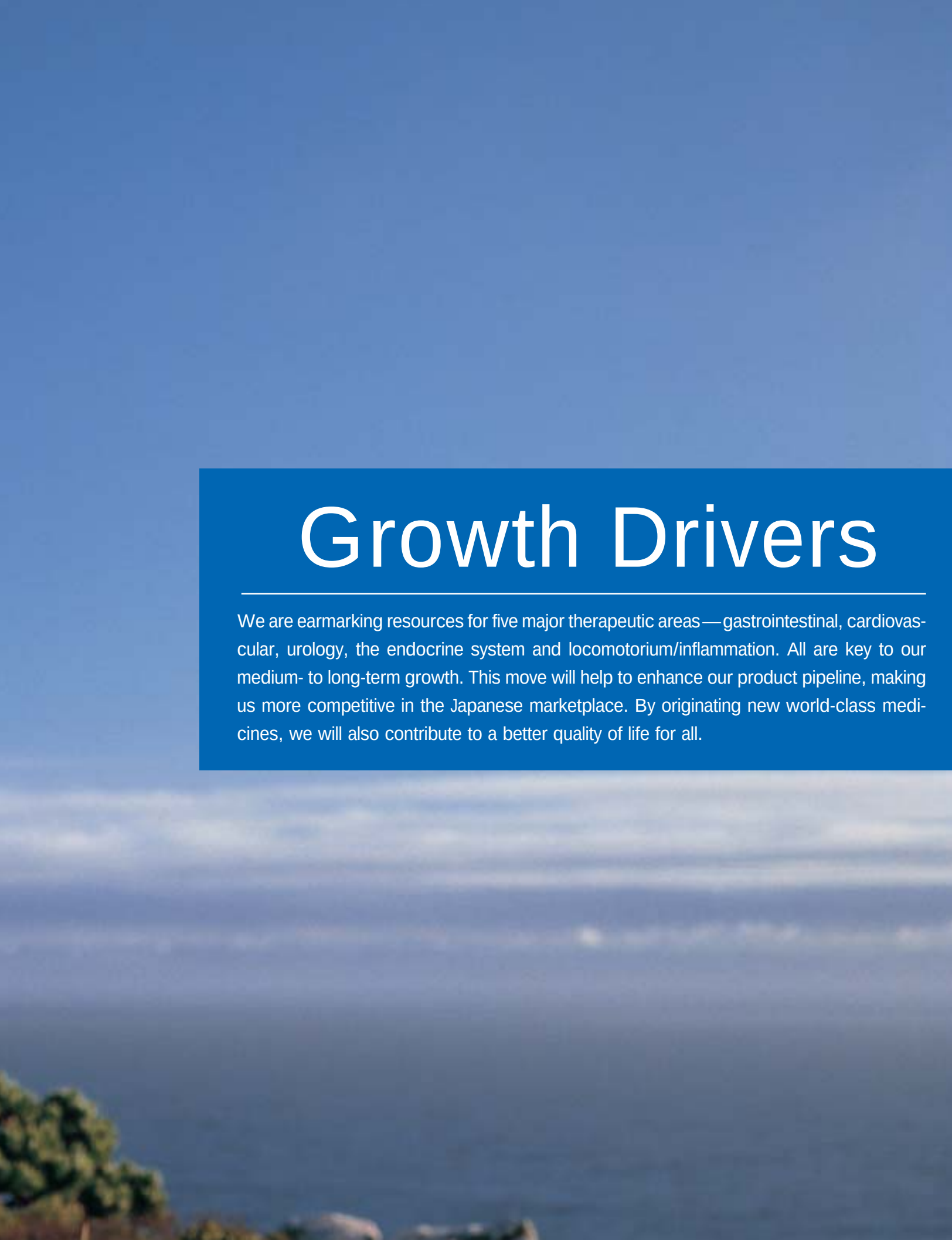
August 2002

Our Basic Focus

Our slogan at Yamanouchi is ***"Hayai,"*** a Japanese word that we translate as "Speed with Vision" in English. This need for speed and clarity of goals has guided our actions in recent years. We view the three issues listed below as the most significant aspects of our medium- to long-term growth plan, and they remain at the core of our strategic focus.

Growth Drivers—preserving and building earnings growth
Key Markets—establishing own marketing and sales network in the U.S.
Stakeholder Value—raising corporate value for all stakeholders

In this annual report, we discuss these various aspects of our performance and medium- to long-term growth strategy at Yamanouchi.



Growth Drivers

We are earmarking resources for five major therapeutic areas—gastrointestinal, cardiovascular, urology, the endocrine system and locomotorium/inflammation. All are key to our medium- to long-term growth. This move will help to enhance our product pipeline, making us more competitive in the Japanese marketplace. By originating new world-class medicines, we will also contribute to a better quality of life for all.

Ensuring competitiveness in five major therapeutic areas

Conditions in the Japanese pharmaceuticals market are becoming progressively tougher for two main reasons. First is the accelerated reform of healthcare insurance system, which is curtailing drug expenditure. Second is the growing local presence of U.S. and European pharmaceutical firms, who are strengthening their Japanese sales forces and introducing streams of promising new medicines. Yamanouchi is investing to ensure its own medium- to long-term growth, focusing on three goals: the establishment of an independent marketing and sales network in the U.S. market; the enhancement of global clinical development capabilities; and the acceleration of its genomics-based drug discovery research program. To generate the required investment capital, Yamanouchi needs to further boost its presence in its home market—since Japan is the main source of its profits. This entails a focus on five particular therapeutic areas—gastrointestinal, cardiovascular, urology, the endocrine system, and locomotorium/inflammation. By generating a strong pipeline in each of these areas, Yamanouchi plans to strengthen its competitive position in the Japanese market.

Gastrointestinal

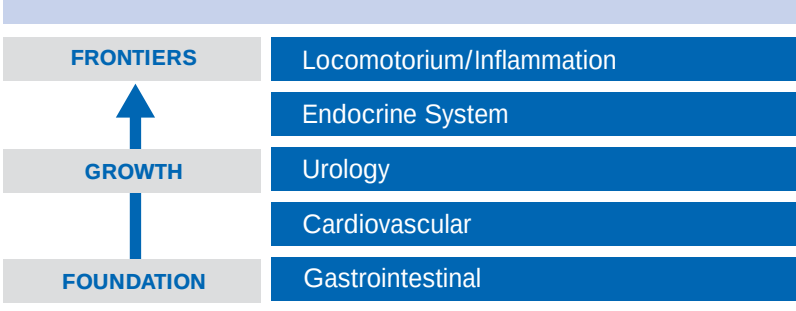
Yamanouchi's core profitability derives from this area, specifically Gaster®, a treatment for gastritis and peptic ulcers. After 17 years on the market, Gaster® boasts a wide variety of formulations and a broad range of indications. In addition, many years of use have demonstrated its impeccable safety record—all of which make it the top-selling medicine in Japan in this area. Gaster® D, an orally disintegrating tablet launched in September 2000 that can be taken without water, has posted steady sales growth. This formulation now accounts for about 40% of total sales of Gaster® tablets. Total sales of Gaster® in Japan slightly decreased by 2.4% to ¥82.7 billion in the fiscal year ended March 2002.

In December 2001, Yamanouchi launched Advaferon®, an interferon indicated for chronic hepatitis C, in Japan. Originally discovered by Amgen Inc. in the U.S., this novel interferon was found in Japanese clinical trials to have strong comparative efficacy in cases of patients infected with viral genotype 1b and with a high virus load, particularly from 100 to 700K copies/mL—areas where previous medicines had little therapeutic effect. Advaferon® sales in the fiscal year ended March 2002 were ¥1.5 billion. The superior efficacy profile of Advaferon® and substantial overseas experience with the drug should help Yamanouchi establish it in Japan as a powerful treatment for chronic hepatitis C.

Cardiovascular

As a strategic area for business expansion, Yamanouchi has placed emphasis on the cardiovascular area since the early 1980s. Following the launch of calcium antagonist Perdipine® in 1981, Yamanouchi has launched Perdipine® LA and Hypoca®, and has now established itself as a major player in the Japanese market for antihypertensives. Aiming to broaden its reach within the cardiovascular field, in May 2000, Yamanouchi introduced Lipitor®, the world's leading statin, to the Japanese market. Its sales in Japan have grown rapidly due to its strong cholesterol-lowering effects and safety profile. Sales in the fiscal year ended March 2002 soared 135.9% year on year to ¥46.0 billion. Yamanouchi is focusing on making Lipitor® the leading statin in Japan through co-promotion with Pfizer Pharmaceuticals Inc. and by stressing its superior efficacy and safety, on which substantial clinical data has been accumulated in overseas markets.

In January 2002, in another expansion in the cardiovascular field, Yamanouchi signed a letter of intent with German firm Boehringer Ingelheim GmbH for the licensing of telmisartan, an antihypertensive drug that had already been filed for regulatory approval in Japan. Angiotensin II inhibitor, a group of hypertensive drugs in which telmisartan is categorized, has been rapidly accepted in the Japanese market. Besides the sustained efficacy provided by once-daily dosing, telmisartan offers greater control in the morning,



when rising blood pressure can often pose a higher risk of ischemic events. Drawing on our extensive sales experience in the cardiovascular field and a combined sales force of approximately 1,900 MRs with Nippon Boehringer Ingelheim Co., Ltd. that will conduct cooperative promotional activities, we aim to make telmisartan a success in Japan.

Urology

Yamanouchi has promoted global activities in urology, an important area that underpins the company's growth. The company's lead product in the field is Harnal® (tamsulosin), a selective alpha$_1$-blocker that improves the functional symptoms of benign prostatic hyperplasia (BPH). Now marketed in 65 countries, the high selectivity of Harnal® and its low incidence of side effects have helped make it the leading treatment globally for treating BPH symptoms. In the fiscal year ended March 2002, sales of Harnal® in Japan grew 4.0% year on year to ¥41.2 billion, while local sales in Europe through subsidiary Yamanouchi Europe grew 53.9% to ¥27.7 billion (due to a change in financial reporting, this figure actually reflects 13 months' sales). European sales by licensee Boehringer Ingelheim also expanded steadily. In the U.S., co-promotion with Boehringer Ingelheim Corporation and Abbott Laboratories boosted sales sharply, helping to increase Yamanouchi's bulk sales and royalty income to ¥26.7 billion. Harnal® now accounts for consolidated annual sales of ¥97.0 billion. Yamanouchi will continue to develop the market and plans to leverage its existing market position. Yamanouchi will also work to extend the drug's life cycle through the development of additional indications and formulations (respectively, lower urinary tract symptoms, and a new once-a-day formulation called TOCAS (Tamsulosin Oral Controlled Absorption System) that enables gradual release of the drug).

The expertise and know-how developed with Harnal® is paving the way for Yamanouchi's full-scale entry into the U.S. pharmaceuticals market. Yamanouchi now has two compounds in the U.S. clinical development pipeline in the urology field: YM905, a muscarinic M3 antagonist, which is expected to be of value in the treatment of symptoms of an overactive bladder such as urinary frequency, urinary urgency and incontinence; and YM598 (currently in Phase II), an endothelin ETA antagonist for the treatment of advanced prostate cancer. Yamanouchi is one of the first companies in the world to develop an endothelin ETA antagonist for use in treating advanced prostate cancer. If it can be successfully developed, it promises to be a powerful driver of medium- to long-term earnings growth.

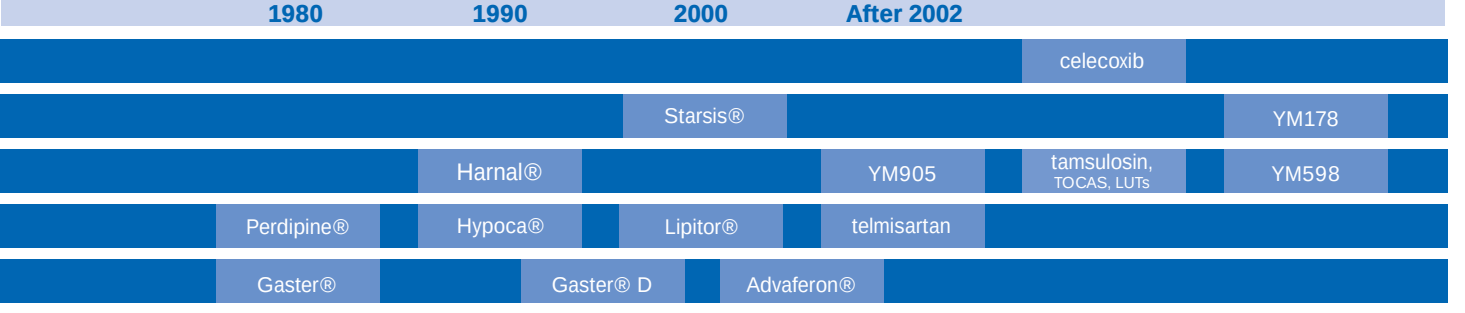
Endocrine System

For many years, Yamanouchi has sold Euglucon®, a sulfonylureas for the treatment of diabetes. In 1999, the company launched Starsis®, an insulin secretion enhancer. Now in the pipeline is YM178, a beta-3 receptor agonist for the treatment of non-insulin dependent diabetes mellitus, that is in Phase II clinical development in Europe. Without limiting its focus to drugs for treating diabetes, Yamanouchi has positioned the development and growth of the wider endocrine system field as a key theme for expansion.

Locomotorium/Inflammation

Yamanouchi is also developing YM177 (celecoxib), a selective COX-II (cyclooxygenase-2) inhibitor for the treatment of rheumatoid arthritis and osteoarthritis, in conjunction with Pharmacia K.K. The drug is currently in Phase III clinical development, and Yamanouchi expects to file for regulatory approval within the current calendar year.

Ensuring Competitiveness in 5 Major Therapeutic Areas



Key Markets

The U.S. is the world's largest pharmaceuticals market—and it is expected to grow even bigger. For Yamanouchi, establishing an independent U.S. marketing and sales network is vital to create enduring corporate value. Our first priority is to enter the expanding U.S. urology market, capitalizing on our strengths in this field to establish a competitive position.

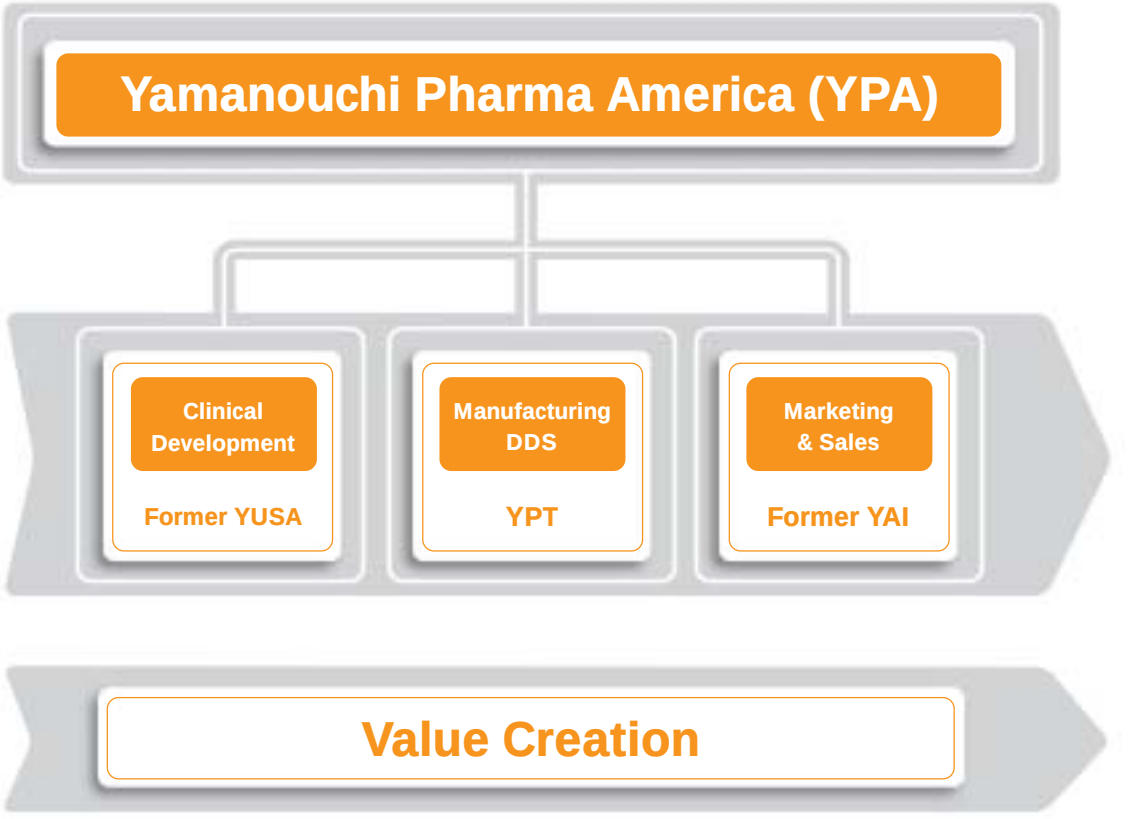

AMERICA
Lake Superior
Lake Huron
Michigan
Ohio
Gulf Stream
NORTH
ATLANTIC
OCEAN

Establishment of an independent U.S. marketing and sales network

The next principal target for Yamanouchi as it strives to raise corporate value is to establish its own, independent marketing and sales network in the U.S., which is the world's largest pharmaceuticals market and exhibits high growth potential. Conducting independent sales activities would constitute a major step forward in becoming a truly global enterprise, and is one of the main keys to supporting medium- to long-term value creation. Since the 1980s, Yamanouchi has gained extensive knowledge and expertise in the U.S. pharmaceuticals market through its licensing activities, and in clinical development through its own R&D activities. Products developed in Yamanouchi laboratories and licensed to U.S. companies include famotidine, cefotetan and tamsulosin (known in the U.S. as Pepcid®/ Pepcid® AC, Cefotan® and Flomax®, respectively). The acceptance of these products by the U.S. market underscores the competitiveness and quality of Yamanouchi's R&D activities. Today, backed by a rich product pipeline in certain strategically important therapeutic fields, Yamanouchi is endeavoring to set up its own independent marketing and sales network to achieve success on a global basis.

To this end, Yamanouchi established a local sales subsidiary, Yamanouchi America, Inc. (YAI), in June 2000, and, in October 2001, a separate company, Yamanouchi Pharma America, Inc. (YPA), to supervise all pharmaceutical business in the U.S. Initially, Yamanouchi Pharma Technologies, Inc. (YPT), which is responsible for manufacturing, and Yamanouchi U.S.A., Inc. (YUSA), which conducts clinical development, were like YAI also under the YPA umbrella. In April 2002, YUSA and YAI were merged into YPA to simplify the organization and strengthen links

Business Structure in the U.S.



between the two functions. Yamanouchi has now established control over the entire value chain, from clinical development and manufacturing to marketing and sales. Preparations are now under way for the launch of YM905. Yamanouchi, with YPA as a core entity, will accelerate efforts to build its own independent marketing and sales capabilities.

Entry into the U.S. market via the urology field with YM905

Yamanouchi plans to enter the U.S. market, first in the growing urology field, where it will endeavor to create a competitive position. The first compound targeted for marketing through Yamanouchi's independent sales force in the U.S., YM905, harbors considerable potential. Its selective action on muscarinic M3 receptors in bladder smooth muscle is expected to provide effective treatment for symptoms of overactive bladder, such as urinary frequency, urinary urgency and incontinence. Recent market research supports Yamanouchi's assertion that urology is an expanding therapeutic field in the U.S. The aggregate actual and latent patient populations corresponding to this drug's target indication (overactive bladder) was estimated at 6 million in 1998 and is forecast to reach approximately 9 million in 2008. The number of actual patients, in particular, is expected to increase faster.

Success with Harnal® has helped to establish Yamanouchi's reputation in the field of urology, raising its profile at related medical conferences. Harnal® has also helped Yamanouchi to build strong relations with urologists in the U.S. All these factors promise to help Yamanouchi successfully enter the U.S. market and build a strong position in the growing urology area.

Development of product pipeline

Yamanouchi has several compounds that could follow YM905 at earlier stages in the development pipeline, including YM598 for the treatment of advanced prostate cancer (currently in Phase II trials) and a number of compounds with possible urological applications in Phase I. Yamanouchi is also actively seeking to license-in other compounds to boost its pipeline in the urology field over the medium to long term.

In addition to YM905 and YM598, Yamanouchi has two other compounds in advanced clinical development: YM087 (conivaptan), which is being developed for the indications of hyponatremia and acutely decompensated chronic heart failure; and YM872, a treatment for acute ischemic stroke. Armed with a rich product pipeline composed of these compounds and licensing-in efforts, Yamanouchi will focus on business development in the U.S. market.

Steps to build U.S. business infrastructure

YM905 is currently in Phase III clinical development in the U.S. and Europe. In the U.S., in particular, Yamanouchi plans to file a new drug application (NDA) for YM905 to the FDA in the first quarter of 2003. Preparations for the start of Yamanouchi's own sales activities will accelerate in line with the development of YM905. YPA has already hired core staff in charge of personnel, accounting and IT systems, and is taking other actions to develop a business infrastructure. YPA is currently focused on hiring specialist staff experienced in the launch and marketing of pharmaceutical products, and on establishing related IT infrastructure. YPA plans to begin full-scale hiring of medical representatives following NDA filing of YM905, with the aim of being able to achieve 100% market coverage of specialty physicians, such as urologists, with its own sales force. For primary care physicians, the other important market segment for YM905, YPA is carefully looking at all conceivable options—for example, using co-promotion partners or using contract sales organizations (CSOs). By focusing on the relatively specialized field of urology, Yamanouchi is aiming to build a powerful marketing and sales network and achieve profitable operations early on. Yamanouchi's initial objective with its U.S. operations is to be accepted in the market as one of the leading pharmaceutical firms in the field of urology. Once a solid bridgehead has been established using YM905, Yamanouchi will consider expanding into other therapeutic areas. The course taken will be determined by assessing market potential, identifying resource requirements and taking into account marketing strategies for the products to come after YM905.

Stakeholder Value

The Yamanouchi Group is managed with the interests of all stakeholders in mind. We realize that to continue to grow and prosper over the long term we must continuously create value that satisfies the demands of our stakeholders. The entire Yamanouchi Group workforce is united in this drive to maximize corporate value.

New Product-Driven Value-Creation Management

The Yamanouchi Group is promoting "world-class new product creation" with the aim of becoming an R&D-driven global enterprise. Yamanouchi believes that achieving true global status mandates that it continuously raise corporate value for all stakeholders. To ensure that all Yamanouchi Group employees share a common understanding of the need to raise corporate value, the Group's mission and vision statements were recently revised. Essentially, the clarification of the mission involved adding the concept of corporate value development to the company's existing business model, which views "exercising creativity to produce new products" as the foundation of business activities of the Yamanouchi Group.

Yamanouchi's mission views exercising "creativity focused on new products" as a fundamental theme for expanding business. At the same time, the mission more clearly defines Yamanouchi's responsibilities to its stakeholders. In short, under Yamanouchi's mission, it is incumbent on each and every employee to exercise creativity to develop new products that contribute to good health and to create corporate value for all stakeholders. The result is a business model unique to Yamanouchi, which is called "new product-driven value-creation management."

A Company Trusted and Chosen by Its Stakeholders

For a company to continue to exist and prosper over the long term, it must continuously create value that satisfies all stakeholders. As a pharmaceuticals company, Yamanouchi aims to offer customers new products that contribute to good health and deliver greater satisfaction. For employees, Yamanouchi is providing a rewarding place to work and opportunities for self-actualization. This approach is based on the recognition that talented, motivated employees are the source of competitive superiority, and is intended to lift productivity. For shareholders, the aim is to deliver a sufficient return on investment in the form of growth in the stock price and dividends. This can be achieved through earnings expansion, leveraging the competitive edge accruing from value created for customers and employees. For society, Yamanouchi will work toward beneficial coexistence by promoting fair business practices and responsible corporate citizenship by upholding the highest corporate ethical standards. Through this philosophy, Yamanouchi intends to grow and prosper together with society as a trusted and respected corporate citizen.

Creating and delivering value earns the trust and support of the company's various stakeholders, a process that in itself leads to the creation of more corporate value. Balancing the various needs of all stakeholders while promoting such positive value-creation cycles—so that corporate value can be raised continually—is one of the main roles of management.

Specific Measures for Building Corporate Value

In August 2001, Yamanouchi established three cross-functional committees to better guide the development of specific measures for building corporate value: the Business Reform Committee, the Investor Relations Committee and the Compliance Committee.

The Business Reform Committee was established with the aim of proposing measures to reduce costs and recommending structural reforms spanning all business activities in order to strike the optimal balance between investments and returns to achieve higher earnings. The Committee has instilled greater awareness of costs throughout the company and delineated short-term business reform measures, which have been implemented in administrative and business activities. The benefits of these efforts are now becoming apparent. The Committee is also currently studying suitable reform themes for full-scale business reengineering over the medium term and plans to instruct divisions and departments involved in administrative and business activities to carry out various measures.

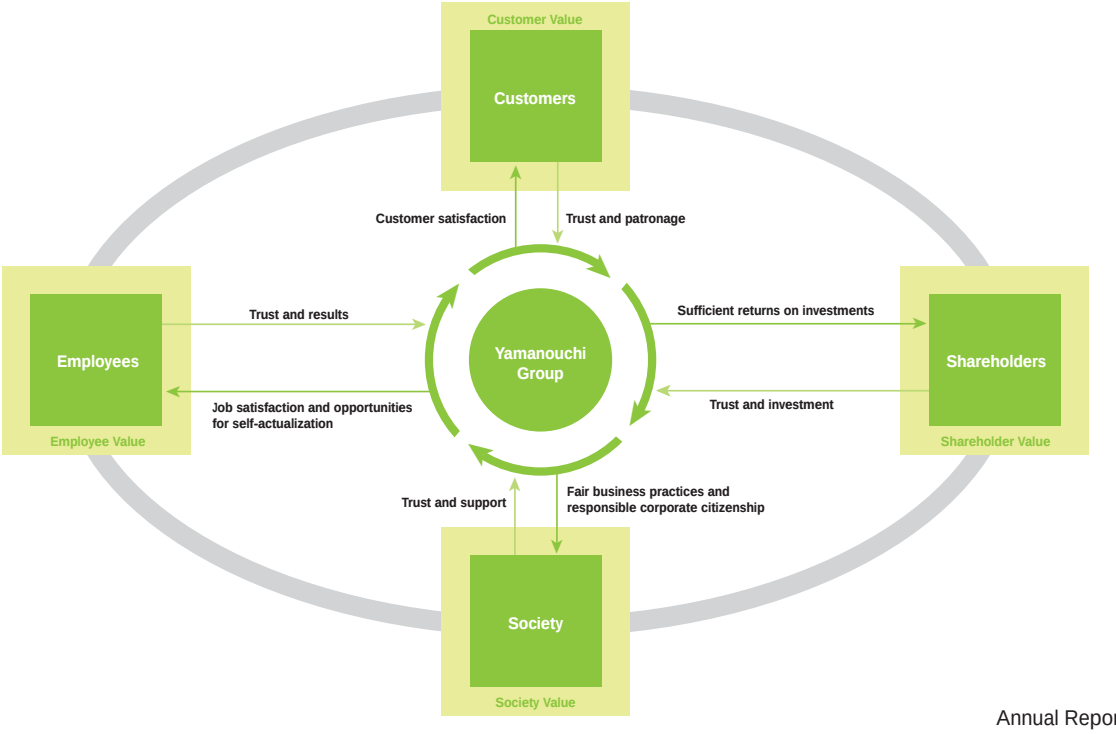
The Investor Relations Committee was assigned the mission of perpetually earning the trust of capital markets through an effective, two-way communication process. The Committee's primary responsibility is planning and executing strategies for IR activities. The Committee has formulated a disclosure policy covering matters such as Yamanouchi's basic stance on IR, internal systems and specific procedures for disclosing information. The disclosure policy can be viewed on Yamanouchi's website. Furthermore, the Committee is playing an instrumental role in the promotion of management practices that prioritize value creation by putting in place a system that feeds back the views on management issues of shareholders and other investors to the president, other directors and related department heads. In January 2002, Yamanouchi was selected as one of seven companies to be awarded the Tokyo Stock Exchange's Disclosure Award for disclosure activities during the fiscal year ended March 31, 2001.

The Compliance Committee is establishing an internal compliance system to enhance Yamanouchi's corporate value and gain the confidence of stakeholders, including society. Compliance is generally interpreted as legal compliance, but Yamanouchi adopts a wider definition based on the original meaning of compliance—responding to demands of other parties, namely stakeholders. Yamanouchi is thus developing strict internal compliance programs that befit its role as a company concerned with peoples' lives and well-being, thereby responding to the multifarious expectations of stakeholders. One element of this approach is the formulation of the Yamanouchi Compliance Conduct Code, which is designed to raise the awareness of all managers and employees regarding compliance. At the same time, the Yamanouchi Hotline has been set up to allow Yamanouchi's managers and employees to consult on compliance-related issues. In the future, Yamanouchi hopes to obtain the international standard certification for comprehensive compliance management systems.

In line with its strategy of creating more value for shareholders, Yamanouchi repurchased 20 million shares, or 5.5% of outstanding shares, between November 2001 and March 2002 to boost the return on equity and EPS. The company plans to repurchase an additional 10 million shares during the one-year period after the annual general meeting of shareholders held in June 2002 as part of its ongoing efforts to raise corporate value.

Value-Creation Management

Stakeholders and the Yamanouchi Group



Corporate Citizenship

Yamanouchi and Employees Cooperate

This year, Yamanouchi gifted 7 wheelchair-compatible vehicles, one each to 7 welfare facilities in Japan caring for the physically challenged. This was made possible under a program whereby the company matches donations made by Yamanouchi employees. Yamanouchi has now provided a total of 26 vehicles under this program, which is also remarkable for the fact that over 80% of employees have given money.

Donating Ambulances and Other Vehicles

Yamanouchi has been donating ambulances to local bodies in Japan since 1970. The company provided 4 vehicles in 2001, bringing the total number donated over the years to 184 vehicles. Donations are made every year in September.

Yamanouchi Celebrates the Work of Habitat for Humanity

In November 2001, Bear Creek Corporation's Jackson & Perkins unveiled the first in a series of roses to celebrate the 25th anniversary of Habitat for Humanity International, a non-profit, ecumenical Christian housing ministry that builds simple, decent and affordable homes for families in need. Two more types of roses, one each year, will be introduced through 2004, and ten percent of the net sales of each rose will be donated to Habitat for Humanity International to support their activities.

Environmental Protection

Yamanouchi Completes ISO 14001 Certification in Japan, Europe and Asia

During the year under review, Yamanouchi Pharmaceutical (China) Co., Ltd. obtained ISO 14001 certification, the international standard for environmental management systems. This company joins Yamanouchi Ireland Co., Ltd., the Meppel Plant operated by Yamanouchi Europe B.V., and the Takahagi and Nishine plants run by Yamanouchi in Japan in obtaining this internationally coveted certification. All of Yamanouchi's bases in Japan, Europe and Asia are now ISO 14001 certified.

Shaklee Wins Four Environmental Awards

During 2001, Shaklee Corporation won four environmental awards, attesting to its efforts and commitment to the environment. The awards were the 2001 Vision for Tomorrow Award, the 2001 Edmund G. "Pat" Brown Award, the 2001 Governor's Environmental and Economic Leadership Award, and the 2001 Savings By Design Energy Efficiency Integration Award.

Environmental Activities at Shaklee Corporation

Shaklee Corporation is working to minimize the environmental impact of its business activities. In 2001, the Pleasanton headquarters successfully reduced electricity and gas consumption by 12% and 8%, respectively. This was achieved by using natural light and improved temperature control. The headquarters' building received an energy savings by design award from the City of Pleasanton, and it was also recognized for encouraging employees to use mass transit systems. In addition, the R&D center in Hayward reduced liquid hazardous waste by 25% through chemical inventory control measures.

Board of Directors

President and Chief Executive Officer
Toichi Takenaka

Senior Managing Director
Hidehiko Ueda

Senior Managing Director
Toshinari Tamura

Managing Director
Kaoru Kimura

Managing Director
Nobuji Takayama

Managing Director
Kunihide Ichikawa

President and Chief Executive Officer
Toichi Takenaka

Senior Managing Directors
Hidehiko Ueda
Toshinari Tamura

Managing Directors
Kaoru Kimura
Nobuji Takayama
Kunihide Ichikawa

Senior Adviser, Director of the Board
Masayoshi Onoda

Directors
Munetoshi Kakitani
Shigekazu Takahashi
Kazuyoshi Hatanaka
Yasuo Ishii
Toshio Saba
Isao Kishi
Hiroaki Hiraiwa
Isao Yanagisawa
Shinji Usuda
Ikuya Sugisaki
Hajime Nakajima

Corporate Auditors
Hiroyuki Himaki
Norio Sasaki
Toyomichi Ohtani
Shiro Tachikawa*
Hideo Yamada*

*Outside Corporate Auditor

(As of June 27, 2002)

Selected Financial Highlights

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002, 2001, 2000, 1999 and 1998

	Millions of yen, except per share amounts				
	2002	2001	2000	1999	1998
Results for the Year:					
Net sales	¥ 481,328	¥ 457,913	¥ 433,653	¥ 423,217	¥ 477,356
Cost of sales	167,535	150,107	125,254	127,513	166,563
Selling, general and administrative expenses[1]	219,502	209,962	212,330	206,259	207,948
Operating income[1]	94,291	97,844	96,069	89,445	102,845
Net income[1][2][4]	55,160	40,341	57,175	48,002	6,092
Research and development expenses	65,169	54,567	54,821	54,299	43,639
Capital expenditures	29,730	36,828	29,831	51,405	57,575
Depreciation	26,342	30,804	23,460	29,338	18,454
Per Share:					
Net income[1][2][4] (basic)	¥ 154.73	¥ 111.80	¥ 162.35	¥ 140.79	¥ 18.18
Net income[1][2][4] (diluted)	152.07	109.95	155.97	129.21	17.51
Shareholders' equity[3][4]	1,952.47	1,876.54	1,721.77	1,596.65	1,498.91
Cash dividends applicable to the year	25.00	25.00	25.00	23.00	25.00
Financial Position at Year-End:					
Working capital	¥ 395,022	¥ 401,567	¥ 344,937	¥ 273,475	¥ 346,552
Property, plant and equipment, net	197,119	188,241	182,341	185,587	176,739
Total assets[3][4]	896,949	896,280	829,286	776,031	802,735
Total long-term liabilities	71,676	87,028	88,887	88,555	136,558
Shareholders' equity, net[3][4]	666,067	677,713	620,221	549,972	507,535
Number of shares of common stock issued (in thousands)	361,203	361,151	360,246	344,468	338,605

Notes:

1. Effective April 1, 1999, the company changed its method of accounting for retirement benefits to recognizing the liability for retirement benefits at the present value of the estimated retirement benefits to be paid upon the future termination of its employees' services, less the balance of the plan assets at fair value. The effect of this change was to increase operating income by ¥573 million and to decrease income before income taxes and minority interests by ¥12,587 million for the year ended March 31, 2000.
2. Effective April 1, 1997, the company changed its methods of accounting for the excess of cost over net assets acquired and for income taxes. The effect of the change in the accounting for the excess of cost over net assets acquired was to increase the amortization of the excess of the cost over net assets acquired by ¥72,730 million and to decrease net income by the same amount for the year ended March 31, 1998. Also, the effect of the change in the accounting for income taxes was to decrease the income tax expense by ¥24,477 million and to increase net income by the same amount for the year ended March 31, 1998.
3. Due to a change effective the year ended March 31, 2000 in the regulations relating to the presentation of translation adjustments, the company has presented translation adjustments as a component of shareholders' equity instead of as a component of assets or liabilities. Accordingly, the amounts for 1999, 1998 and 1997 were restated in the above table.
4. A new accounting standard for financial instruments, which became effective on April 1, 2000, requires that securities be classified into three categories; trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. The cost of securities sold is determined by the moving-average method. The effect of the adoption of the new standard for financial instruments was to decrease net income by ¥1,809 million for the year ended March 31, 2001.

MARKET CONDITIONS

During the fiscal year ended March 31, 2002, business conditions continued to become harsher in the Japanese pharmaceuticals industry. Amid ongoing domestic National Health Insurance (NHI) drug price revisions that restrict the prices of pharmaceuticals, U.S. and European companies are making inroads into the Japanese pharmaceuticals market. Overseas, the industry is shaped by mega-mergers.

BUSINESS STRATEGY

Yamanouchi's business goal is to become a market-oriented, R&D-driven global enterprise. The core strategies established to achieve this goal are as follows:

Pharmaceuticals

- Expand pharmaceutical sales in Japan, Yamanouchi's core market
- Quickly commence marketing and sales activities in the United States, the world's largest pharmaceuticals market
- Reinforce R&D, notably genomics-based drug discovery, to generate a steady flow of new products, coupled with aggressive global business development

Nutritional Products, Food and Roses

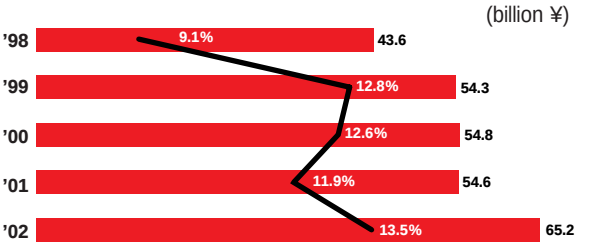
- Boost competitiveness by building brand equity to combat harsh market conditions, and by implementing further cost reductions

PROGRESS IN U.S. PHARMACEUTICAL BUSINESS ENTRY

Establishment of independent marketing and sales activities in the U.S. pharmaceuticals market, which is forecast to continue to rank as the world's leading market in terms of both scale and growth potential, is Yamanouchi's prime overseas business development aim. In the fiscal year ended March 31, 2002, the company made further progress with the clinical development of YM905, a treatment for symptoms of an overactive bladder, such as urinary frequency, urinary urgency and incontinence. YM905 is positioned to be one of Yamanouchi's lead compounds in its initial independent sales operations in the U.S. The development of independent marketing and sales capabilities also continued as the company began to hire key senior staff.

RESEARCH & DEVELOPMENT

R&D Expenses and Ratio of R&D Expenses to Net Sales



Note: Years ended March 31

PIPELINE STATUS

The year under review featured the successful Japanese launch of Advaferon®, an interferon indicated for chronic hepatitis C.

During the year, Yamanouchi filed for regulatory approval in Japan for YM454, an ultrasound contrast agent for liver echo imaging. In the current fiscal year, Yamanouchi has already filed for regulatory approval for YM294 (oprelvekin), a drug for the prevention of chemotherapy-induced thrombocytopenia. Together with the two compounds, a total of four compounds are awaiting approval.

Three compounds are in Phase III clinical trials in Japan: YM484, a protein that promotes bone formation; YM177 (celecoxib), for the treatment of rheumatoid arthritis and osteoarthritis; YM529 (minodronate), for the treatment of multiple myeloma and breast and lung cancer-associated bone metastasis.

In Europe, Yamanouchi has eight compounds under clinical development. An application for YM484 for the treatment of open long-bone fractures has already been filed with the European Medicines Evaluation Agency (EMEA). During the year under review, Phase II clinical development work began in Europe on YM178, a treatment for diabetes.

In the United States, Yamanouchi has five clinical development compounds: YM905, a treatment for urinary frequency, urinary urgency, and incontinence associated with overactive bladder; YM087 (conivaptan), a treatment for hyponatremia and acutely decompensated chronic heart failure; YM337, a treatment for acute ischemic stroke and high-risk PTCA (percutaneous transluminal coronary angioplasty); YM872, a treatment for acute ischemic stroke; and YM598, a treatment for advanced prostate cancer.

Phase III clinical trials of YM905, Yamanouchi's lead compound in the field of urology, are progressing satisfactorily in both Europe and the United States.

A total of five clinical development projects into additional indications and formulations are ongoing in Japan and Europe. Yamanouchi also has a total of 12 compounds in either Phase I or preclinical development that have potential to become treatments in the urological, cardiovascular, central nervous system (CNS), the endocrine system, inflammation and locomotorium and other fields.

GENOMICS-BASED DRUG DISCOVERY

Yamanouchi places great importance on genomics-based drug discovery in its R&D programs. To advance this field, in October 2000 the company established a dedicated research organization called Genomics Research. Around 30% of Yamanouchi's entire drug discovery efforts are now based on genomics information, and this proportion is expected to increase in the future. With the entire human genome having been sequenced, there is a prospect that the majority of human genes can be elucidated. Yamanouchi realizes that this is thus a critical juncture in the application of genomics information to R&D efforts to add valuable new compounds to its drug pipeline. Yamanouchi is aggressively striking up strategic R&D and technological alliances with a number of biotechnology firms and academia to deepen the company's expertise in new areas of science, such as bioinformatics (the application of information technology to drug discovery processes), proteomics (exhaustive searches for protein discovery drug targets), and single nucleotide polymorphisms (SNPs: genetic markers that offer the possibility of developing medicines that are tailored to individual patients).

ALLIANCES

In the genomics field, Yamanouchi has concluded a number of strategic alliances. In May 2001, the company entered into an alliance with Hitachi, Ltd. for genomic drug discovery data-mining technology that promises to aid in genomic analysis. In June 2001, the company signed an agreement with Celera Genomics that grants it access to all of Celera's mouse and human genome databases; and, in December 2001, Yamanouchi gained exclusive rights to information on gene function provided by "knockout" mice (mice that have genes selectively deactivated) through an agreement with Japanese firm TransGenic Inc. This move promises to accelerate the screening of target genes. In March 2002, Yamanouchi began joint research with U.S. bioventure Metabolex, Inc. with the aim of applying genomics-based drug discovery to the fields of diabetes and obesity.

Yamanouchi is also entering into alliances with other firms to expand and accelerate research in areas outside of genomics. For example, in August 2001 the company concluded a research agreement with Taisho Pharmaceutical Co., Ltd., which was followed in November 2001 by another joint research agreement with South Korean firm LG Chem Investment Ltd.

In January 2002, Yamanouchi signed a letter of intent with German firm Boehringer Ingelheim GmbH for the co-promotion in Japan of telmisartan, an angiotensin II inhibitor. This move promises to strengthen Yamanouchi's franchise in the cardiovascular field in the wake of the success of Lipitor®.

In July 2002, Yamanouchi signed a letter of intent with Zeria Pharmaceutical Co., Ltd. regarding the development and marketing of Z-338, a gastroprokinetic agent targeting functional dyspepsia. Late Phase II clinical development will start in North America.

BOLSTERING YAMANOUCHI'S GLOBAL PRODUCTION SYSTEM

As Yamanouchi pursues a global business strategy, it needs to strengthen its global production system. The company made progress in this regard during the fiscal year under review. In July 2001, construction of a new manufacturing facility for solid-dose formulations used in clinical trials was completed in Yaizu, Japan. This facility will help ensure a stable supply of drugs for use in Yamanouchi's clinical trial programs around the world. In addition, in September 2001, Yamanouchi completed a new, large-scale, general-purpose manufacturing facility in Takahagi, Japan, which will be used to supply bulk substance for pharmaceutical production. This facility paves the way for the stable supplies of the bulk necessary for the production of new products, such as YM905, that Yamanouchi plans to sell in the future across global markets.

Alongside the construction of these new facilities, the company also streamlined its existing manufacturing system to boost productivity. At the end of March 2002, two drug production plants were closed in Japan, at Azusawa and Kaisei. In the future, Yamanouchi plans to boost the international cost competitiveness of its manufacturing capabilities through promoting further streamlining efforts to increase productivity, or via outsourcing of selected production steps.

RESULTS FOR FISCAL YEAR ENDED MARCH 31, 2002

OUTLINE

Consolidated net sales in the fiscal year ended March 31, 2002 increased 5.1% to ¥481.3 billion. Operating income declined 3.6% to ¥94.3 billion, while net income rose 36.7% to ¥55.2 billion.

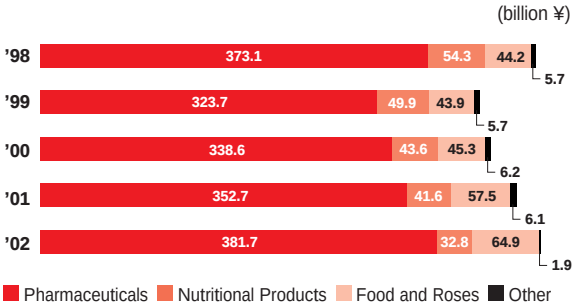
The main contributors to sales growth were Harnal® (a treatment for the functional symptoms of benign prostatic hyperplasia (BPH)) in Japan and overseas markets, Lipitor® (a treatment for hypercholesterolemia) in Japan, and the domestic launch of Advaferon®, indicated for chronic hepatitis C.

The decline in operating income resulted from a number of factors, chiefly (1) a rise in R&D expenses in line with projections as satisfactory progress was made with Phase III clinical trials of new drugs with blockbuster potential, and (2) the loss of bulk sales and royalty income due to the ending of the marketing exclusivity period following the expiry of the U.S patent for Gaster®.

The substantial increase in net income was mainly attributable to a large decrease in income taxes following the elimination of a charge representing income taxes for prior periods that was recognized in the fiscal year ended March 31, 2001.

SALES

Net Sales Breakdown



Note: Years ended March 31

Sales by Business Segment

Years ended March 31,	2002	2001 (billion ¥)
Pharmaceuticals	¥381.7	¥352.7
Nutritional products	32.8	41.6
Food and roses	64.9	57.5
Other	1.9	6.1
Consolidated	¥481.3	¥457.9

Pharmaceuticals

Sales of Pharmaceuticals

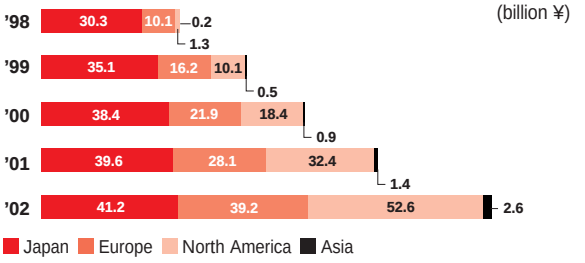
Years ended March 31,	2002	2001 (billion ¥)
Gaster®	¥93.3	¥108.9
Harnal®	97.0	73.9
Lipitor® (launched in May 2000)	46.0	19.5
Perdipine®/ Perdipine® LA	16.1	18.1
Hypoca®	3.9	4.4
Frandol® (tablets/tape)	15.7	16.5
Dorner®	11.6	12.1
Optiray®	10.7	10.6
Euglucon®	6.7	6.9
Farom®	4.9	6.4
Starsis®	2.9	2.1

A variety of formulations, a broad range of indications, rapid onset of action and other properties have made **Gaster®** the first choice in Japan for the treatment of peptic ulcers and gastritis. Over a period of 17 years on the market, it has generated consistent growth. Its share of the Japanese ethical pharmaceuticals market in this therapeutic area exceeds 40%. Sales in Japan declined slightly during the fiscal year, falling 2.4% to ¥82.7 billion. This was despite sharp year-on-year growth of 297.7%, to ¥17.5 billion, in sales of **Gaster® D**, an orally disintegrating tablet launched in September 2000 that uses second-generation WOWTAB® technology to allow it to be taken without water. The loss of sales was primarily due to wholesaler destocking—on the basis of volumes to medical institutions, growth of around 1% was achieved.

Sales in Japan of the switch OTC formulation **Gaster 10®** rose 13.0% to ¥2.6 billion. The expiry of the U.S. patent on Gaster® (brand name Pepcid®) in October 2000 (the exclusivity period lasted until April 2001) had a negative impact on bulk Gaster® sales to and royalty revenues from licensee Merck & Co., Inc. Sales from this source dropped 68.6% relative to the previous year.

Sales in Japan of **Harnal®**, a treatment for the functional symptoms of BPH, grew 4.0% to ¥41.2 billion. In Europe, sales of Harnal® under the brand name Omnic® by Yamanouchi Europe soared 53.9% to ¥27.7 billion (although this figure was flattered by fiscal year-end changes, which resulted in 13 months' sales being included in the fiscal year under review, and the effect of yen depreciation). Strong sales by European licensee Boehringer Ingelheim GmbH in Europe, together with successful co-promotion activities in the United States by licensee Boehringer Ingelheim Pharmaceuticals, Inc. and co-promoter Abbott Laboratories helped to generate a 73.4% increase in revenues from sales of bulk Harnal® to and royalties from licensees, to ¥26.7 billion (although this figure was also flattered by a fiscal year-end change, which resulted in 14 months' sales being included in the fiscal year under review, and the effect of yen depreciation). Sales of Harnal® by region were as follows.

Sales of Harnal® by Region



Notes: 1. Including licensee sales
2. Years ended March 31 (Japan) and December 31 (except Japan)
3. Exchange rates: $1=¥122, €1=¥109

To extend the future life cycle of this product, Yamanouchi is undertaking clinical development of Harnal® to gain an additional indication for lower urinary tract syndromes in Japan, as well as developing a new TOCAS formulation in Europe, which applies OCAS® (orally controlled absorption system), a drug delivery system developed in-house.

Fierce competition in markets for antihypertensive drugs led to a decline in sales of calcium antagonists in Japan, such as **Perdipine®**, which fell 10.6% to ¥8.4 billion. Similarly, sales of **Perdipine® LA** in Japan dropped 13.1% to ¥5.3 billion. Sales in Japan of **Hypoca®** fell 13.6% to ¥3.8 billion.

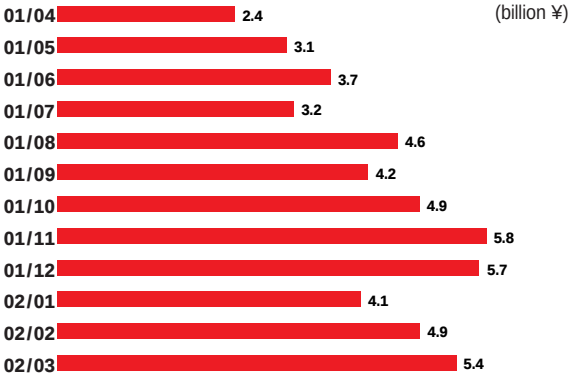
Sales of **Dorner®**, for the treatment of chronic arterial occlusion, decreased 4.1% to ¥11.6 billion in Japan.

Sales of the contrast medium **Optiray®** in Japan edged up 0.9% to ¥10.7 billion.

In the diabetes market, sales of the oral anti-hyperglycemic **Euglucon®** declined 2.9% to ¥6.7 billion, while sales of the rapid-onset insulin secretagogue **Starsis®** continued to expand, rising 38.1% to ¥2.9 billion.

Sales of the blockbuster hypercholesterolemia treatment **Lipitor®**, which was first launched in Japan in May 2000, soared 135.9% to ¥46.0 billion. Sales growth accelerated following the approval of four-week prescriptions in June 2001.

Monthly Sales of Lipitor® in Japan



Note: NHI drug price basis

Sales in Japan have grown rapidly due to its strong cholesterol-lowering effects and superior safety profile. Other attributable factors include the trust it has generated among medical professionals worldwide as the leading statin; its high success rate in lowering cholesterol levels to clinical target values; extensive clinical data from its use in overseas markets; and the fruits of co-promotion with Pfizer Pharmaceuticals Inc. In just two years since its launch, Lipitor® has captured around 20% of the market for treating hypercholesterolemia, including statins in Japan, and continues to generate steady growth. Yamanouchi aims to make it the market leader in Japan.

Nutritional Products

Sales of nutritional products by Shaklee Corporation in the United States and Shaklee Japan K.K. dropped 21.0% to ¥32.8 billion. As a result of a change in U.S. accounting standards, in which sales promotional expenses that had previously been included in selling, general and administrative expenses were reclassified as sales deductions, these sales were ¥15.8 billion less than recorded under previous accounting standards. The real increase in sales excluding currency exchange rate effects and the change in U.S. accounting standards was ¥4.4 billion. The major contributors to this sales growth were the introduction of new products, such as AirSource™, an air purifier launched in the U.S., and price increases for existing products.

Yamanouchi has undertaken various restructuring measures to restore earnings growth in its nutritional products business. These include the closure and merger of facilities and infrastructure, the outsourcing of various parts of the operation, and personnel reductions. The parent company has also transferred all its shares in Shaklee Japan K.K. to Yamanouchi Consumer Inc., in February 2002. The strategy is to focus on improved business efficiency through greater operational integration.

Food and Roses

Segment sales increased by 12.8% to ¥64.9 billion. The positive effect of currency exchange rate due to the yen's depreciation amounted to ¥7.5 billion, and the real change in sales excluding such effects was a slight decrease of ¥0.2 billion. Sales in real terms and profits declined principally as a result of the impact of the tragedy in September 2001 and subsequent anthrax scares during the 2001 Christmas season, which negatively impacted the major part of annual sales. Even so, management believes these effects will prove temporary.

Sales in this segment derive from the catalog, store and Internet sales of fruit and other gift items (under the Harry and David brand name) and roses (under the Jackson & Perkins brand name) by Bear Creek Corporation in the United States. In this segment, sales have been increasing in recent years not only in mail-order channels but also via directly managed retail stores and online shopping websites. These additional sales are contributing to an underlying expansion.

Other

This segment consists of real estate-related business, with commercial rental income representing the main source of revenues. Segment sales dropped 69.6% to ¥1.9 billion, principally reflecting the spin-off of a Canadian real estate subsidiary in March 2001.

Sales by Geographical Area

Years ended March 31,		(billion ¥)
	2002	2001
Japan	¥302.0	¥291.4
North America	90.3	94.3
Europe	86.8	70.4
Asia (excluding Japan)	2.2	1.8
Consolidated	¥481.3	¥457.9

Sales in Japan increased 3.6% over the previous fiscal year, primarily because of steady sales growth by Harnal® and a large increase in sales of Lipitor®.

Sales in Europe rose 23.3%. Although positive currency translation effects caused by the depreciation of the yen against the euro played a significant part in this result, sales of Harnal® (which is marketed locally under the brand name Omnic®) increased steadily. Sales of bulk Harnal® to and royalties from licensees also rose substantially. This was offset, however, by lower sales of bulk Gaster® and royalty income from licensees, following the end of the exclusivity period subsequent to the patent expiry in the United States in October 2000.

Also boosting sales on a fiscal period basis was the move to a uniform March 31 fiscal year-end at Yamanouchi Europe B.V., Yamanouchi U.K. Limited, and Yamanouchi Ireland Co., Ltd. This resulted in the inclusion in the sales for the fiscal year ended March 31, 2002 of 13 months' sales from Yamanouchi Europe B.V., and 14 months' sales from Yamanouchi U.K. Limited and Yamanouchi Ireland Co., Ltd. This increased sales by ¥8.8 billion and operating income by ¥1.8 billion.

In North America, sales decreased by 4.3%, despite the depreciation of the yen against the dollar. This was primarily due to changes in U.S. accounting standards.

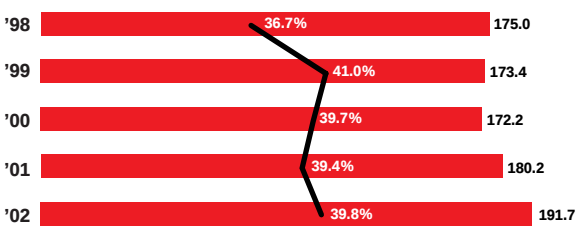
Average Exchange Rates

Years ended March 31,		(¥)
	2002	2001
Yen-dollar	¥125	¥111
Yen-euro	111	100

The main Yamanouchi Group subsidiaries that engage in trade denominated principally in U.S. dollars are Yamanouchi Ireland Co., Ltd. and Yamanouchi Consumer Inc. (Shaklee Corporation, Bear Creek Corporation and INOBYS, Ltd.). The subsidiaries that trade principally in euros are Yamanouchi Europe B.V. (YEU) and Yamanouchi U.K. Limited.

Exchange rate fluctuations had a net positive effect on performance relative to the previous fiscal year, increasing net sales, operating income and net income by ¥19.6 billion, ¥3.2 billion and ¥2.2 billion, respectively. The effect of the depreciation of the yen against the U.S. dollar was to increase net sales by ¥11.4 billion. The effect of the depreciation of the yen against the euro was to increase net sales by ¥8.0 billion.

Consolidated Overseas Sales and Ratio of Overseas Sales to Net Sales



Note: Years ended March 31

Overseas Sales

Years ended March 31,		(billion ¥)
	2002	2001
North America	¥118.2	¥125.0
Europe	63.3	47.6
Asia (except Japan)	7.2	6.1
Other	3.0	1.5
Consolidated	¥191.7	¥180.2
Percent of total sales	39.8%	39.4%

Overseas sales rose 6.4% year on year. Overseas sales represent sales outside Japan of the company and its consolidated subsidiaries, including export sales from Japan.

In Europe, in addition to healthy sales of Harnal® (Omnic®) by YEU, sales of bulk Harnal® to European licensee Boehringer Ingelheim GmbH also increased. The positive effect of the depreciation of the yen against the euro further contributed to an overall rise in sales of 32.8% compared with the previous fiscal period. As stated above, the effect of fiscal year-end standardization among major Yamanouchi subsidiaries in Europe was an increase in sales and operating income, of ¥8.8 billion and ¥1.8 billion, respectively.

In North America, despite the positive effect of the depreciation of the yen against the dollar and substantial growth in sales of bulk Harnal® to and royalty income from the U.S. licensee, overall sales declined 5.4% year on year. This was principally the result of changes in U.S. accounting standards and to declining sales of bulk Gaster® to and royalty income from licensees associated with the end of the exclusivity period in the U.S.

Overseas sales in Asia principally consisted of sales by the Taipei Branch of Yamanouchi Pharmaceutical Co., Ltd., sales by Yamanouchi Pharmaceutical (China) Co., Ltd., and exports to South Korea.

COST OF SALES AND SG&A EXPENSES

Cost of Sales

The cost of sales amounted to ¥167.5 billion, while the cost of sales ratio increased 2.0 percentage points to 34.8%. This increase was mainly attributable to the change in U.S. accounting standards (1.1 points), and to a greater proportion of licensed-in products within the pharmaceutical sales mix at the parent company and others (0.9 points).

Selling, General and Administrative (SG&A) Expenses

The ratio of SG&A expenses to net sales improved 0.3 of a percentage point, declining from 45.9% to 45.6%.

Total R&D expenses, which accounted for around 30% of SG&A expenses, increased 19.4% to ¥65.2 billion. This significant increase was due to steady progress in Yamanouchi's clinical development programs, centering on Phase III trials, which are expected to result in major new drugs for launch both in Japan and overseas, and to the heightened emphasis on drug discovery research, especially genomics-based research, which included forming R&D alliances.

Advertising and sales promotion expenses, which accounted for about 18% of SG&A expenses, decreased 24.0% to ¥39.9 billion. This decrease was principally a result of the effects of a change in U.S. accounting standards in which sales commissions to distributors that had previously been debited to SG&A expenses were reclassified as sales deductions. The effect of this was to reduce advertising and sales promotion expenses by ¥15.8 billion.

Personnel expenses rose 7.7% year on year, and accounted for about 28% of SG&A expenses. This was primarily attributable to an increase (of 74 on a year-on-year basis) in the total number of employees within Yamanouchi's consolidated operations, and to the inclusion of medical representatives at YEU's Italian operations, who had previously been working as contract salespeople, as full-time employees following a change in local legislation.

INCOME AND EXPENSES BEFORE INCOME TAXES AND MINORITY INTERESTS

Operating Income

Operating income in each business segment was recorded as follows.

Operating Income

Years ended March 31,		(billion ¥)
	2002	2001
Pharmaceuticals	¥85.9	¥87.4
Nutritional products	2.9	2.6
Food and roses	2.5	3.6
Other	2.5	3.2
Eliminations	(0.5)	(1.0)
Total operating income	¥94.3	¥97.8

Operating income decreased by 1.7% in the pharmaceuticals business segment, mainly due to a sharp drop in sales of bulk Gaster® to and royalty income from licensees associated with the U.S. patent expiry and the subsequent closing of the exclusivity period, together with higher R&D expenses. Operating income in the nutritional products segment rose 9.9% due to higher sales and improved operational efficiency. In the food and roses business segment, the tragedy in September 2001 and subsequent anthrax scares affected demand in the critical Christmas season, severely blunting the effectiveness of promotional efforts in the first half of the year geared to encourage sales growth in the second half. As a result, operating income in this business segment fell 30.6%.

Other Income (Expenses)

A further decline in market interest rates contributed to a year-on-year fall in interest and dividend income of ¥2.6 billion to ¥5.3 billion. The loss on devaluation of securities increased by ¥4.6 billion to ¥7.3 billion. The exchange gain fell slightly from ¥1.9 billion to ¥1.7 billion.

Income Taxes

Income taxes were reduced relative to the prior year by ¥26.4 billion to ¥37.7 billion. Current income taxes fell 37.2% to ¥29.7 billion. In the previous fiscal year, Yamanouchi recognized a devaluation of shares it owned in subsidiary Shaklee Japan K.K., which was recorded as a loss on valuation of a subsidiary of ¥30.2 billion in the parent company's non-consolidated income statement. The effect of this devaluation loss at the time was a reduction in deferred tax expense of ¥12.6 billion. In the year under review, the sales of these shares by the parent to Yamanouchi Consumer Inc., resulted in an opposite tax effect, contributing to the substantial decrease in current tax expense in the fiscal year ended March 31, 2002. Deferred tax expense also increased in the same fiscal year, moving from a deduction of ¥19.8 billion to an addition to income taxes of ¥8.0 billion due to tax-effect accounting.

In addition, in the fiscal year ended March 31, 2001, in connection with a notice of tax deficiency received in June 1998 from the Tokyo Regional Taxation Bureau, which was based on Japanese transfer-pricing tax regulations and related to taxes (for the six-year period ended March 1997) arising from a license transaction for famotidine (sold in Japan under the brand name Gaster®) between the parent company and bulk pharmaceutical manufacturing subsidiary Yamanouchi Ireland Co., Ltd., Yamanouchi recognized ¥36.7 billion in income taxes for prior periods. This followed the acceptance of an agreement in January 2001 that resulted from competent authority negotiations between Japan and the Republic of Ireland covering the six-year period in question and the subsequent three years. The absence of this item in the accounts for the fiscal year ended March 31, 2002 contributed substantially to the net reduction in total income taxes.

Net Income

Years ended March 31,		(billion ¥)
	2002	2001
Net income	¥ 55.2	¥ 40.3
As a % of sales	11.5%	8.8%
Net income per share (¥):		
Basic	¥154.73	¥111.80
Diluted	152.07	109.95

Net income for the year ended March 31, 2002 rose 36.7% to ¥55.2 billion. Net income per share also increased substantially, an additional factor being the acquisition of 20 million shares of parent company common stock as treasury stock during the year under review.

Capital Expenditures and Depreciation

Years ended March 31,		(billion ¥)
	2002	2001
Capital expenditures	¥29.7	¥36.8
Depreciation	26.3	30.8

Capital expenditures decreased from ¥36.8 billion to ¥29.7 billion. Of this total, capital investments in tangible fixed assets amounted to ¥27.3 billion.

The principal amounts related to tangible fixed assets by business segment were as follows. In the pharmaceuticals business segment, capital expenditures for higher production capacity totaled approximately ¥6.6 billion, while R&D-related capital expenditures amounted to approximately ¥6.0 billion. Total capital expenditures in the nutritional products business segment amounted to approximately ¥3.0 billion. In the food and roses business segment, capital expenditures totaled approximately ¥5.7 billion, most of which was spent on the expansion of the retail store business.

Depreciation relating to tangible fixed assets amounted to ¥17.4 billion. Amortization relating to intangible fixed assets totaled ¥8.9 billion.

CASH FLOWS

Operating cash flows are Yamanouchi's primary source of funding. In the year ended March 31, 2002, net cash provided by operating activities increased by ¥25.4 billion to ¥96.7 billion due to a reduction in income tax paid.

Net cash used in investing activities amounted to ¥9.0 billion. This compared with cash provided of ¥44.6 billion in the previous fiscal year. The chief components were lower proceeds from sales of property, plant and equipment (¥9.3 billion), a decrease in short-term investments (¥20.5 billion), and a substantial reduction in investment securities (¥30.7 billion).

Principally as the result of the purchase of treasury stock (¥69.7 billion) and the payment of cash dividends (¥9.0 billion), net cash used in financing activities totaled ¥80.0 billion.

As a result of these factors, cash and cash equivalents increased relative to the previous fiscal year-end by ¥15.9 billion to ¥308.6 billion.

SCOPE OF CONSOLIDATION

Including the parent company, the Yamanouchi Group contains 60 consolidated subsidiaries. During the fiscal year under review, four newly established subsidiaries, including Yamanouchi Pharma America, Inc., were included within the scope of consolidation.

The principal companies in each business segment are listed below.

Pharmaceuticals:
Yamanouchi Pharmaceutical Co., Ltd., Tohoku Yamanouchi Pharmaceutical Co., Ltd., Yamanouchi Ireland Co., Ltd., Yamanouchi Europe B.V., Yamanouchi U.K. Limited, Yamanouchi Pharma America, Inc., Yamanouchi Pharmaceutical (China) Co., Ltd.
Number of consolidated companies: 32

Nutritional Products:
Shaklee Corporation, Shaklee Japan K.K., INOBYS, Ltd.
Number of consolidated companies: 18

Food and Roses:
Bear Creek Corporation
Number of consolidated companies: 9

Other:
Lotus Estate Co., Ltd.
Number of consolidated companies: 1

Note:
For details of changes in accounting policies and contingent liabilities, please refer to the Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 , 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2002	2001	2000	2002
Net sales	¥481,328	¥457,913	¥433,653	$3,619,008
Cost of sales	167,535	150,107	125,254	1,259,662
Gross profit	313,793	307,806	308,399	2,359,346
Selling, general and administrative expenses (Note 11)	219,502	209,962	212,330	1,650,391
Operating income	94,291	97,844	96,069	708,955
Other income (expenses):				
Interest and dividend income	5,325	7,973	5,557	40,038
Interest expense	(657)	(623)	(592)	(4,940)
Loss on devaluation of securities	(7,308)	(2,732)	(6,565)	(54,947)
Exchange gain (loss)	1,656	1,918	(1,167)	12,451
Equity in loss of unconsolidated subsidiaries and affiliates	(336)	(260)	(1,739)	(2,526)
Additional provision for retirement benefits	–	–	(12,014)	–
Gain on sales of investment securities	–	10,806	11,096	–
Amortization of intangible assets	–	(7,681)	–	–
Other, net	60	(2,482)	705	450
	(1,260)	6,919	(4,719)	(9,474)
Income before income taxes and minority interests	93,031	104,763	91,350	699,481
Income taxes (Note 9)**:**				
Current	29,654	47,218	44,707	222,962
Income taxes for prior periods	–	36,673	–	–
Deferred	8,046	(19,841)	(10,996)	60,496
	37,700	64,050	33,711	283,458
Income before minority interests	55,331	40,713	57,639	416,023
Minority interests in earnings of consolidated subsidiaries	(171)	(372)	(464)	(1,286)
Net income (Note 14)	¥ 55,160	¥ 40,341	¥ 57,175	$ 414,737

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

Assets	Millions of yen 2002	2001	Thousands of U.S. dollars (Note 3) 2002
Current assets:			
Cash and cash equivalents	¥308,568	¥292,660	$2,320,060
Short-term investments (Notes 2(g) and 16)	35,149	40,852	264,278
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	162	263	1,218
Trade	133,505	124,900	1,003,797
	133,667	125,163	1,005,015
Allowance for doubtful receivables	(1,031)	(1,219)	(7,752)
	132,636	123,944	997,263
Inventories (Note 5)	50,091	47,030	376,624
Deferred tax assets (Note 9)	16,749	16,266	125,932
Other current assets	8,181	9,160	61,512
Total current assets	551,374	529,912	4,145,669
Property, plant and equipment, at cost:			
Land	33,271	32,596	250,158
Buildings	159,844	149,133	1,201,835
Machinery and equipment	146,967	129,902	1,105,015
Other	11,655	11,891	87,631
Construction in progress	12,666	17,982	95,233
Accumulated depreciation	(167,284)	(153,263)	(1,257,774)
Property, plant and equipment, net	197,119	188,241	1,482,098
Investments and other assets:			
Investment securities (Notes 2(g) and 16)	54,858	77,799	412,466
Investments in and advances to unconsolidated subsidiaries and affiliates	3,195	4,091	24,023
Intangible assets	36,429	38,889	273,902
Prepaid expenses	134	2,526	1,008
Deferred tax assets (Note 9)	26,496	31,141	199,218
Other assets	27,344	23,681	205,593
Total investments and other assets	148,456	178,127	1,116,210
Total assets	¥896,949	¥896,280	$6,743,977

Liabilities and shareholders' equity	Millions of yen 2002	2001	Thousands of U.S. dollars (Note 3) 2002
Current liabilities:			
Short-term bank loans (Note 6)	¥ 900	¥ 900	$ 6,767
Current portion of long-term debt (Note 7)	15,499	674	116,534
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	641	1,063	4,820
Trade	82,121	64,689	617,451
Construction	2,736	2,430	20,571
Accrued expenses	26,396	27,383	198,466
Accrued income taxes (Note 9)	14,675	17,952	110,338
Deferred tax liabilities (Note 9)	4,980	4,262	37,444
Other current liabilities	8,404	8,992	63,187
Total current liabilities	156,352	128,345	1,175,578
Long-term liabilities:			
Long-term debt (Note 7)	8,398	24,139	63,143
Accrued retirement benefits for employees (Notes 2(l) and 10)	41,429	41,427	311,496
Accrued retirement benefits for directors	1,425	1,480	10,714
Deferred tax liabilities (Note 9)	4,761	3,643	35,797
Other long-term liabilities	15,663	16,339	117,767
Total long-term liabilities	71,676	87,028	538,917
Minority interests	2,854	3,194	21,459
Shareholders' equity:			
Common stock, without par value (Note 8):			
Authorized — 800,000,000 shares			
Issued — 361,203,052 shares in 2002 and 361,150,865 shares in 2001	99,745	99,692	749,962
Additional paid-in capital (Note 8)	113,669	113,616	854,654
Retained earnings (Notes 8 and 19)	515,832	469,800	3,878,436
Unrealized holding gain on securities (Note 2(g))	7,360	12,207	55,338
Translation adjustments	(835)	(17,594)	(6,277)
Total	735,771	677,721	5,532,113
Treasury stock, at cost:			
20,062,813 shares in 2002 and 2,027 shares in 2001	(69,704)	(8)	(524,090)
Shareholders' equity, net	666,067	677,713	5,008,023
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥896,949	¥896,280	$6,743,977

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 , 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2002	2001	2000	2002
Common stock (Note 8)				
Balance at beginning of year (2002 — 361,150,865 shares; 2001 — 360,245,961 shares; 2000 — 344,467,758 shares)	¥ 99,692	¥ 98,796	¥ 80,072	$ 749,564
Add:				
Shares issued upon conversion of convertible bonds (2002 — 52,187 shares; 2001 — 904,904 shares; 2000 — 15,778,203 shares)	53	896	18,724	398
Balance at end of year (2002 — 361,203,052 shares; 2001 — 361,150,865 shares; 2000 — 360,245,961 shares)	¥ 99,745	¥ 99,692	¥ 98,796	$ 749,962
Additional paid-in capital (Note 8)				
Balance at beginning of year	¥113,616	¥112,720	¥ 93,996	$ 854,256
Add:				
Conversion of convertible bonds	53	896	18,724	398
Balance at end of year	¥113,669	¥113,616	¥112,720	$ 854,654
Retained earnings (Notes 8 and 19)				
Balance at beginning of year	¥469,800	¥438,571	¥389,288	$3,532,331
Adjustments to retained earnings at beginning of year for inclusion in or exclusion from consolidation or the equity method of accounting	–	–	238	–
Net income	55,160	40,341	57,175	414,737
Cash dividends paid	(9,029)	(9,011)	(7,983)	(67,885)
Bonuses to directors and corporate auditors	(99)	(101)	(147)	(747)
Balance at end of year	¥515,832	¥469,800	¥438,571	$3,878,436
Unrealized holding gain on securities (Note 2(g))				
Balance at beginning of year	¥ 12,207	¥ –	¥ –	$ 91,782
Net changes during the year	(4,847)	12,207	–	(36,444)
Balance at end of year	¥ 7,360	¥ 12,207	¥ –	$ 55,338
Translation adjustments				
Balance at beginning of year	¥ (17,594)	¥ (29,736)	¥ (13,331)	$ (132,286)
Adjustments arising from translation of foreign currency financial statements	16,759	12,142	(16,405)	126,009
Balance at end of year	¥ (835)	¥ (17,594)	¥ (29,736)	$ (6,277)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 , 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2002	2001	2000	2002
Operating activities				
Income before income taxes and minority interests	¥ 93,031	¥104,763	¥ 91,350	$ 699,481
Depreciation and amortization	26,715	31,234	25,969	200,865
Provision for retirement benefits, net of payments	464	(609)	8,964	3,489
Gain on sales of investment securities (Note 15)	–	(10,806)	(11,096)	–
Loss on devaluation of securities	7,308	2,732	6,565	54,947
Equity in loss of unconsolidated subsidiaries and affiliates	336	260	1,739	2,526
Interest expense	657	623	592	4,940
Notes and accounts receivable	(3,870)	(10,728)	(6,427)	(29,098)
Inventories	(940)	(4,346)	(5,541)	(7,068)
Other current assets	(3,676)	(8,071)	(53)	(27,639)
Notes and accounts payable	14,690	8,738	967	110,451
Accrued expenses	(1)	251	(1,859)	(8)
Other current liabilities	(3,283)	7,584	3,139	(24,684)
Other	(248)	3,708	5,813	(1,864)
Subtotal	131,183	125,333	120,122	986,338
Interest paid	(823)	(528)	(1,227)	(6,188)
Income taxes paid	(33,655)	(53,528)	(39,496)	(253,045)
Net cash provided by operating activities	96,705	71,277	79,399	727,105
Investing activities				
Additions to property, plant and equipment	(22,054)	(24,439)	(23,989)	(165,820)
Proceeds from sales of property, plant and equipment	1,665	10,940	1,875	12,519
(Increase) decrease in investments in and advances to unconsolidated subsidiaries and affiliates	(62)	179	(18)	(466)
Decrease (increase) in short-term investments	16,278	36,741	(44,337)	122,391
Decrease in investment securities	2,135	32,866	1,280	16,053
Increase in other assets	(4,010)	(9,486)	(11,706)	(30,150)
Other	(2,969)	(2,247)	(1,117)	(22,324)
Net cash (used in) provided by investing activities	(9,017)	44,554	(78,012)	(67,797)
Financing activities				
(Decrease) increase in short-term bank loans	–	(1,030)	1,055	–
Proceeds from issuance of long-term debt	556	1,023	1,744	4,180
Repayment of long-term debt	(1,415)	(1,307)	(5,342)	(10,639)
Purchase of treasury stock	(69,689)	–	–	(523,977)
Cash dividends	(9,029)	(9,011)	(7,983)	(67,887)
Other	(460)	(51)	(267)	(3,459)
Net cash used in financing activities	(80,037)	(10,376)	(10,793)	(601,782)
Effects of exchange rate changes on cash and cash equivalents	8,257	4,170	(10,754)	62,083
Increase (decrease) in cash and cash equivalents	15,908	109,625	(20,160)	119,609
Cash and cash equivalents at beginning of year	292,660	183,035	203,195	2,200,451
Cash and cash equivalents at end of year	¥308,568	¥292,660	¥183,035	$2,320,060

See accompanying notes to consolidated financial statements.

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2002

1. Basis of Presentation

Yamanouchi Pharmaceutical Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

In accordance with the revised accounting standard for consolidation which became effective the year ended March 31, 2000, the accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates, which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Until the year ended March 31, 2001, certain foreign subsidiaries were consolidated on the basis of fiscal periods ending December 31, January 31 or the end of February, which differ from the year-end date of the Company. For the year ended March 31, 2002, all these foreign subsidiaries changed their fiscal year ends to March 31 except for one subsidiary which has continued closing its books of account on December 31. The effect of this change in fiscal year end on the consolidated financial statements for the year ended March 31, 2002 was immaterial.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 5 years on a straight-line basis except that when the excess is immaterial, it is fully charged to income in the year of acquisition. Such amortization is included in selling, general and administrative expenses.

(b) Foreign currency translation

Revenue and expense accounts of the foreign consolidated subsidiaries are translated using the average rate during the year and, except for the components of shareholders' equity, the balance sheet accounts are translated into yen at the exchange rates in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as a component of shareholders' equity and minority interests in the accompanying consolidated financial statements.

A revised accounting standard for foreign currency translation became effective April 1, 2000. The effect of the adoption of this revised standard on the consolidated financial statements for the year ended March 31, 2001 was immaterial.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(d) Inventories

Merchandise is stated principally at the lower of cost or market, cost being determined by the average method. Finished goods are stated principally at cost by the average method. Work in process and semifinished goods, and raw materials and supplies are stated principally at cost by the first-in, first-out method and the average method, respectively. However, inventories of the foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.

(e) Depreciation and amortization

Depreciation of property, plant and equipment is calculated principally by the declining-balance method at rates based on the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are summarized as follows:

Buildings	2 to 60 years
Machinery and equipment	2 to 20 years

Intangible assets are amortized by the straight-line method over their estimated useful lives.

(f) Leases

Noncancelable leases of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, leases of the foreign consolidated subsidiaries are generally classified and accounted for as either finance or operating leases.

(g) Short-term investments and investment securities

Until the year ended March 31, 2000, marketable equity and debt securities were stated principally at the lower of cost or market, cost being determined by the moving average method. Securities other than marketable equity and debt securities were stated at cost by the moving average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities other than those of subsidiaries and affiliates be classified into three categories; trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average method.

As of April 1, 2000, the Company and consolidated subsidiaries assessed their intent to hold their investments in securities and classified their investments as "held-to maturity securities" or "other securities" and have accounted for those securities at March 31, 2002 and 2001 in accordance with the new standard referred to above.

The effect of the adoption of the new standard for financial instruments was to decrease income before income taxes by ¥3,100 million for the year ended March 31, 2001.

(h) Stock and bond issuance expenses and discounts on bonds

Stock and bond issuance expenses are charged to income as incurred. Discounts on bonds are amortized by the straight-line method over the respective terms of the bonds.

(i) Research and development expenses

Research and development expenses are charged to income as incurred.

A new accounting standard for research and development expenses became effective the year ended March 31, 2000. However, the adoption of this new standard had no effect on the consolidated statement of income for the year ended March 31, 2000.

(j) Accounting for sales incentive

In accordance with a new accounting standard for sales incentives which became effective the year ended March 31, 2002 in the United States, certain sales promotion expenses (i.e., incentives paid in cash based on sales volume), which had previously been included in selling, general and administrative expenses, have been accounted for as deductions from sales. In line with this change in accounting method, such cash sales incentives paid by the Group companies have also been accounted for in the same manner. As a result of these changes, sales, and selling, general and administrative expenses decreased by ¥15,848 million ($119,158 thousand) as compared with the corresponding amounts for the previous year. However, these changes had no impact on operating income. See Note 18 for the impact of such accounting changes on the segment information.

(k) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(l) Retirement benefits

Until the year ended March 31, 2000, accrued retirement benefits for employees were stated at the present value of the estimated retirement benefits to be paid upon future termination of the Company's employees' services, less the balance of the plan assets at fair value. See Note 4.

A new accounting standard for employees' retirement benefits became effective April 1, 2000. In accordance with the new standard, accrued retirement benefits for employees at March 31, 2002 and 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The

retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition of ¥13 million was fully credited to income for the year ended March 31, 2001. Actuarial gain and loss are being amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees (10 years through 17 years). Certain foreign consolidated subsidiaries have adopted the corridor approach for the amortization of actuarial gain or loss. Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of service of the employees (10 years through 16 years).

The effect of the adoption of the new standard for employees' retirement benefits on the consolidated financial statements for the year ended March 31, 2001 was immaterial.

In addition, directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for retirement benefits for these officers has been made at an estimated amount.

(m) Derivative financial instruments

The Company has entered into various derivative financial instruments in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. In accordance with the new accounting standard for financial instruments which became effective April 1, 2000, derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(n) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 19.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥133 = U.S.$1.00, the approximate rate of exchange on March 31, 2002. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Accounting Change

Effective April 1, 1999, the Company changed its method of accounting for retirement benefits to recognizing the liability for employees' retirement benefits at the present value of the estimated retirement benefits to be paid upon the future termination of its employees' services, less the balance of the plan assets at fair value. Up to the year ended March 31,1999, the liability was stated at the amount which would be required to be paid if all eligible employees terminated their employment at the balance sheet date, less the balance of the funds in the pension plan. This change was made in order to reflect the liability and expenses related to employees' retirement benefits more accurately in the consolidated financial statements and to establish a solid financial position, taking into account the future increase in the retirement benefits resulting from the increase in the compensation level and the return on the pension assets and considering the increased materiality of retirement benefit obligation due to the lower interest rates. The effect of this change was to increase operating income by ¥573 million and to decrease income before income taxes and minority interests by ¥12,587 million for the year ended March 31, 2000.

5. Inventories

Inventories at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Merchandise	¥13,377	¥14,742	$100,579
Finished goods	9,011	9,005	67,752
Work in process and semifinished goods	15,442	10,509	116,105
Raw materials and supplies	12,261	12,774	92,188
	¥50,091	¥47,030	$376,624

6. Short-Term Bank Loans

Short-term bank loans consisted mainly of unsecured loans at interest rates ranging from 0.27% to 1.375% and from 1.00% to 1.375% per annum at March 31, 2002 and 2001, respectively.

7. Long-Term Debt

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

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Yamanouchi Pharmaceutical Co., Ltd.:			
1.14% unsecured loans from an insurance company, payable in yen, due through 2004	¥ 62	¥ 62	$ 466
1.50% unsecured convertible bonds, payable in yen, due 2003	14,915	14,921	112,143
1.25% unsecured convertible bonds, payable in yen, due 2014	6,500	6,600	48,872
	21,477	21,583	161,481
Consolidated subsidiaries:			
Unsecured loans from banks and others, at rates from 1.375% to 7.38%, due through 2017	2,420	3,230	18,196
	23,897	24,813	179,677
Less current portion	(15,499)	(674)	(116,534)
	¥ 8,398	¥24,139	$ 63,143

The conversion prices and periods of the convertible bonds are summarized as follows:

	Conversion price per share at March 31, 2002	Period (up to and including)
1.50% convertible bonds due 2003	¥3,620.60	December 30, 2002
1.25% convertible bonds due 2014	1,979.00	March 24, 2014

At March 31, 2002, if all the outstanding convertible bonds had been converted at the then current conversion prices, 7,404 thousand new shares would have been issuable.

Under the indentures and trust deeds of the convertible bonds, each conversion price is subject to adjustment in certain cases which include stock splits. A sufficient number of shares of common stock is reserved for the conversion of all outstanding convertible bonds.

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2003	¥15,499	$116,534
2004	990	7,443
2005	445	3,346
2006	44	331
2007	50	376
2008 and thereafter	6,869	51,647
	¥23,897	$179,677

8. Additional Paid-in Capital and Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥10,362 million ($77,910 thousand) and ¥9,811 million as of March 31, 2002 and 2001, respectively.

The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. In addition, the Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment came into effect, the Company's shares had a par value of ¥50.

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 42%. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2002, 2001 and 2000 differ from the statutory tax rate for the following reasons:

	2002	2001	2000
Statutory tax rate	41.7%	41.7%	41.7%
Effect of:			
Loss on devaluation of investment in a consolidated subsidiary	–	(12.0)	–
Different tax rates applied to income of foreign consolidated subsidiaries	(2.4)	(5.7)	(10.6)
Income taxes for prior periods	–	35.0	–
Expenses not deductible for income tax purposes	2.2	2.9	2.9
Amortization of excess of cost over net assets acquired	–	–	1.1
Other, net	(1.0)	(0.8)	1.8
Effective tax rates	40.5%	61.1%	36.9%

The significant components of the deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Loss on devaluation of investment in securities	¥ 4,546	¥14,279	$ 34,180
Accrued retirement benefits	12,970	12,479	97,519
Depreciation and amortization	10,722	10,176	80,617
Accrued expenses	7,330	6,809	55,113
Inventories	6,129	4,901	46,083
Accrued enterprise and other taxes	1,501	3,367	11,286
Other	14,081	12,925	105,872
Gross deferred tax assets	57,279	64,936	430,670
Valuation allowance	(2,935)	(2,420)	(22,068)
Total deferred tax assets	54,344	62,516	408,602
Deferred tax liabilities:			
Unrealized holding gain on securities	5,336	8,668	40,121
Depreciation and amortization	6,817	5,972	51,256
Deferred income	5,143	4,407	38,669
Inventories	1,650	1,818	12,406
Accrued pension costs	1,253	982	9,421
Other	641	1,167	4,820
Total deferred tax liabilities	20,840	23,014	156,693
Net deferred tax assets	¥33,504	¥39,502	$251,909

On June 29, 1998, the Company received a tax deficiency notice from the Tokyo Regional Taxation Bureau ("TRTB") adjusting its taxable income upwards by ¥54,158 million in the aggregate for the six-year period ended March 31, 1997. This adjustment was made because TRTB concluded that royalty received based on a license agreement with Yamanouchi Ireland Co., Ltd. (a subsidiary, "YICL") for the drug Famotidine had been understated as compared with that calculated based on prices derived from arm's-length transactions. The Company paid additional income taxes of ¥35,895 million and accounted for this amount as suspense payments. The Company filed an appeal with the TRTB against this deficiency assessment and requested competent authority negotiations on this issue between the governments of Japan and the Republic of Ireland. The Company also filed an advance price agreement with TRTB and requested competent authority negotiations between the governments of Japan and Ireland with respect to the royalty paid by YICL for the years ended March 31, 2000, 1999 and 1998.

During the year ended March 31, 2001, the Company accepted a settlement proposed by the governments of Japan and the Republic of Ireland and recognized income taxes for prior periods of ¥36,673 million. In this connection the Company charged suspense payments of income taxes of ¥35,895 million to income for the year ended March 31, 2001.

10. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain foreign consolidated subsidiaries have defined benefit plans and contribution.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2002 and 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Retirement benefit obligation	¥(93,919)	¥(96,917)	$(706,158)
Plan assets at fair value	52,039	51,368	391,271
Unfunded retirement benefit obligation	(41,880)	(45,549)	(314,887)
Unrecognized actuarial gain or loss	13,265	6,796	99,736
Unrecognized prior service cost	(9,122)	739	(68,586)
Net retirement benefit obligation	(37,737)	(38,014)	(283,737)
Prepaid pension cost	3,692	3,413	27,759
Accrued retirement benefits	¥(41,429)	¥(41,427)	$(311,496)

The components of retirement benefit expenses for the years ended March 31, 2002 and 2001 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost	¥4,423	¥4,399	$33,256
Interest cost	3,629	3,362	27,286
Expected return on plan assets	(2,066)	(1,822)	(15,534)
Amortization of net retirement benefit obligation at transition	–	(13)	–
Amortization of actuarial gain or loss	337	12	2,534
Amortization of prior service cost	77	45	579
Other	1,128	–	8,481
Total	¥7,528	¥5,983	$56,602

The assumptions used in accounting for the above plans are as follows:

	2002	2001
Discount rates	2.5%-7.5%	3.0%-7.75%
Expected return on plan assets	1.6%-10.0%	1.6%-10.0%

The charges to income for retirement benefits and pension costs for the year ended March 31, 2000 were as follows:

	Millions of yen
	2000
Provision for retirement benefits	¥15,004
Pension costs	4,369

11. Research and Development Expenses

Research and development expenses, all of which were included in selling, general and administrative expenses for the years ended March 31, 2002, 2001, and 2000, were ¥65,169 million ($489,992 thousand), ¥54,567 million and ¥54,821 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of leased assets as of March 31, 2002 and 2001, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	March 31, 2002					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥5,932	¥2,952	¥2,980	$44,601	$22,195	$22,406

	March 31, 2001		
	Millions of yen		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥4,946	¥2,435	¥2,511

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,499 million ($11,271 thousand), ¥1,138 million and ¥1,212 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2002, 2001 and 2000, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2002 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31,	Finance leases	Operating leases	Finance leases	Operating leases
2003	¥1,275	¥12	$ 9,586	$ 90
2004 and thereafter	1,705	18	12,820	136
Total	¥2,980	¥30	$22,406	$226

13. Contingent Liabilities

At March 31, 2002, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of the Company's employees and an affiliate in the aggregate amount of ¥11,285 million ($84,850 thousand).

14. Amounts Per Share

	Yen			U.S. dollars
	2002	2001	2000	2002
Net income:				
Basic	¥ 154.73	¥ 111.80	¥ 162.35	$ 1.16
Diluted	152.07	109.95	155.97	1.14
Cash dividends	25.00	25.00	25.00	0.19
Net assets	1,952.47	1,876.54	1,721.77	14.68

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.

15. Supplementary Cash Flow Information

The conversion of convertible bonds for the years ended March 31, 2002, 2001 and 2000 amounted to ¥106 million ($796 thousand), ¥1,792 million and ¥37,448 million, respectively.

Gain on sales of investment securities of ¥11,096 million included a non-cash gain on the exchange of securities resulting from the merger of the investee in the amount of ¥10,696 million for the year ended March 31, 2000.

16. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2002 and 2001 are as follows:

	2002					
	Millions of yen			Thousands of U.S. dollars		
Marketable held-to-maturity debt securities	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose carrying value exceeds their fair value:						
Government bonds	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Others	¥599	¥598	¥(1)	$4,504	$4,496	$(8)
Total	¥599	¥598	¥(1)	$4,504	$4,496	$(8)

	2001		
	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Others	¥299	¥300	¥1
Total	¥299	¥300	¥1

	2002					
	Millions of yen			Thousands of U.S. dollars		
Marketable other securities	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥18,708	¥32,516	¥13,808	$140,662	$244,481	$103,819
Debt securities	–	–	–	–	–	–
Other	51	56	5	383	421	38
Subtotal	¥18,759	¥32,572	¥13,813	$141,045	$244,902	$103,857
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥16,025	¥14,858	¥ (1,167)	$120,489	$111,715	$ (8,774)
Debt securities	30,984	30,949	(35)	232,962	232,699	(263)
Other	4,866	4,863	(3)	36,587	36,564	(23)
Subtotal	¥51,875	¥50,670	¥ (1,205)	$390,038	$380,978	$ (9,060)
Total	¥70,634	¥83,242	¥12,608	$531,083	$625,880	$ 94,797

	2001		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥35,271	¥ 57,154	¥21,883
Debt securities	9,572	9,580	8
Other	2,985	4,117	1,132
Subtotal	¥47,828	¥ 70,851	¥23,023
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 7,051	¥ 6,314	¥ (737)
Debt securities	31,371	31,244	(127)
Other	305	217	(88)
Subtotal	¥38,727	¥ 37,775	¥ (952)
Total	¥86,555	¥108,626	¥22,071

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2002 and 2001 are summarized as follows:

2002						2001		
Millions of yen			Thousands of U.S. dollars			Millions of yen		
Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss	Sales amount	Aggregate gain	Aggregate loss
¥86,135	¥ –	¥ –	$647,632	$ –	$ –	¥30,252	¥11,250	¥445

The redemption schedule for securities with maturities classified as other securities and held-to-maturity debt securities as of March 31, 2002 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	–	¥ –	¥ –	–	$ –	$ –
Corporate bonds	¥33,649	–	–	$253,000	–	–
Other debt securities	599	–	–	4,504	–	–
Others	–	–	–	–	–	–
Total	¥34,248	¥ –	¥ –	$257,504	$ –	$ –

17. Derivative Transactions

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, but does not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings. The notional amounts of the derivatives do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivatives.

The disclosure of fair value information for derivatives as of March 31, 2002 and 2001 has been omitted since all derivatives have been accounted for as hedges.

18. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas, primarily in North America and Europe, in three major segments: the pharmaceuticals segment conducted principally by the Company, the nutritional and personal care products segment conducted principally by the Shaklee Group, and the food and roses segment conducted principally by the Bear Creek Group.

The business and geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2002, 2001, and 2000 is outlined as follows:

Business segments

	Year ended March 31, 2002						
	Millions of yen						
	Pharma-ceuticals	Nutritional and personal care products	Food and roses	Other	Total	Elimina-tions	Consoli-dated
I. Sales and operating income							
Sales to third parties	¥381,744	¥32,835	¥64,869	¥ 1,880	¥481,328	–	¥481,328
Intergroup sales and transfers	39	23	–	5,130	5,192	¥ (5,192)	–
Total sales	381,783	32,858	64,869	7,010	486,520	(5,192)	481,328
Operating expenses	295,878	29,976	62,403	4,548	392,805	(5,768)	387,037
Operating income	¥ 85,905	¥ 2,882	¥ 2,466	¥ 2,462	¥ 93,715	¥ 576	¥ 94,291
II. Assets, depreciation and capital expenditures							
Total assets	¥801,586	¥42,250	¥44,061	¥51,893	¥939,790	¥(42,841)	¥896,949
Depreciation	18,800	2,244	3,289	2,009	26,342	–	26,342
Capital expenditures	20,611	2,971	5,710	438	29,730	–	29,730

	Thousands of U.S. dollars						
	Pharma-ceuticals	Nutritional and personal care products	Food and roses	Other	Total	Elimina-tions	Consoli-dated
I. Sales and operating income							
Sales to third parties	$2,870,256	$246,880	$487,737	$14,135	$3,619,008	–	$3,619,008
Intergroup sales and transfers	293	173	–	38,571	39,037	$ (39,037)	–
Total sales	2,870,549	247,053	487,737	52,706	3,658,045	(39,037)	3,619,008
Operating expenses	2,224,647	225,384	469,196	34,194	2,953,421	(43,368)	2,910,053
Operating income	$ 645,902	$ 21,669	$ 18,541	$18,512	$ 704,624	$ 4,331	$ 708,955
II. Assets, depreciation and capital expenditures							
Total assets	$6,026,962	$317,669	$331,286	$390,173	$7,066,090	$(322,113)	$6,743,977
Depreciation	141,353	16,872	24,729	15,106	198,060	–	198,060
Capital expenditures	154,970	22,338	42,932	3,294	223,534	–	223,534

In accordance with a new accounting standard for sales incentives which became effective the year ended March 31, 2002 in the United States, certain sales promotion expenses (i.e., incentives paid in cash based on sales volume), which had previously been included in selling, general and administrative expenses, have been accounted for as deductions from sales. In line with this change in accounting method, such cash sales incentives paid by the Group companies have been accounted for in the same manner. As a result of these changes, sales and operating expenses for "Nutritional and personal care products" decreased by ¥15,848 million ($119,158 thousand) as compared with the corresponding amounts for the previous year. However, these changes had no impact on operating income for "Nutritional and personal care products."

	Year ended March 31, 2001						
	Millions of yen						
	Pharma-ceuticals	Nutritional and personal care products	Food and roses	Other	Total	Elimina-tions	Consoli-dated
I. Sales and operating income							
Sales to third parties . . .	¥352,655	¥41,563	¥57,508	¥ 6,187	¥457,913	–	¥457,913
Intergroup sales and transfers	67	26	–	5,091	5,184	¥ (5,184)	–
Total sales	352,722	41,589	57,508	11,278	463,097	(5,184)	457,913
Operating expenses . . .	265,316	38,966	53,957	8,050	366,289	(6,220)	360,069
Operating income . . .	¥ 87,406	¥ 2,623	¥ 3,551	¥ 3,228	¥ 96,808	¥ 1,036	¥ 97,844
II. Assets, depreciation and capital expenditures							
Total assets	¥807,271	¥47,836	¥44,695	¥51,298	¥951,100	¥(54,820)	¥896,280
Depreciation	24,023	1,836	2,654	2,291	30,804	–	30,804
Capital expenditures . . .	26,102	2,310	7,474	942	36,828	–	36,828

In accordance with a new accounting standard for shipping and handling costs which became effective the year ended March 31, 2001 in the United States, shipping and handling costs charged to customers, which had previously been credited to selling, general and administrative expenses, have been recognized as sales. As a result of this change, sales for "Nutritional and personal care products" and "Food and roses" increased by ¥1,084 million and ¥8,344 million, respectively, during the year ended March 31, 2001. However, as operating expenses for "Nutritional and personal care products" and "Food and roses" also increased by the same amounts, this change had no impact on operating income for either segment.

	Year ended March 31, 2000						
	Millions of yen						
	Pharma-ceuticals	Nutritional and personal care products	Food and roses	Other	Total	Elimina-tions	Consoli-dated
I. Sales and operating income							
Sales to third parties	¥338,563	¥43,630	¥45,259	¥ 6,201	¥ 433,653	–	¥433,653
Intergroup sales and transfers	70	27	–	5,052	5,149	¥ (5,149)	–
Total sales	338,633	43,657	45,259	11,253	438,802	(5,149)	433,653
Operating expenses	250,578	40,900	40,572	10,685	342,735	(5,151)	337,584
Operating income	¥ 88,055	¥ 2,757	¥ 4,687	¥ 568	¥ 96,067	¥ 2	¥ 96,069
II. Assets, depreciation and capital expenditures							
Total assets	¥869,836	¥49,663	¥29,910	¥61,504	¥1,010,913	¥(181,627)	¥829,286
Depreciation	16,250	2,307	2,125	2,778	23,460	–	23,460
Capital expenditures	18,713	5,455	4,490	1,173	29,831	–	29,831

As a result of the change in the method of accounting for retirement benefits explained in Note 4, operating income for "Pharmaceuticals" decreased by ¥573 million for the year ended March 31, 2000.

Geographical areas

	Year ended March 31, 2002						
	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥301,995	¥ 90,268	¥ 86,789	¥2,276	¥481,328	–	¥481,328
Intergroup sales and transfers	27,961	11,025	3,768	75	42,829	¥(42,829)	–
Total sales	329,956	101,293	90,557	2,351	524,157	(42,829)	481,328
Operating expenses	242,538	100,011	83,007	2,210	427,766	(40,729)	387,037
Operating income	¥ 87,418	¥ 1,282	¥ 7,550	¥ 141	¥ 96,391	¥ (2,100)	¥ 94,291
Total assets	¥668,036	¥110,001	¥140,292	¥5,480	¥923,809	¥(26,860)	¥896,949

	Thousands of U.S. dollars						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	$2,270,639	$678,707	$ 652,549	$17,113	$3,619,008	–	$3,619,008
Intergroup sales and transfers	210,232	82,895	28,331	564	322,022	$(322,022)	–
Total sales	2,480,871	761,602	680,880	17,677	3,941,030	(322,022)	3,619,008
Operating expenses	1,823,593	751,963	624,113	16,617	3,216,286	(306,233)	2,910,053
Operating income	$ 657,278	$ 9,639	$ 56,767	$ 1,060	$ 724,744	$ (15,789)	$ 708,955
Total assets	$5,022,827	$827,075	$1,054,827	$41,203	$6,945,932	$(201,955)	$6,743,977

In accordance with a new accounting standard for sales incentives which became effective the year ended March 31, 2002 in the United States, certain sales promotion expenses (i.e., incentives paid in cash based on sales volume), which had previously been included in selling, general and administrative expenses, have been accounted for as deductions from sales. In line with this change in accounting method, such cash sales incentives paid by the Group companies have also been accounted for in the same manner. As a result of these changes, sales and operating expenses for "North America" decreased by ¥13,889 million ($104,429 thousand) and those for "Japan" decreased by ¥1,959 million ($14,729 thousand) as compared with the corresponding amounts for the previous year. However, these changes had no impact on operating income in either segment.

	Year ended March 31, 2001						
	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥291,390	¥ 94,303	¥ 70,362	¥1,858	¥457,913	–	¥457,913
Intergroup sales and transfers	24,269	6,503	2,151	127	33,050	¥(33,050)	–
Total sales	315,659	100,806	72,513	1,985	490,963	(33,050)	457,913
Operating expenses	231,248	98,888	58,309	1,997	390,442	(30,373)	360,069
Operating income (loss)	¥ 84,411	¥ 1,918	¥ 14,204	¥ (12)	¥100,521	¥ (2,677)	¥ 97,844
Total assets	¥702,229	¥100,371	¥141,499	¥5,343	¥949,442	¥(53,162)	¥896,280

In accordance with a new accounting standard for shipping and handling costs which became effective the year ended March 31, 2001 in the United States, shipping and handling costs charged to customers, which had previously been credited to selling, general and administrative expenses, have been recognized as sales. As a result of this change, sales and operating expenses for "North America" increased by ¥9,428 million during the year ended March 31, 2001. This change, however, had no impact on operating income for "North America" for the year ended March 31, 2001.

	Year ended March 31, 2000						
	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥276,716	¥ 82,862	¥ 72,495	¥1,580	¥433,653	–	¥433,653
Intergroup sales and transfers	15,022	2,469	2,385	87	19,963	¥ (19,963)	–
Total sales	291,738	85,331	74,880	1,667	453,616	(19,963)	433,653
Operating expenses	219,060	82,371	54,435	1,613	357,479	(19,895)	337,584
Operating income	¥ 72,678	¥ 2,960	¥ 20,445	¥ 54	¥ 96,137	¥ (68)	¥ 96,069
Total assets	¥734,704	¥113,448	¥134,266	¥4,735	¥987,153	¥(157,867)	¥829,286

As a result of the change in the method of accounting for retirement benefits explained in Note 4, operating income for "Japan" decreased by ¥573 million for the year ended March 31, 2000.

Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended March 31, 2002, 2001 and 2000 are summarized as follows:

	Year ended March 31, 2002				
	Millions of yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥118,215	¥63,256	¥7,236	¥3,015	¥191,722
Consolidated net sales					481,328
	Thousands of U.S. dollars				
Overseas sales	$888,835	$475,609	$54,406	$22,669	$1,441,519
Consolidated net sales					3,619,008
Overseas sales as a percentage of consolidated net sales	24.6%	13.1%	1.5%	0.6%	39.8%

In accordance with a new accounting standard for sales incentives which became effective the year ended March 31, 2002 in the United States, certain sales promotion expenses (i.e., incentives paid in cash based on sales volume), which had previously been included in selling, general and administrative expenses, have been accounted for as deductions from sales. In line with this change in accounting method, such cash sales incentives paid by the Group companies have been accounted for in the same manner. As a result of these changes, sales for "North America" decreased by ¥13,889 million ($104,429 thousand) as compared with the corresponding amounts for the previous year.

	Year ended March 31, 2001				
	Millions of yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥124,957	¥47,646	¥6,057	¥1,579	¥180,239
Consolidated net sales					457,913
Overseas sales as a percentage of consolidated net sales	27.3%	10.4%	1.3%	0.4%	39.4%

	Year ended March 31, 2000				
	Millions of yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥113,490	¥51,625	¥5,453	¥1,615	¥172,183
Consolidated net sales					433,653
Overseas sales as a percentage of consolidated net sales	26.1%	11.9%	1.3%	0.4%	39.7%

19. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2002, were approved at a shareholders' meeting held on June 27, 2002:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥15.00 = $0.11 per share)	¥5,117	$38,473
Bonuses to directors and corporate auditors	92	692
	¥5,209	$39,165

Report of Independent Certified Public Accountants

The Board of Directors and Shareholders
Yamanouchi Pharmaceutical Co., Ltd.

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

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period subsequent to the change, with which we concur, made as of April 1, 1999, in the method of accounting for retirement benefits as described in Note 4 to the consolidated financial statements.

As described in Note 2 to the consolidated financial statements, Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation and research and development expenses effective the year ended March 31, 2000 and for employees' retirement benefits, financial instruments and foreign currency translation effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Shin Nihon & Co.

Osaka, Japan

June 27, 2002

See Note 1 to the consolidated financial statements which explains the basis of presentation of the consolidated financial statements of Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Principal Subsidiaries and Affiliates

PHARMACEUTICALS

Tohoku Yamanouchi Pharmaceutical Co., Ltd.
154-13, Dai-2 Chiwari, Obuke, Nishinecho, Iwate-gun, Iwate 028-7111, Japan

Yamanouchi Pharma America, Inc.
Mack Centre IV, 4th Floor,
S.61 Paramus Road, Paramus, NJ 07652, U.S.A.

- **Yamanouchi Pharma Technologies, Inc.**
  1050 Arastradero Road,
  Palo Alto, CA 94304, U.S.A.

Yamanouchi Venture Capital LLC
1050 Arastradero Road,
Palo Alto, CA 94304, U.S.A.

Yamanouchi U.K. Limited
Yamanouchi House, Pyrford Road,
West Byfleet, Surrey KT14 6RA, U.K.

Yamanouchi Ireland Co., Ltd.
Damastown, Mulhuddart, Dublin 15, Ireland

Yamanouchi Europe B.V., European Headquarters
Elisabethhof 19, P.O. Box 108
2350 AC Liderdorp, The Netherlands

- **Yamanouchi Europe B.V., Research & Development Facilities**
  Elisabethhof 1,
  2353 EW Leiderdorp, The Netherlands
- **Yamanouchi Europe B.V., Manufacturing Meppel**
  Hogemaat 2, 7942 JG Meppel,
  The Netherlands
- **Yamanouchi Europe B.V., International Department**
  Haagse Schouwweg 6b,
  2332 KG Leiden,
  The Netherlands
- **Yamanouchi Pharma B.V.**
  Haagse Schouwweg 6b,
  2332 KG Leiden,
  The Netherlands

Yamanouchi Pharma GmbH
Im Breitspiel 19,
69126 Heidelberg, Germany

Yamanouchi Pharma S.A.S.
Paroi Nord La Grande Arche 1,
Parvis de La Défence 92044
Paris La Défence cedex, France

Yamanouchi Pharma Ltd.
Yamanouchi House, Pyrford Road,
West Byfleet, Surrey KT14 6RA, U.K.

Paines & Byrne, Limited
Yamanouchi House, Pyrford Road,
West Byfleet, Surrey KT14 6RA, U.K.

Yamanouchi Pharma S.p.A.
Via delle Industrie, 2,
20061 Carugate (MI), Italy

Yamanouchi Pharma B.V., Belgian Branch Office
Riverside Business Park,
Internationalelaan 55,
1070 Brussels, Belgium

Yamanouchi Pharma a/s
Naverland 3,
2600 Glostrup, Denmark

Yamanouchi Pharma AB
Hans Michelsengatan 1B,
21120 Malmö, Sweden

Yamanouchi Pharma, S.A.
Centro Empresarial, El Plantio,
Calle Ochandiano 6,
28023 Madrid, Spain

Yamanouchi Pharma AG
Alte Steinhausstrasse 19
CH-6330, Switzerland

Yamanouchi Pharma Lda.
Rue José Fontana Edifico, Cinema, No-1,
2780-605 PAÇO D'ARCOS, Portugal

Yabrofarma LDA
Avenida Ferreira Godinho,
1495-690 Cruz Quebrada Oeiras, Portugal

ZAO Yamanouchi Pharma
Marksistskaya Ulitsa 16,
Moscow, Russia

Yamanouchi Pharma Sp. z o. o.
ul. Poleczki 21,
02-822 Warsaw, Poland

Yamanouchi Pharma s. r. o.
Radimova 36/2257,
160-00 Praha 6, Czech Republic

Yamanouchi Pharmaceutical (China) Co., Ltd.
No. 3 Jia 6 Road 10, Shenyang Economic & Technological Development Zone,
Shenyang, Liaoning Province, 110141,
People's Republic of China

Taiwan Yamanouchi Pharmaceutical Co., Ltd.*
Shin Kong World Commercial Bldg.,
6th Floor, No. 287, Sec. 3,
Nanking East Road, Taipei, Taiwan

Korea Yamanouchi Pharmaceutical Co., Ltd.*
Hansung Plaza Bldg., 11th Floor, #13-1,
Heungin-dong, Chung-ku,
Seoul 100-430, Republic of Korea

Yamanouchi Philippines, Inc.*
17B, Multinational Bancorporation Center,
6805 Ayala Avenue, Makati City,
Metro, Manila, The Philippines

Yamanouchi (Thailand) Co., Ltd.*
10th Floor, Wave Place, 55 Wireless Road,
Lumpini, Patumwan,
Bangkok 10330, Thailand

P.T. Yamanouchi Indonesia*
Wisma Kyoei Prince Building 11th Floor,
Jl. Jend. Sudirman Kav. 3, Jakarta 10220,
Indonesia

Consumer Products Businesses

(Nutritional Products, Food and Roses)

Yamanouchi Consumer Inc.
4747 Willow Road,
Pleasanton, CA 94588, U.S.A.

NUTRITIONAL PRODUCTS

Shaklee Japan K.K. (a subsidiary of Yamanouchi Consumer Inc.)
2-6, Nishiazabu 3-chome, Minato-ku,
Tokyo 106-8601, Japan

Shaklee Corporation (a subsidiary of Yamanouchi Consumer Inc.)
4747 Willow Road,
Pleasanton, CA 94588, U.S.A.

- **Shaklee U.S.**
  4747 Willow Road,
  Pleasanton, CA 94588, U.S.A.
- **Shaklee Research Center**
  1992 Alpine Way,
  Hayward, CA 94545, U.S.A.
- **Shaklee Manufacturing Center**
  3300 Marshall Avenue, P.O. Box 1550,
  Norman, OK 73069, U.S.A.
- **Shaklee Canada, Inc.**
  952 Century Drive, Burlington,
  Ontario L7L 5P2, Canada
- **Shaklee Mexico, S.A. de C.V.**
  Boulevard Avila Camacho No. 40,
  Desp. 615, Col. El Parque C.P. 53390,
  Naucalpan, Mexico
- **Shaklee Products (Malaysia) Sdn. Bhd.**
  7 Jalan USJ 10/1, UEP Subang Jaya,
  47620 Petaling Jaya, Selangor,
  Darul Ehsan, Malaysia

INOBYS, Ltd. (a subsidiary of Yamanouchi Consumer Inc.)
475 14th Street, Suite 650,
Oakland, CA 94612, U.S.A.

FOOD AND ROSES

Bear Creek Corporation (a subsidiary of Yamanouchi Consumer Inc.)
2518 South Pacific Highway, P.O. Box 299,
Medford, OR 97501, U.S.A.

- **Harry and David**
  2518 South Pacific Highway, P.O. Box 712,
  Medford, OR 97501, U.S.A.
- **Jackson & Perkins**
  2518 South Pacific Highway, P.O. Box 1028,
  Medford, OR 97501, U.S.A.
- **Jackson & Perkins Wholesale**
  2518 South Pacific Highway, P.O. Box 9100,
  Medford, OR 97501, U.S.A.
- **Bear Creek Stores**
  2518 South Pacific Highway, P.O. Box 712,
  Medford, OR 97501, U.S.A.

OTHER

Lotus Estate Co., Ltd.
17-1, Hasune 3-chome, Itabashi-ku,
Tokyo 174-8612, Japan

*Unconsolidated company

(As of July 2002)

Corporate Data

HEAD OFFICE
3-11, Nihonbashi-Honcho 2-chome, Chuo-ku,
Tokyo 103-8411, Japan

Seoul Office
Hansung Plaza Bldg., 11th Floor, #13-1 Heungin-dong,
Chung-ku, Seoul 100-430, Republic of Korea

Beijing Office
20/F, A-7-10, East Wing, Hanwei Plaza, No. 7,
Guanghua Road, Chaoyang District,
Beijing 100004, People's Republic of China

Taipei Branch
Shin Kong World Commercial Bldg., 6th Floor, No. 287,
Sec. 3, Nanking East Road,
Taipei, Taiwan

Domestic Branches
Sapporo, Sendai, Tokyo 1, Tokyo 2, Tokyo 3, Yokohama,
Nagoya, Osaka, Kyoto, Hiroshima, Takamatsu, Fukuoka

Plants
Yaizu, Takahagi, Nishine

Research Laboratories
Tsukuba, Azusawa, Takahagi, Yaizu

Corporate Information

Annual Meeting
The annual meeting of shareholders was held at 10 a.m.
on Thursday, June 27, 2002, at: Royal Park Hotel
1-1, Nihonbashi-Kakigaracho 2-chome, Chuo-ku,
Tokyo, Japan

Stock Trading Information
Yamanouchi stock is listed on:
Tokyo Stock Exchange (code number 4503)
Osaka Securities Exchange Co., Ltd.
Nagoya Stock Exchange
Sapporo Stock Exchange
Paris Stock Exchange

Independent Certified Public Accountants
Shin Nihon & Co.
Osaka Kokusai Bldg., 3-13, Azuchi-machi 2-chome,
Chuo-ku, Osaka 541-0052, Japan

Transfer Agent
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574,
Japan

Shareholder Services
Shareholders with questions on such stock-related
matters as proxy voting should write to:
Finance & Accounting Dept.
Yamanouchi Pharmaceutical Co., Ltd.
3-11, Nihonbashi-Honcho 2-chome, Chuo-ku,
Tokyo 103-8411, Japan

Investor Relations
Securities analysts and investors with business-related
questions should write to:
Investor Relations
Corporate Communications Dept.
Yamanouchi Pharmaceutical Co., Ltd.
3-11, Nihonbashi-Honcho 2-chome, Chuo-ku,
Tokyo 103-8411, Japan

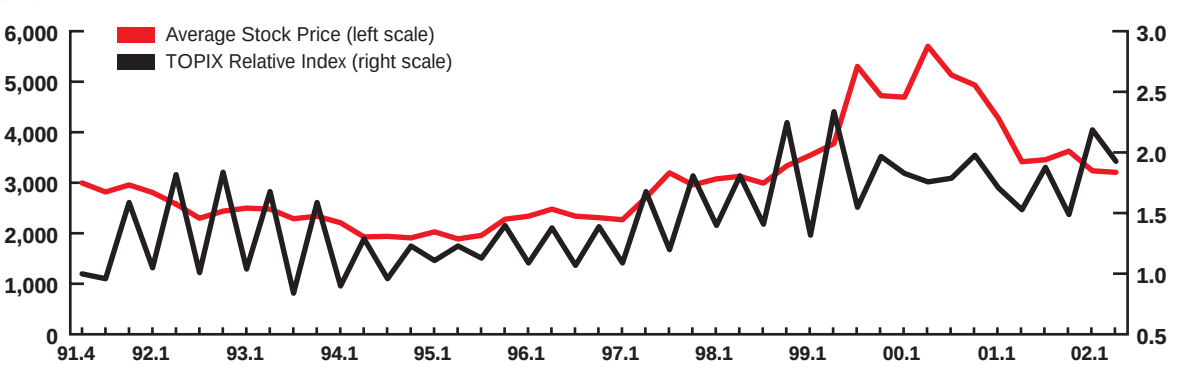
Yamanouchi on the Internet
Our home page is: http://www.yamanouchi.com

(As of July 2002)

Stock Price Information

Years ended March 31,	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
	Yen									
Common stock price:										
High	¥4,740	¥6,280	¥5,990	¥4,030	¥3,280	¥2,610	¥2,410	¥2,080	¥2,580	¥2,750
Low	2,745	4,060	3,370	2,750	2,520	2,160	1,830	1,830	1,950	2,220
Average for the year	3,367	5,024	4,684	3,300	2,982	2,374	2,135	1,940	2,247	2,477
Year-end	3,210	4,320	5,620	3,750	3,060	2,560	2,380	1,900	2,030	2,320

Average Stock Price and TOPIX Relative Index



Common Stock

As of March 31,	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
	Thousands of Shares									
Number of shares outstanding	361,203	361,151	360,246	344,468	338,605	324,308	323,338	323,338	323,113	322,923

As of March 31,	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
	Billions of Yen									
Market value	¥1,159	¥1,560	¥2,025	¥1,292	¥1,036	¥830	¥770	¥614	¥656	¥749

Note: Market value=Number of shares outstanding × Stock price at year-end

As of March 31, 2002

Principal shareholders

State Street Bank and Trust Company	7.52%
The Mitsubishi Trust and Banking Corporation	4.81
Nippon Life Insurance Company	4.56
Mitsui Asset Trust and Banking Company, Limited	4.11
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	3.52
Number of shareholders	11,108

Transfer agent: The Chuo Mitsui Trust and Banking Company, Limited

Main Products and Pipeline

	Indications	Classification	Status
Gastrointestinal			
Gaster®	Peptic ulcers, gastritis	H_2 antagonist	Launched (Japan/Asia)
Gaster® D	Peptic ulcers, gastritis	H_2 antagonist (orally disintegrating tablet)**	Launched (Japan)
Advaferon®	Chronic hepatitis C	Consensus interferon (CIFN)	Launched (Japan/Europe)
Z-338	Functional dyspepsia	Gastroprokinetic agent	P-II (USA)
Cardiovascular			
Lipitor®	Hypercholesterolemia	HMG-CoA reductase inhibitor	Launched (Japan)
Dorner®	Chronic arterial occlusion	PGI_2 derivative	Launched (Japan/Asia)
Perdipine®	Hypertension	Ca antagonist	Launched (Japan/Asia/Europe)
Perdipine® LA	Hypertension	Ca antagonist (long acting)	Launched (Japan/Asia)
Hypoca®	Hypertension	Ca antagonist (once daily)	Launched (Japan/Asia/Europe)
CHOLEBINE®	Hypercholesterolemia	Nonabsorbable anion exchange resin	Launched (Japan)
Frandol®	Angina pectoris	Coronary artery dilator	Launched (Japan)
Milrila®	Acute heart failure	Phosphodiesterase III inhibitor	Launched (Japan)
Pronon®	Arrhythmia	Na channel inhibitor	Launched (Japan)
Solinase®	Acute myocardial infarction	Modified t-PA	Launched (Japan)
Telmisartan	Hypertension	Angiotensin II receptor antagonist	Filed (Japan)
YM087 (conivaptan)	Hyponatremia, acutely decompensated chronic heart failure	Vasopressin antagonist	P-III/II (Europe/USA)
YM028	Thrombosis	GPIIb/IIIa antagonist	P-II (Japan)
Urology			
Harnal®	Functional symptoms of benign prostatic hyperplasia	$Alpha_1$ receptor antagonist	Launched (Japan/Asia/Europe)
	Lower urinary tract symptoms*	$Alpha_1$ receptor antagonist	P-III (Japan)
	Functional symptoms of benign prostatic hyperplasia	$Alpha_1$ receptor antagonist (TOCAS)**	P-III (Europe)
YM152 (finasteride)	Benign prostatic hyperplasia	5 alpha-reductase inhibitor	Filed (Japan)
YM905	Urinary frequency, urinary urgency and incontinence	Muscarinic M3 antagonist	P-III (Europe/USA)
			P-II (Japan)
YM598	Advanced prostate cancer	Endothelin ETA antagonist	P-II (Europe/USA)
Neurology			
Dormicum®	Sedation, anxiolysis and amnesia	Short-acting benzodiazepine CNS depressant	Launched (Japan)
Solinase®	Acute ischemic stroke*	Modified t-PA	P-II (Japan)
YM872	Acute ischemic stroke	AMPA antagonist	P-II (Europe/USA)
YM337	Acute ischemic stroke, high-risk PTCA	GPIIb/IIIa antagonist (monoclonal antibody)	P-II (Europe/USA)
Diabetes			
Starsis®	Diabetes	Insulin secretion enhancer	Launched (Japan)
Euglucon®	Diabetes	Sulfonylureas	Launched (Japan)
YM178	Diabetes	Beta-3 receptor agonist	P-II (Europe)
Locomotorium/ Inflammation			
Bisphonal®	Hypercalcemia	Bisphosphonate	Launched (Japan)
	Periodontitis*	Bisphosphonate	P-II (Japan)
YM484	Open long bone fracture (Europe)	Bone morphogenetic protein-2 (rhBMP-2)	Filed (Europe)
	Promotion of bone formation (Japan)	Bone morphogenetic protein-2 (rhBMP-2)	P-III (Japan)
YM177 (celecoxib)	Rheumatoid arthritis, osteoarthritis	Cyclooxygenase-2 inhibitor	P-III (Japan)
Oncology			
Nasea®	Emesis due to chemotherapy	5HT3 antagonist	Launched (Japan/Asia)
YM294 (oprelvekin)	Prevention of chemotherapy-induced thrombocytopenia	Thrombocytopoietic factor (rhIL-11)	Filed (Japan)
YM529 (minodronate)	Multiple myeloma, bone metastasis of breast/lung cancer	Bisphosphonate	P-III (Japan)
Advaferon®	Low-grade non-Hodgkin's lymphoma*	Consensus Interferon (CIFN)	P-II (Japan)
Other			
Josamycin®	Infections	Macrolide antibiotic	Launched (Japan/Asia/Europe)
Farom®	Infections	Penem-type antibiotic	Launched (Japan)
Optiray®	Contrast medium	Non-ionic contrast medium	Launched (Japan)
YM454	Contrast medium	Ultrasound contrast agent	Filed (Japan)
Nasanyl®	Endometriosis	GnRH agonist	Launched (Japan)
YM670 (multiporous gelatine particles)	Arterio-embolization particles	Transcatheter arterial embolization therapy	Filed (Japan)

Notes:
1. * additional indication
2. ** additional formulation
3. Drug candidates under development that are listed above exclude those in Phase I or preclinical stages.

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