

Profile

Toyama Chemical is focusing its efforts on the field of ethical drugs with the aim of contributing to the further development of global healthcare through new drug development. By concentrating our management resources in the field of ethical drugs, we will strengthen our technologies for new drug development and manufacturing. Furthermore, we will be better positioned to respond rapidly to further globalization and increasing competition in the domestic market. We are also developing systems for the efficient development of high-quality drugs under the motto, "Making Toyama Chemical a high-tech company."

In October 2002, in alliance with Taisho Pharmaceutical Co., Ltd., we established the ethical drug sales company Taisho Toyama Pharmaceutical Co., Ltd. Moving forward, we will utilize this company's sales infrastructure, whose 1,100 medical representatives (MRs) cover all medical institutions across Japan, to strengthen our domestic sales capabilities and increase the market presence of Toyama Chemical.

Financial Highlights

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2003 and 2002

	Millions of Yen (Except Per Share Amounts)		Thousands of U.S. Dollars (Except Per Share Amounts)
	2003	2002	2003
OPERATING RESULTS:			
Gross revenue	¥32,998	¥28,345	\$274,981
Net sales	24,983	28,263	208,190
Royalty income	8,015	82	66,791
Operating profit (loss)	2,225	(3,149)	18,543
Net loss	(5,166)	(2,665)	(43,053)
PER SHARE DATA (IN YEN AND U.S. DOLLARS):			
Net loss	¥ (29.37)	¥ (17.74)	\$ (0.245)
Cash dividends applicable to the year	—	—	—
FINANCIAL POSITION:			
Total shareholders' equity	¥37,166	¥23,568	\$309,712
Total assets	89,896	85,686	749,131
OTHER DATA:			
Research and development expenses	¥ 5,088	¥ 4,893	\$ 42,397
Research and development expenses as a percentage of gross revenue	15.4%	17.3%	

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the rate of ¥120=US\$1, the approximate rate of exchange at March 31, 2003.

Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this annual report with respect to Toyama Chemical's plans, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of Toyama Chemical which are based on management's assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties.

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Message from the President



Katsuhiko Nakano
Director, President and
Chief Executive Officer

The Japanese pharmaceutical industry is facing an increasingly difficult operating environment. Healthcare spending is trending up in line with the declining birthrate and demographic aging of society, and the government is moving ahead with various reforms to the Pharmaceutical Affairs Law and the healthcare system, including an increase in the individual expense portion of health insurance coverage to 30%, which came into effect in April 2003. Pharmaceutical companies are being pressured to improve management flexibility and undertake far-reaching structural reforms in response to continued dynamic change in the operating environment, including increased R&D spending, the full-scale entry of foreign pharmaceutical companies into the Japanese market and rapid advances in such cutting-edge technologies as genomics.

In order to address these changes, Toyama Chemical agreed a strategic capital and business alliance with Taisho Pharmaceutical in August 2002 and established joint sales company Taisho Toyama Pharmaceutical in October 2002. Taisho Toyama Pharmaceutical began full-scale operations in April 2003. We began our Medium-Term Management Plan 2003–2005 in July 2003 and are undertaking measures to continuously strengthen our R&D infrastructure and improve our sales and marketing systems. By implementing this plan, we aim to increase enterprise value and achieve our goal of becoming Japan's leading drug development company in the field of infectious diseases.

Results for Fiscal 2003

In September 2002, we launched PASIL, the first domestically developed injectable synthetic antibacterial agent. In fiscal 2003, ended March 31, 2003, we recorded steady sales growth for the following products: the loop diuretic LUPRAC, the β -lactamase inhibitor and antibiotic combination TAZOCIN and the injectable cephem antibiotic HALOSPOR. Unfortunately, we recorded reduced sales for the synthetic antibacterial agent OZEX, the cephem antibiotic TOMIRON and the penicillin antibiotic PENTCILLIN as a result of increased competition. However, royalty income increased substantially, due to efforts to license out new drug technologies and realize marketing agreements.

As a result of the aforementioned factors, during fiscal 2003 we achieved consolidated gross revenue of ¥32,998 million, an increase of 16.4% compared with the previous period. This figure included net sales of ¥24,983 million, an 11.6% decrease, and royalty income of ¥8,015 million, compared with royalty income of just ¥82 million in the previous period. We recorded income before income taxes and minority interests of ¥81 million, compared with a loss before income taxes and minority interests of ¥3,937 million in the previous period, and a net loss of ¥5,166 million, compared with a net loss of ¥2,665 million in the previous period.



TAISHO PHARMACEUTICAL

A strategic capital and
business alliance in the ethical
drugs business

TOYAMA CHEMICAL

Toyama Chemical's main strength lies
in its new drug development capabilities,
as demonstrated by the Company's
numerous out-licensing agreements.



Collaboration in research and development

Taisho Pharmaceutical and Toyama Chemical anticipate expanding their new product pipeline in the area of ethical drugs by collaborating in R&D activities.

This includes the sharing of their respective R&D infrastructures: combining libraries, jointly developing overseas R&D centers, working together on clinical study site management and sharing R&D staff.

Strengthening sales and marketing activities

Taisho Pharmaceutical and Toyama Chemical have set up a joint sales company, Taisho Toyama Pharmaceutical, which combines the two companies' domestic ethical drug sales and marketing functions. This company carries out sales and marketing activities for both existing products and newly developed drugs.

We are actively pursuing in- and out-licensing opportunities, both in Japan and overseas, to reduce the time required for product development and commercialization. Key achievements during fiscal 2003 included a technology out-licensing agreement, which was signed in September 2002, with South Korean firm Dong-A Pharmaceutical Co., Ltd. The agreement relates to T-614, which we are developing in collaboration with Eisai Co., Ltd., for the treatment of rheumatoid arthritis. In March 2003, we formed an agreement with Otsuka Pharmaceutical Co., Ltd., giving them the Japanese marketing rights to quinolone synthetic antibacterial eye drops TN-3262a, which we are jointly developing with Nidek Co., Ltd.

In August 2002, we agreed a strategic capital and business alliance with Taisho Pharmaceutical. Under this agreement, Taisho Pharmaceutical now holds around 20% of Toyama Chemical's issued shares through the allocation of shares to a third party. We have established a joint R&D infrastructure that allows reciprocal use of each company's R&D personnel and platforms, including compound libraries, R&D bases and drug study facilities. We have also set up joint sales company Taisho Toyama Pharmaceutical, which combines the two companies' domestic ethical drug sales and marketing functions.

Through this alliance, we are making full use of our efficient and high-level drug R&D capabilities and building a global drug discovery infrastructure. We are also benefiting from Taisho Pharmaceutical's sales capabilities to establish a sales base that covers all medical institutions across Japan.

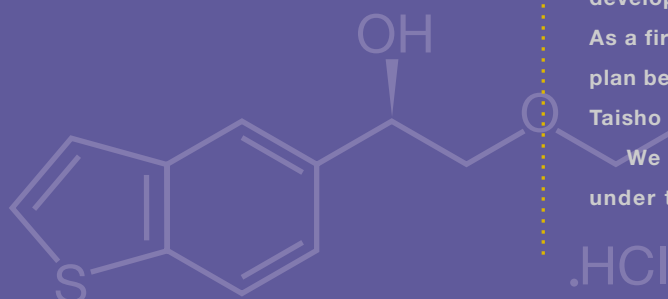
Medium-Term Management Plan

July 2003 marked the start of Toyama Chemical's Medium-Term Management Plan 2003–2005.

This plan has been designed to achieve our objective of becoming Japan's leading drug development company in the field of infectious diseases and defines our strategies in terms of business fields, internal values, earnings platform and basic approach to business development.

We plan to focus our efforts on the field of ethical drugs. By concentrating our management resources, experience and expertise gained from various health-related fields, including over-the-counter (OTC) products and consumer healthcare, in the field of ethical drugs, we will build an infrastructure that can make the most of our core strengths in developing technologies for new drug development and manufacturing. As a first step, in February 2003, before the medium-term management plan began, we transferred the marketing rights to our OTC products to Taisho Pharmaceutical and Kyorin Pharmaceutical Co., Ltd.

We are also attempting to standardize our internal value system under the motto, "Making Toyama Chemical a high-tech company."





Focusing our efforts on the field of ethical drugs

Standardizing our internal value system

Strengthening our earnings platform

Establishing a basic approach to business development



Achieving our objective
of becoming Japan's
leading drug
development company
in the field of infectious
diseases

In this way, we hope to increase staff awareness of drug development and fulfill our social responsibilities by contributing to healthcare through new drug development.

We are working to strengthen our earnings platform by maximizing the value of pipeline compounds through efficient clinical research and world-class drug development. We are attempting to maximize sales and profits by supplying new drugs for sale by Taisho Toyama Pharmaceutical in Japan and maximizing royalty income through stronger alliances with overseas firms for new drugs developed in-house. We are also securing stable sales and income through the supply of raw materials to partner companies.

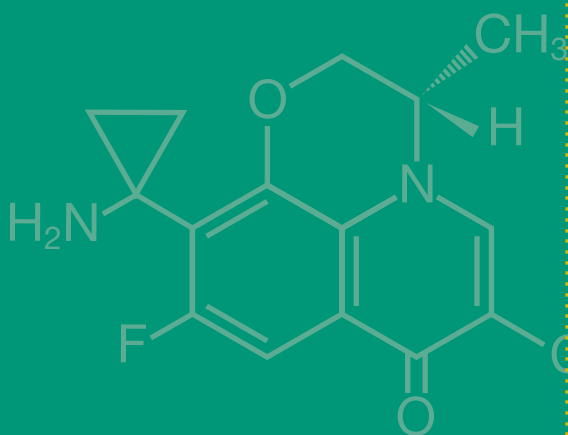
In terms of our basic approach to business development, our strategy is to efficiently develop innovative new drugs through the seamless management and integrated assessment of our core technologies in research, clinical development, industrialization and manufacturing. At the same time, we aim to globalize our activities in out-licensing and drug discovery, actively undertake contract manufacturing and establish independent divisions.

Research and Development

In order to gain the most from our core strengths in new drug development, we are building a collaborative infrastructure between various divisions, including drug discovery, exploratory, developmental and clinical research. We plan to strengthen our discovery research infrastructure starting with infectious diseases, followed by inflammatory disorders, cerebral function improvement and finally cardiovascular disorders. In the development division, we have created a system that emphasizes market and commercial value, so we are bolstering our drug pipeline with applied development of new indications and formulations. By 2010, we aim to have significantly reduced the time required for a product to reach the market through optimization of our infrastructure. We have positioned our licensing activities as research sales and are working to secure various in-licensing and out-licensing opportunities through global licensing activities in a wide range of fields.

Production Systems

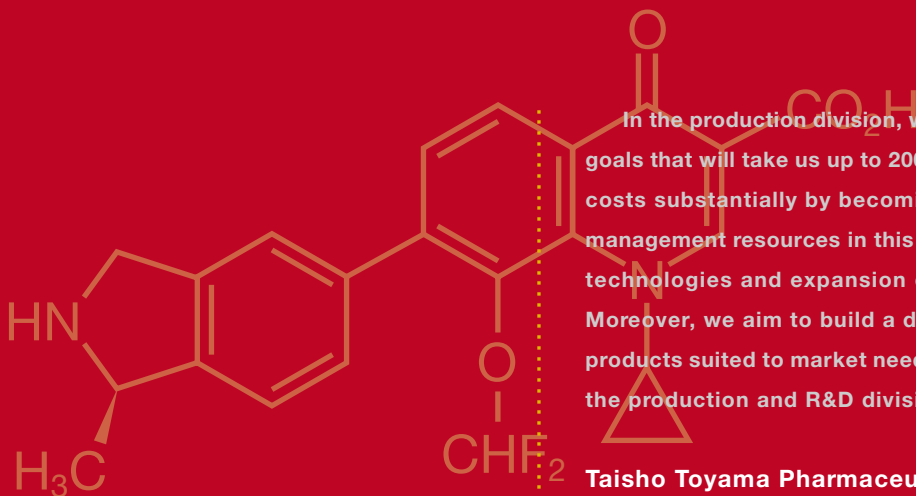
Toyama Chemical's goal is to establish an independent production system that will make the Company's infrastructure more competitive. With an emphasis on in-house production, we will supply cost-competitive, high-quality products by developing production technologies and expanding our contract manufacturing activities.





Selected Research Candidates

Development Number	Type	Therapeutic Category	Region	Partner Company	Stage	Remarks
T-614	Oral	Antirheumatic agent	Japan	Originally developed in-house by Toyama Chemical. Currently undergoing further joint development with Eisai Co., Ltd., in Japan	Preparations for filing	Filing expected in the third quarter of 2003
			South Africa	Developed in-house by Toyama Chemical	Phase IIa completed	
			South Korea	Licensed out to Dong-A Pharmaceutical Co., Ltd.		
T-588	Oral	Treatment for Alzheimer's-type dementia and sequelae of cerebrovascular disorders	Japan	Developed in-house by Toyama Chemical	Phase II	Planning to license out technologies
			United Kingdom		Phase IIa completed	
TN-3262a	Eye drops	New quinolone synthetic antibacterial agent	Japan	Originally developed in-house by Toyama Chemical Currently undergoing further joint development with Nidek Co., Ltd.	Phase III	Filing expected in the second quarter of 2004
T-3811	Oral	New-type quinolone synthetic antibacterial agent	Japan	Originally developed in-house by Toyama Chemical Currently undergoing further joint development with Bristol-Myers K.K.	Phase III	
	Injection				Phase I	
	Oral and injection		United States and European Union	Licensed out to Bristol-Myers Squibb Company	Preparations for filing	Filing expected in 2003
T-5226 (AP-1 inhibitor)	Oral	Antirheumatic agent	Japan	Developed in-house by Toyama Chemical	Preparations for nonclinical trials	



In the production division, we have established medium-term strategic goals that will take us up to 2005. We aim to reduce overall manufacturing costs substantially by becoming more cost competitive, and will focus management resources in this division on the development of production technologies and expansion of our contract manufacturing activities. Moreover, we aim to build a development infrastructure that generates products suited to market needs through increased cooperation between the production and R&D divisions.

Taisho Toyama Pharmaceutical

In October 2002, we made a joint investment with Taisho Pharmaceutical to establish Taisho Toyama Pharmaceutical, a domestic sales company that markets ethical drugs. This sales company has started with around 1,100 medical representatives (MRs), comprising approximately 550 MRs from the ethical drug sales and marketing division at Taisho Pharmaceutical and approximately 550 MRs from Toyama Chemical's sales and marketing division. The new company is responsible for marketing and promoting new and existing drugs. By establishing this sales company, we aim to improve sales efficiencies and rapidly recover development spending, as well as build a collaborative R&D infrastructure between the two companies and bolster our new drug pipeline.

T-614 is a highly efficacious antirheumatic agent that may be effective in cases not responsive to other drugs. Disease-modifying antirheumatic drugs (DMARDs), which are used as pharmacotherapy to treat rheumatoid arthritis, are associated with a high incidence of side effects and are only appropriate for use in some patients. However, DMARDs are now recommended for use during the early stages of rheumatoid arthritis as they may delay bone and joint damage. Compared with existing drugs, T-614 exhibits equivalent or superior safety and efficacy and is expected to be effective in cases not responsive to other drugs. We plan to file for approval in Japan in the third quarter of 2003.

T-3811 is a new-type quinolone synthetic antibacterial agent that has a different structure to conventional quinolones. It exhibits a superior safety profile and antibacterial activity compared with existing drugs and is highly efficacious against a wide range of resistant strains, including methicillin-resistant *Staphylococcus aureus* (MRSA). In Europe and the United States, the filing for approval of both oral and injection formulations is planned during 2003.

T-5226 (AP-1 inhibitor) is an antirheumatic agent that targets the transcription factor activator protein-1 (AP-1). By blocking AP-1, T-5226 can suppress both joint destruction and immunological abnormalities, thereby giving it the potential to become a basic remedy for rheumatoid arthritis. In March 2000, the Japan Science and Technology Corporation selected Toyama Chemical as the contract organization for the domestic development of this agent.

Corporate Governance and Compliance

At the General Meeting of Shareholders held in June 2003, Toyama Chemical decided to adopt a "committee system." Through this move, management authority will be delegated by the Board of Directors to the corporate executive officers, enabling speedier decision making and more effective management. The Board of Directors will decide basic management strategies and other issues and focus on fulfilling a comprehensive supervisory role. Toyama Chemical will also establish a Nominations Committee, a Compensation Committee and an Audit Committee, each of which will include a number of outside directors, to strengthen the supervisory function and improve transparency. This separation of the supervisory and operational functions is aimed at making our system of corporate governance even more effective.

In terms of compliance, the in-house Administration and Ethics Committee is constantly monitoring activities to ensure Toyama Chemical complies with relevant laws and is fair and ethical in its undertakings. In a bid to provide further support for these activities, we will establish a Compliance Committee and strengthen our oversight systems across the Company.

Outlook for Fiscal 2004

In fiscal 2004, ending March 31, 2004, we do not expect to achieve marked sales growth in the first half as a result of the initial preparations for the launch of Taisho Toyama Pharmaceutical. However, we expect this sales company to gradually start generating results in the second half.

Sales of our mainstay antibiotics PENTCILLIN and TOMIRON and the synthetic antibacterial agent OZEX have recently been in decline, but in fiscal 2004 we expect to be able to maintain steady sales of these products. Sales of the loop diuretic LUPRAC, the β -lactamase inhibitor and antibiotic combination TAZOCIN, the injectable cephem antibiotic HALOSPOR and the injectable synthetic antibacterial agent PASIL are all growing steadily, and we expect to achieve further growth in fiscal 2004.

During the year, we plan to file for domestic approval of antirheumatic agent T-614 and overseas approval for new-type quinolone synthetic antibacterial agent T-3811. We expect to earn royalty income for both these products from Eisai and U.S. firm Bristol-Myers Squibb Company, respectively.

By achieving these sales targets and promoting cost controls, in fiscal 2004 we expect to achieve gross revenue of ¥22,200 million and net income of ¥200 million.

It should be noted that, as Taisho Toyama Pharmaceutical will sell Toyama Chemical's products, our ethical drugs sales will comprise the supply price to the sales company and our sales figures will show an apparent decline. However, we expect almost no impact at the income level, as the sales company will take on various costs, including various employee and SG&A expenses.

In summary, Toyama Chemical is going through a period of significant change. With the goal of re-emerging as a new-look company, we are steadily implementing reforms, working to achieve growth and aiming to make a contribution to the further development of global healthcare through new drug development.

During this time, we hope for continued support and encouragement from all our shareholders.

September 2003



Katsuhiko Nakano
Director, President and Chief Executive Officer

Six-Year Financial Summary

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31,

	Millions of Yen (Except Per Share Amounts)					
	1998	1999	2000	2001	2002	2003
OPERATING RESULTS:						
Gross revenue	¥41,267	¥45,094	¥46,802	¥36,672	¥28,345	¥32,998
Net sales	40,461	43,185	45,579	35,460	28,263	24,983
Royalty income	806	1,909	1,223	1,212	82	8,015
Cost of sales	14,951	15,131	16,256	13,880	11,513	11,407
Selling, general and administrative expenses	24,463	25,574	27,097	24,306	19,981	19,366
Operating profit (loss)	1,853	4,389	3,449	(1,514)	(3,149)	2,225
Income (loss) before income taxes and minority interests	585	3,724	(7,177)	(4,119)	(3,937)	81
Net income (loss)	79	1,062	(4,648)	(2,778)	(2,665)	(5,166)
PER SHARE DATA (IN YEN):						
Net income (loss)	¥ 0.52	¥ 7.09	¥ (31.03)	¥ (18.52)	¥ (17.74)	¥ (29.37)
Cash dividends applicable to the year	5.00	5.00	5.00	—	—	—
FINANCIAL POSITION:						
Total shareholders' equity	¥31,220	¥31,578	¥27,067	¥24,949	¥23,568	¥37,166
Total assets	77,034	80,555	89,104	91,434	85,686	89,896
OTHER DATA:						
Research and development expenses	¥ 6,292	¥ 6,617	¥ 7,046	¥ 6,017	¥ 4,893	¥ 5,088
Depreciation and amortization	1,558	1,814	2,711	2,525	2,256	2,130
Capital expenditures	3,184	1,752	2,009	696	471	239
FINANCIAL RATIOS (%):						
Net income margin ⁽¹⁾	0.2%	2.4%	—	—	—	—
Return on equity (ROE) ⁽²⁾	0.3	3.3	—	—	—	—
Equity ratio ⁽³⁾	40.5	39.1	30.4%	27.3%	27.5%	41.3%
Research and development expenses as a percentage of gross revenue	15.2	14.7	15.1	16.4	17.3	15.4
NUMBER OF EMPLOYEES	1,973	1,960	1,721	1,670	1,662	1,635

Notes: (1) Net income margin = Net income ÷ Gross revenue

(2) ROE = Net income ÷ Average shareholders' equity

(3) Equity ratio = Total shareholders' equity ÷ Total assets

Management's Discussion and Analysis of Operating Results and Financial Position

Financial Policy

Toyama Chemical's financial policy focuses on securing adequate financing and liquidity for its business operations and maintaining a healthy balance sheet. Maintaining a strong level of current assets is a major factor in the Company's liquidity position. With a long-term perspective, Toyama Chemical promotes financial management that supports business-creating plans and meets long-term funding requirements. Toyama Chemical's basic policy is that long-term debt should meet fundamental funding requirements, such as for capital expenditures, and that short-term loans are raised to meet the Company's working capital requirements.

Toyama Chemical aims to achieve stable and effective funding and aggressively promotes direct fund procurement, such as through the issuance of bonds.

Revenue

In fiscal 2003, ended March 31, 2003, consolidated gross revenue amounted to ¥32,998 million, up 16.4% from the previous period.

Sales of ethical drugs declined 9.7% compared with the previous period. In September 2002, the Company launched PASIL, the first domestically developed injectable synthetic antibacterial agent. PASIL and other products, including the loop diuretic LUPRAC, the β -lactamase inhibitor and antibiotic combination TAZOCIN and the injectable cephem antibiotic HALOSPOR performed well despite difficult market conditions. In contrast, sales of such products as the synthetic antibacterial agent OZEX, the cephem antibiotic TOMIRON and the penicillin antibiotic PENTCILLIN declined as a result of increased competition.

Overall, sales of pharmaceuticals (ethical drugs, over-the-counter consumer healthcare products and royalties) increased 21.6% compared with the previous period, to ¥30,922 million, largely due to a substantial increase in royalty income generated from efforts to license out new drug technologies and marketing rights.

Sales of industrial chemicals declined 28.8%, to ¥2,075 million.

SEGMENT INFORMATION

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen	
	2003	2002
Gross revenue by segment:		
Ethical drugs	¥22,647	¥25,069
Consumer healthcare products	429	515
Industrial chemicals	613	776
Royalties	8,014	82
Total (Non-consolidated)	31,703	26,442
Other	1,295	1,902
Total (Consolidated)	¥32,998	¥28,345

Note: Gross revenue by segment figures are quoted on a non-consolidated basis.

Operating Expenses

Cost of sales was at approximately the same level as in the previous period, falling 0.9%, to ¥11,407 million, while the cost of sales ratio fell to 34.6%, mainly due to the increase in gross revenue.

Selling, general and administrative expenses declined 3.1% compared with the previous term, to ¥19,366 million. Within this amount, research and development expenses increased 4.0% to ¥5,088 million, representing 15.4% of gross revenue. As a result, the Company reported an operating profit of ¥2,225 million.

Other Expenses

Other expenses increased 172.1%, to ¥2,144 million, largely due to a loss on devaluation of investment securities and business alliance related expense. The Company recorded deferred income taxes of ¥5,115 million related to the commencement of ethical drug sales via the new joint sales company, which began full-scale operations in April 2003. As a result, net loss for the period under review increased 93.8%, to ¥5,166 million.

Financial Position

At March 31, 2003, the Company had total current assets of ¥56,192 million, an increase of 33.8% from a year earlier, largely due to a ¥13,190 million increase in cash and cash equivalents.

By contrast, current liabilities declined 24.6% compared with the end of the previous period, to ¥28,810 million, largely owing to a ¥4,213 million decrease in short-term bank loans and a ¥5,219 million decrease in the current portion of long-term debt. As a result, the current ratio reached 1.95 times.

At fiscal year-end, net property, plant and equipment totaled ¥24,859 million, down 4.3% from a year earlier.

Total long-term liabilities were largely unchanged, at ¥23,460 million.

Total shareholders' equity increased 57.7%, to ¥37,166 million, while the equity ratio increased 13.8 percentage points, to 41.3%.

Cash Flows

In fiscal 2003, net cash provided by operating activities amounted to ¥1,120 million, compared with net cash used in operating activities of ¥2,657 million in the previous period. This was largely due to income before income taxes and minority interests of ¥81 million, which more than offset the effect of an increase in inventories related to new and intermediate products for overseas markets.

Net cash provided by investing activities was ¥2,707 million, compared with net cash used in investing activities of ¥3,257 million in the previous term. This was due to proceeds from sales of short-term investments and proceeds from sales of investment securities.

Net cash provided by financing activities totaled ¥9,363 million, compared with net cash used in financing activities of ¥2,123 million in the previous period. This was largely owing to proceeds from issuance of common stock related to the third-party allocation to Taisho Pharmaceutical, which we carried out in September 2002. This more than offset the effect of repayments of long-term debt related to the redemption of a Company-issued euro-yen denominated straight bond in June 2002 and a decrease in short-term bank loans following repayments that were made in March 2003.

As a result of the aforementioned factors, cash and cash equivalents at end of year amounted to ¥26,080 million, up 102.3% from the previous fiscal year-end.

Consolidated Balance Sheets

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	¥26,080	¥12,890	\$217,330
Short-term investments (Notes 3 and 7)	1,329	2,600	11,074
Receivables:			
Trade notes	1,986	2,811	16,551
Trade accounts (Note 17)	14,813	13,867	123,443
Unconsolidated subsidiaries and associated companies	121	73	1,009
Other	810	430	6,750
Allowance for doubtful accounts	(20)	(18)	(164)
Inventories (Note 4)	8,817	7,615	73,478
Deferred tax assets (Note 10)	824	306	6,863
Other current assets	1,432	1,420	11,934
Total current assets	56,192	41,994	468,268
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land (Note 5)	12,834	12,834	106,954
Buildings and structures	26,768	26,717	223,064
Machinery and equipment	25,459	25,983	212,159
Construction in progress	282	188	2,350
Other	2,602	2,611	21,686
Total	67,945	68,333	566,213
Accumulated depreciation	(43,086)	(42,351)	(359,053)
Net property, plant and equipment	24,859	25,982	207,160
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 7)	3,193	5,862	26,607
Investments in unconsolidated subsidiaries and associated companies (Note 6)	537	94	4,471
Goodwill		3	
Sales rights	1,177	1,554	9,805
Deferred tax assets (Note 10)	1,296	6,970	10,801
Other	2,924	3,526	24,367
Allowance for doubtful accounts	(282)	(299)	(2,348)
Total investments and other assets	8,845	17,710	73,703
TOTAL	¥89,896	¥85,686	\$749,131

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2003	2002	2003	
Liabilities and Shareholders' Equity	CURRENT LIABILITIES:			
	Short-term bank loans (Note 7)	¥20,566	¥24,779	\$171,381
	Current portion of long-term debt (Note 7)	344	5,563	2,865
	Payables:			
	Trade notes	2,489	3,116	20,740
	Trade accounts	1,086	1,103	9,054
	Unconsolidated subsidiaries and associated companies	2		13
	Other	3,120	2,353	25,998
	Accrued income taxes	90	68	749
	Other accrued expenses	647	715	5,397
	Allowance for loss on sales returns	22	56	184
	Other current liabilities	444	471	3,703
	Total current liabilities	28,810	38,224	240,084
	LONG-TERM LIABILITIES:			
	Long-term debt (Note 7)	10,148	9,947	84,566
	Liability for retirement benefits (Note 8)	12,899	13,081	107,490
	Deferred tax liabilities—land revaluation (Note 5)	365	377	3,044
	Other long-term liabilities	48	44	398
	Total long-term liabilities	23,460	23,449	195,498
	MINORITY INTERESTS	460	445	3,837
	COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 15)			
	SHAREHOLDERS' EQUITY (Notes 7 and 9):			
	Common stock—authorized, 348,000,000 shares; issued and outstanding, 197,147,537 shares in 2003, 153,766,182 shares in 2002	22,397	12,976	186,643
	Additional paid-in capital	21,531	12,110	179,424
	Accumulated deficit	(7,098)	(1,932)	(59,153)
	Land revaluation surplus (Note 5)	538	526	4,483
	Net unrealized loss on available-for-sale securities	(16)	(58)	(136)
	Treasury stock—at cost, 452,953 shares in 2003 and 113,647 shares in 2002	(186)	(54)	(1,549)
	Total shareholders' equity	37,166	23,568	309,712
TOTAL		¥89,896	¥85,686	\$749,131

Consolidated Statements of Operations

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
NET SALES (Notes 14 and 17)	¥24,983	¥28,263	\$208,190
ROYALTY INCOME (Notes 11 and 17)	8,015	82	66,791
Gross revenue	32,998	28,345	274,981
COST OF SALES (Notes 8, 12 and 14)	11,407	11,513	95,055
Gross profit	21,591	16,832	179,926
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 12, 13, 14 and 17)	19,366	19,981	161,383
Operating profit (loss)	2,225	(3,149)	18,543
OTHER INCOME (EXPENSES):			
Interest expense	(672)	(663)	(5,603)
Interest and dividend income	132	166	1,102
Write-down of inventories	(172)	(172)	(1,430)
Loss on devaluation of golf club memberships	(22)	(10)	(186)
Loss on devaluation of investment securities	(845)	(30)	(7,043)
Business alliance related expense	(374)		(3,120)
Other—net	(191)	(79)	(1,590)
Other expenses—net	(2,144)	(788)	(17,870)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	81	(3,937)	673
INCOME TAXES (Note 10):			
Current	104	124	868
Deferred	5,115	(1,421)	42,625
Total income taxes	5,219	(1,297)	43,493
MINORITY INTERESTS IN NET INCOME	28	25	233
NET LOSS	¥ (5,166)	¥ (2,665)	\$ (43,053)
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Net loss (Note 2.q)	¥ (29.37)	¥ (17.74)	\$ (0.245)

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen						
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Land Revaluation Surplus	Net Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2001	150,115,771	¥12,115	¥11,248	¥ 733	¥526	¥354	¥ (27)
Net loss				(2,665)			
Increase in treasury stock (66,679 shares)							(27)
Conversion of convertible bonds	3,650,411	861	862				
Net decrease in unrealized gain on available-for-sale securities						(412)	
BALANCE, MARCH 31, 2002	153,766,182	12,976	12,110	(1,932)	526	(58)	(54)
Net loss				(5,166)			
Increase in treasury stock (339,306 shares)							(132)
Issuance of common stock (Note 9)	43,000,000	9,331	9,331				
Conversion of convertible bonds	381,355	90	90				
Net increase in unrealized gain on available-for-sale securities						42	
Net increase in land revaluation surplus due to change in statutory effective tax rate					12		
BALANCE, MARCH 31, 2003	197,147,537	¥22,397	¥21,531	¥(7,098)	¥538	¥ (16)	¥(186)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Land Revaluation Surplus	Net Unrealized Loss on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2002	\$108,135	\$100,916	\$(16,100)	\$4,383	\$(483)	\$ (450)
Net loss			(43,053)			
Increase in treasury stock (339,306 shares)						(1,099)
Issuance of common stock (Note 9)	77,758	77,758				
Conversion of convertible bonds	750	750				
Net increase in unrealized gain on available-for-sale securities					347	
Net increase in land revaluation surplus due to change in statutory effective tax rate				100		
BALANCE, MARCH 31, 2003	\$186,643	\$179,424	\$(59,153)	\$4,483	\$(136)	\$(1,549)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 81	¥ (3,937)	\$ 673
Adjustments for:			
Income taxes—(paid) refunded	(82)	295	(684)
Depreciation and amortization	2,130	2,256	17,750
Loss on disposal of property, plant and equipment	31	8	258
Loss on devaluation of investment securities	845	30	7,043
Loss on devaluation of golf club memberships	22	10	186
Changes in assets and liabilities:			
Increase in trade receivables	(78)	(434)	(653)
Increase in inventories	(1,202)	(544)	(10,017)
Decrease in trade payables	(666)	(392)	(5,546)
Decrease in interest and dividends receivable	1	9	8
Increase (decrease) in interest payable	55	(16)	462
(Decrease) increase in liability for retirement benefits	(182)	153	(1,521)
Increase (decrease) in other payables	767	(126)	6,393
Other—net	(602)	31	(5,020)
Total adjustments	1,039	1,280	8,659
Net cash provided by (used in) operating activities	1,120	(2,657)	9,332
INVESTING ACTIVITIES:			
Purchases of short-term investments	(2,597)	(5,307)	(21,638)
Proceeds from sales of short-term investments	4,167	7,069	34,723
Purchases of property, plant and equipment	(237)	(559)	(1,972)
Proceeds from sales of investment securities	2,053	1,007	17,110
Purchase of investment securities	(596)	(3,858)	(4,971)
Increase in other assets	(83)	(1,609)	(693)
Net cash provided by (used in) investing activities	2,707	(3,257)	22,559
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(4,213)	(1,515)	(35,109)
Proceeds from long-term debt	721	264	6,010
Repayments of long-term debt	(5,563)	(843)	(46,360)
Dividends paid	(1)	(2)	(5)
Proceeds from issuance of common stock	18,563		154,691
Increase in other assets	(144)	(27)	(1,201)
Net cash provided by (used in) financing activities	9,363	(2,123)	78,026
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
		2	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,190	(8,035)	109,917
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,890	20,925	107,413
CASH AND CASH EQUIVALENTS, END OF YEAR	¥26,080	¥12,890	\$217,330
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Increase in capital stock from conversion of convertible bonds into common stock	¥ 90	¥ 861	\$ 750
Increase in additional paid-in capital from conversion of convertible bonds into common stock	90	862	750
Decrease in convertible bonds from conversion of convertible bonds into common stock	¥ 180	¥ 1,723	\$ 1,500

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toyama Chemical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

Note 1

Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications and rearrangements have been made to the 2002 consolidated financial statements to conform to the classifications and presentations used in 2003. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

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

Note 2

Summary of Significant Accounting Policies

a. Consolidation—The accompanying consolidated financial statements include the accounts of the Company and its five (five in 2002) significant subsidiaries (collectively the "Group"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Investment in one (zero in 2002) associated company is accounted for by the equity method.

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

The excess of the cost of the Company's investments in consolidated subsidiaries, over its equity in the net assets at the respective dates of acquisition, is recorded as goodwill, and is being amortized over a period of 5 years.

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

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

c. Inventories—Finished goods and merchandise inventories are stated at cost as computed by the average method. Semi-finished goods, work in process and raw materials are stated at cost as computed by the average method. Supplies are stated at the most recent purchase price which approximates cost determined by the first-in, first-out method.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost. (2) Available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. **Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. **Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 6 to 50 years for buildings and structures, from 3 to 15 years for machinery and equipment and from 2 to 20 years for other property, plant and equipment.

g. **Sales Rights Costs**—Sales rights consist of licenses purchased from pharmaceutical companies to distribute products of such companies. Costs of such licenses are amortized by the straight-line method over 5 years.

h. **Stock and Bond Issue Cost**—Stock and bond issue costs are amortized by the straight-line method over 3 years under the Japanese Commercial Code (the "Code").

i. **Bond Discounts**—Bond discounts are amortized by the straight-line method over bond redemption periods.

j. **Allowance for Loss on Sales Returns**—The allowance for loss on sales returns is calculated by multiplying the balance of trade receivables by the rate of gross margin for the current year and the actual average rate of sales returns in the previous 2 years.

k. **Retirement and Pension Plans**—The Group has unfunded retirement plans for all eligible employees. The Company and its certain subsidiaries have a contributory funded pension plan in addition to the above unfunded plans.

The Company and its certain subsidiaries accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. Duties rendered by the directors and corporate auditors for the year ended March 31, 2003 are excluded from computation period in providing retirement allowances.

l. **Research and Development Expenses**—Research and development expenses are charged to income as incurred.

m. **Leases**—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

n. **Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. **Appropriations of Retained Earnings**—Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

p. **Derivative Financial Instruments**—The Group enters into derivative financial instruments, including interest rate swaps and caps as a means of hedging interest rate exposures of floating-rate bank loans. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

q. **Per Share Information**—The computation of net loss per share is based on the weighted average number of shares of common stock outstanding during each year. The weighted average number of common shares used in the computation was 175,897 thousand and 150,248 thousand for the years ended March 31, 2003 and 2002, respectively.

Diluted net income per share is not disclosed because of the Company's net loss position.

Note 3

Short-term Investments and Investment Securities

Short-term investments and investment securities at March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current:			
Time deposits	¥1,029	¥ 414	\$ 8,574
Government and corporate bonds	300	2,186	2,500
Total	¥1,329	¥2,600	\$11,074
Non-current:			
Marketable equity securities	¥1,875	¥2,599	\$15,626
Non-marketable equity securities	503	464	4,194
Trust fund investments and other	815	2,799	6,787
Total	¥3,193	¥5,862	\$26,607

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

March 31, 2003	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,850	¥249	¥224	¥1,875
Other	755		40	715
Held-to-maturity	400	6		406

March 31, 2002	Millions of Yen			
Securities classified as:				
Available-for-sale:				
Equity securities	2,664	356	421	2,599
Other	2,533	1	35	2,499
Held-to-maturity	2,486	4	13	2,477

March 31, 2003	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$15,421	\$2,074	\$1,869	\$15,626
Other	6,290		336	5,954
Held-to-maturity	3,333	50	1	3,382

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Available-for-sale—Equity securities	¥503	¥464	\$4,194
Total	¥503	¥464	\$4,194

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

	Millions of Yen		Thousands of U.S. Dollars	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
Due in one year or less	¥100	¥200	\$833	\$1,667
Due after five years through ten years		200		1,666
Total	¥100	¥400	\$833	\$3,333

Note 4

Inventories

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Finished goods and merchandise	¥3,222	¥3,537	\$26,848
Semi-finished goods and work in process	3,354	2,913	27,949
Raw materials and supplies	2,241	1,165	18,681
Total	¥8,817	¥7,615	\$73,478

Note 5

Land Revaluation

Under the "Law of Land Revaluation," promulgated on March 31, 1998 and revised on March 31, 2001, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2001.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of deferred tax liabilities, as revaluation surplus as a component of shareholders' equity. There is no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities. The details of the one-time revaluation as of March 31, 2001 were as follows:

Land before revaluation:	¥11,700 million
Land after revaluation:	¥12,603 million
Land revaluation excess:	¥526 million (net of deferred tax liabilities of ¥377 million)

As of March 31, 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,289 million.

Note 6

Investments in Unconsolidated Subsidiaries and Associated Companies

Investments in unconsolidated subsidiaries and associated companies at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Investments in:			
Unconsolidated subsidiaries	¥ 69	¥69	\$ 572
Associated companies	468	25	3,899
Total	¥537	¥94	\$4,471

Note 7

Short-term Bank Loans and Long-term Debt

Short-term bank loans are principally notes to banks and bank overdrafts. The average annual interest rates for such items are 1.763% and 1.507% at March 31, 2003 and 2002, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Unsecured 1.00% yen convertible bonds, due March 2005	¥ 7,942	¥ 8,122	\$66,183
Unsecured 1.11% Euro yen bonds, due June 2002		5,000	
Unsecured 1.13% yen bonds, due June 2007	50		417
1.47% to 3.15% secured loans from banks and other financial institutions, due serially to 2016, payable in yen	1,170	1,584	9,753
0.00% to 1.75% loans without collateral from a bank and other institution due serially to 2007, payable in yen	1,330	804	11,078
Total	10,492	15,510	87,431
Less current portion	(344)	(5,563)	(2,865)
Long-term debt, less current portion	¥10,148	¥ 9,947	\$84,566

Annual maturities of long-term debt at March 31, 2003, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 344	\$ 2,865
2005	8,294	69,119
2006	247	2,062
2007	39	322
2008	120	998
2009 and thereafter	131	1,091
Total	¥9,175	\$76,457

The Company has non-interest bearing loans of ¥1,317 million (\$10,974 thousand) from Japan Science and Technology Corporation, a government-affiliated institution, to aid in the development of new medicines. The repayment date is to be determined subsequent to certification of success in developing such new medicines. Maturity information regarding such loans is excluded from the above table since the development is currently underway and therefore the repayment date is not yet determined.

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥19,057 million (\$158,811 thousand) and the above collateralized long-term debt at March 31, 2003, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
Short-term investments	¥ 20	\$ 167
Investment securities	50	413
Property, plant and equipment—net of accumulated depreciation	7,220	60,170
Total	¥7,290	\$60,750

As is customary in Japan, the Company maintains deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

The conversion price of the unsecured 1.00% yen convertible bonds was ¥464 per share at March 31, 2003. Under certain conditions, the unsecured yen convertible bonds may be redeemed prior to maturity in whole, from May 1, 2000 to March 30, 2005.

At March 31, 2003, such bonds were convertible into 381,355 shares of the Company's common stock.

The conversion prices of the convertible bonds are subject to adjustments to reflect stock splits and certain other events.

Note 8

Retirement and Pension Plans

The Group has retirement payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. The plan provides the payment to terminated (excluding death nor job transferring under same employer) employees with more than ten years of participation in the plan, or to employees with more than ten years of participation and upon reaching the age of 65. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee.

Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2003, includes retirement benefits for directors and corporate auditors of ¥710 million (\$5,913 thousand). The retirement benefits for the Company's directors and corporate auditors are paid subject to the approval of the shareholders.

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥13,226	¥12,163	\$110,216
Fair value of plan assets	(92)	(87)	(762)
Unrecognized actuarial (gain) loss	(945)	166	(7,877)
Net liability	¥12,189	¥12,242	\$101,577

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost	¥ 544	¥ 620	\$4,537
Interest cost	265	399	2,204
Recognition of actuarial gain	(13)	(3)	(108)
Contribution for trusted pension fund	292	283	2,431
Net periodic benefit costs	¥1,088	¥1,299	\$9,064

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

	2003	2002
Discount rate	2.2%	2.2%
Recognition period of actuarial gain/loss	12 years	13 years

Unrecognized actuarial gain/loss is charged to income in the fiscal year following the fiscal year during which the unrecognized actuarial gain/loss was incurred, computed by the straight-line method over constant years not exceeding the expected remaining service period.

The Company changed the recognition period from 13 years in fiscal 2002 to 12 years in fiscal 2003 as the expected remaining service period was shortened. The effect of this change was immaterial.

Note 9

Shareholders' Equity

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

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

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

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

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Issuance of New Shares—In accordance with the resolution of the Board of Directors as of September 9, 2002, the Company increased capital by issuing new shares allocated to a third party on September 26, 2002.

- (1) Number of new shares issued: 43,000,000 shares of common stock
- (2) Issue price: ¥434 (\$4) per share
- (3) Total issue price: ¥18,662 million (\$155,516 thousand)
- (4) Stated capital per share: ¥217 (\$2)
- (5) Total stated capital: ¥9,331 million (\$77,758 thousand)

Note 10

Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.7% for the years ended March 31, 2003 and 2002. The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Accrued retirement benefits	¥4,307	¥4,107	\$35,889
Tax loss carryforwards	1,628	2,567	13,567
Loss on devaluation of investment securities	421		3,505
Unrealized gain on assets	236	241	1,969
Write-down of golf club membership	164	169	1,364
Other	346	443	2,884
Less valuation allowance	(4,790)	(52)	(39,911)
Total	2,312	7,475	19,267
Deferred tax liabilities:			
Special reserve for land for tax purposes	192	198	1,598
Other		1	5
Total	192	199	1,603
Net deferred tax assets	¥2,120	¥7,276	\$17,664

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2003 and 2002 is as follows:

	2003	2002
Normal effective statutory tax rate	41.7%	(41.7)%
Expenses not deductible for income tax purposes	253.1	6.6
Minimum inhabitant taxes	96.7	1.8
Valuation allowance	5,857.9	
Effect of change in normal effective statutory tax rate	218.4	
Other	(6.2)	0.4
Actual effective tax rate	6,461.6%	(32.9)%

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 41.7% to 40.4%, effective for fiscal years beginning from April 1, 2004. The revised normal effective statutory tax rate of 40.4% is used in calculating deferred tax assets and liabilities which are expected to be realized or settled on April 1, 2004 and thereafter. As a result of this change, net deferred tax assets decreased by ¥24 million (\$201 thousand) and deferred income taxes increased by ¥24 million (\$201 thousand) for the year ended March 31, 2003.

At March 31, 2003, the Company and its certain subsidiaries have tax loss carryforwards aggregating approximately ¥3,976 million (\$33,137 thousand) which are available to be offset against taxable income in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 34	\$ 283
2005	50	414
2006	701	5,841
2007	3,126	26,054
2008	65	545
Total	¥3,976	\$33,137

Note 11

Royalty Income

Royalty income represents consideration prescribed on agreements for granting the license of patent rights and sales rights to domestic and overseas pharmaceutical companies.

Note 12

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment was ¥1,325 million (\$11,044 thousand) and ¥1,633 million for the years ended March 31, 2003 and 2002, respectively.

Note 13

Research and Development Expenses

Research and development costs charged to the consolidated statements of operations were ¥5,088 million (\$42,397 thousand) and ¥4,893 million for the years ended March 31, 2003 and 2002, respectively.

Note 14

Leases

The Group leases certain machinery, equipment, software, furniture and fixtures, both as lessee and lessor.

a. Lessee

Total rental expenses for the years ended March 31, 2003 and 2002 were ¥1,779 million (\$14,826 thousand) and ¥1,829 million, respectively, including ¥1,137 million (\$9,473 thousand) and ¥1,176 million of lease payments under finance leases.

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

	Millions of Yen		
	Machinery and Equipment	Other	Total
March 31, 2003			
Acquisition cost	¥6,055	¥1,291	¥7,346
Accumulated depreciation	2,408	982	3,390
Net leased property	¥3,647	¥ 309	¥3,956
March 31, 2002			
Acquisition cost	¥5,093	¥1,386	¥6,479
Accumulated depreciation	2,414	967	3,381
Net leased property	¥2,679	¥ 419	¥3,098
	Thousands of U.S. Dollars		
March 31, 2003	Machinery and Equipment	Other	Total
Acquisition cost	\$50,458	\$10,758	\$61,216
Accumulated depreciation	20,068	8,182	28,250
Net leased property	\$30,390	\$ 2,576	\$32,966

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31
	2003	2002	2003
Due within one year	¥ 980	¥ 899	\$ 8,163
Due after one year	3,169	3,013	26,411
Total	¥4,149	¥3,912	\$34,574

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Depreciation expense	¥1,034	¥1,213	\$8,616
Interest expense	124	210	1,035
Total	¥1,158	¥1,423	\$9,651

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

b. Lessor

Total rental income for the years ended March 31, 2003 and 2002 was ¥113 million (\$944 thousand) and ¥146 million, respectively, including ¥113 million (\$944 thousand) and ¥84 million of lease income under finance leases.

Information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest revenue of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2003 and 2002, was as follows:

	Millions of Yen		
	Machinery and Equipment	Other	Total
March 31, 2003			
Acquisition cost	¥672	¥29	¥701
Accumulated depreciation	228	21	249
Net leased property	¥444	¥ 8	¥452

March 31, 2002			
Acquisition cost	¥662	¥29	¥691
Accumulated depreciation	129	16	145
Net leased property	¥533	¥13	¥546

	Thousands of U.S. Dollars		
	Machinery and Equipment	Other	Total
March 31, 2003			
Acquisition cost	\$5,602	\$243	\$5,845
Accumulated depreciation	1,902	177	2,079
Net leased property	\$3,700	\$ 66	\$3,766

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	March 31		March 31
	2003	2002	2003
Due within one year	¥105	¥100	\$ 870
Due after one year	358	454	2,986
Total	¥463	¥554	\$3,856

Depreciation expense and interest revenue under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Depreciation expense	¥105	¥77	\$873
Interest revenue	11	10	96
Total	¥116	¥87	\$969

Depreciation expense and interest revenue, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

Note 15

Commitments and Contingent Liabilities

Commitments for capital expenditures outstanding at March 31, 2003 totaled ¥43 million (\$358 thousand).

Contingent liabilities at March 31, 2003, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted	¥108	\$902
Loan guarantee	107	892

Note 16

Derivatives

The Group has purchased interest rate caps to limit the unfavorable impact from increases in interest rates on floating-rate bank loans. The Group also enters into interest rate swaps as a means of managing its interest rate exposures on certain liabilities. Derivative transactions mentioned above are not executed for speculation purposes under the Group's policy.

The Group is exposed to market risk due to future fluctuations of interest rates, which may arise from interest rate-related derivatives. Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

The management planning section of the Group enters into derivative transactions upon approval of transaction type and position limit by the Board of Directors, and monitors and controls risks associated with these derivatives. Also, a director responsible for derivatives reports financial results on a monthly basis, including derivatives, at the meeting of executive officers. The Group prevents derivatives entered into for speculative purposes through the above-mentioned internal control and risk management procedures.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

Fair Value of Derivative Financial Instruments

The fair value of the Group's derivative financial instruments at March 31, 2003 and 2002, is as follows:

	Millions of Yen		
	Contract Amount	Fair Value	Unrealized Gain/Loss
March 31, 2003			
Interest Rate Transaction			
Not through market:			
Interest rate swaps—fixed rate payment, floating rate receipt	¥ 2,200	¥(170)	¥9
Interest rate options—caps purchased	11,200		(4)
Total	¥13,400	¥(170)	¥5
	Millions of Yen		
	Contract Amount	Fair Value	Unrealized Gain/Loss
March 31, 2002			
Interest Rate Transaction			
Not through market:			
Interest rate swaps—fixed rate payment, floating rate receipt	¥1,200	¥(43)	¥11
Interest rate options—caps purchased	7,200	2	(10)
Total	¥8,400	¥(41)	¥ 1
	Thousands of U.S. Dollars		
	Contract Amount	Fair Value	Unrealized Gain/Loss
March 31, 2003			
Interest Rate Transaction			
Not through market:			
Interest rate swaps—fixed rate payment, floating rate receipt	\$ 18,334	\$(1,417)	\$75
Interest rate options—caps purchased	93,333	4	(37)
Total	\$111,667	\$(1,413)	\$38

Interest rate swaps and caps which qualify for hedge accounting for the years ended March 31, 2003 and 2002, are excluded from the disclosure of market value information.

Note 17

Related Party Transactions

Transactions with unconsolidated subsidiaries and associated companies for the years ended March 31, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Sales	¥ 85	¥176	\$ 704
Commission expenses	130	185	1,084

The Company granted the license of sales rights for the Company's products to its principal shareholder in fiscal 2003. The consideration prescribed on agreements for granting such license amounted to ¥7,300 million (\$60,833 thousand) which were recorded as royalty income for the year ended March 31, 2003 and the related trade accounts receivable due from the principal shareholder amounted to ¥2,625 million (\$21,875 thousand) as of March 31, 2003.

Note 18

Segment Information

The Group operates principally in two business segments: pharmaceutical and other businesses. Information by business segment is not disclosed in accordance with the applicable regulations because net sales, operating income and assets of the pharmaceutical business are more than 90% of consolidated net sales, operating income and assets, respectively. Export sales are not disclosed because they are less than 10% of consolidated net sales. Geographic segments are not disclosed because the Company does not have any consolidated subsidiaries or branches overseas.

Tohatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530, Japan

Tel: +81-3-3457-7321
Fax: +81-3-3457-1694
www.tohatsu.co.jp

**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Toyama Chemical Co., Ltd.:

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

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

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

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

Deloitte Touche Tohmatsu

June 27, 2003

Corporate Information

HEAD OFFICE

2-5, Nishi-Shinjuku 3-chome,
Shinjuku-ku, Tokyo 160-0023, Japan
Telephone: (03) 3348-6611
Facsimile: (03) 3348-6638
Web site: <http://www.toyama-chemical.co.jp>

TOYAMA WORKS (TOYAMA CHEMICAL'S MAIN FACTORY AND RESEARCH LABORATORIES)

4-1, Shimookui 2-chome,
Toyama-shi, Toyama 930-8508, Japan
Telephone: (076) 432-3136
Facsimile: (076) 431-8203

TOYAMA USA INC.

114 West 47th Street, 23rd Floor,
New York, NY 10036, U.S.A.
Telephone: (212) 704-2373
Facsimile: (212) 704-2372

TOYAMA EUROPE LTD.

8th Floor, Dashwood House,
69 Old Broad Street,
London EC2M 1QU, U.K.
Telephone: (020) 7256-2046
Facsimile: (020) 7256-2047

BOARD OF DIRECTORS

Director, President and Chief Executive Officer
Katsuhiko Nakano

Directors and Senior Executive Officers
Takeo Abe
Toyama Works and Production

Hideo Sanada
Research and Development

Director and Operating Officer
Masayuki Yamashita
Environment and Administration

Directors
Toshiharu Hagiwara
Yukio Yanagida *
Hiroichi Yoshida *
Isao Yoshikawa *
Shinichiro Inushima *

* Outside Directors

(As of June 27, 2003)

SUBSIDIARIES

	Paid-In Capital (Thousands)	The Company's Equity Ownership (%)	Principal Business
Toyama Kouei Co., Ltd.*	¥20,000	100.0	Design, production, and maintenance of manufacturing plants
Tomix Co., Ltd.*	¥41,250	100.0	General leasing
HOKURIKU MEDICAL SERVICE CO., LTD.*	¥80,000	100.0	Provision of medical equipment and instrument sterilization and home care services
White Public Relations Co., Ltd.*	¥20,000	100.0	Advertising
TOYAMA USA INC.	\$300	100.0	Development and clinical trials of pharmaceuticals Gathering medical and pharmaceutical information
TOYAMA EUROPE LTD.	£150	100.0	Development and clinical trials of pharmaceuticals Gathering medical and pharmaceutical information
Taiyo Sangyo Co., Ltd.*	¥42,000	33.3	Wrapping, packing and warehouse management
Yanglong Co., Ltd.	¥50,000	50.0	Supply and sales of YANRONCHA and related products

* Consolidated subsidiaries

HISTORY

1936	Toyama Chemical Co., Ltd., established around the business of Toyama Chemical Research Laboratory	1988	BAXO suppositories introduced
1961	Listed on the second sections of the Tokyo Stock Exchange and Osaka Securities Exchange	1989	No. 1 Research Laboratory completed
1970	General Research Laboratory completed	1990	TOMIRON fine granules and OZEX introduced
1971	ESPERAN introduced	1992	SELECAL introduced
1972	Listed on the first sections of the Tokyo Stock Exchange and Osaka Securities Exchange	1994	FLUCAM introduced Consumer Health Care Department established
1975	No. 2 Research Laboratory completed	1997	TOYAMA USA INC. established
1980	PENCILLIN introduced No. 3 Research Laboratory completed	1998	HOKURIKU MEDICAL SERVICE CO., LTD. and TOYAMA EUROPE LTD. established
1981	ABOVIS and CEFOPERAZIN introduced	1999	LUPRAC introduced
1982	BAXO capsules introduced	2000	Toyama Works and the 2nd Toyama Factory acquired ISO 14001 certification
1985	TOMIPORAN introduced	2001	TAZOCIN introduced
1986	BAXO balm introduced	2002	HALOSPOR and PASIL introduced Agreed a strategic capital and business alliance with Taisho Pharmaceutical Co., Ltd.
1987	TOMIRON introduced		Taisho Toyama Pharmaceutical Co., Ltd., established

Main Products

ETHICAL DRUGS

- Broad-spectrum injectable quinolone antibacterial agent PASIL
- Broad-spectrum oral quinolone antibacterial agent OZEX
- Broad-spectrum injectable 2nd generation cephalosporin HALOSPOR
- Broad-spectrum oral 3rd generation cephalosporin TOMIRON
- Broad-spectrum oral 3rd generation cephalosporin TOMIRON fine granules
- Broad-spectrum oral 3rd generation cephalosporin CEFOPERAZIN
- Penicillin formulation, combining PENTCILLIN and a β -lactamase inhibitor TAZOCIN
- Broad-spectrum penicillin PENTCILLIN
- Loop diuretic LUPRAC
- Long-lasting nonsteroidal anti-inflammatory drug FLUCAM
- Long-lasting nonsteroidal anti-inflammatory drug BAXO
- Percutaneous nonsteroidal anti-inflammatory drug BAXO ointment
- Long-lasting nonsteroidal anti-inflammatory drug BAXO suppository
- Gastro-selective muscarinic M1 agonist ABOVIS

CONSUMER HEALTHCARE PRODUCTS

- Medicinal bath salts with collagen AOI UMI II, HAKUBISO II, and MORI NO KAORI
- Health tea YANRONCHA
- Alkaline ionized water SHINKAIYUMU

INDUSTRIAL CHEMICALS

- Phosphorus trichloride
- Phosphorus oxychloride
- Aluminium chloride (anhydrous)



Investor Information

ESTABLISHED

November 15, 1936

CAPITAL STOCK

¥22,397 million

NUMBER OF EMPLOYEES

1,635

MAJOR SHAREHOLDERS

Taisho Pharmaceutical Co., Ltd.
The Hokuriku Bank, Ltd.
Sumitomo Mitsui Banking Corporation
The Master Trust Bank of Japan, Ltd.
(Trust Account)
Taisei Corporation
Kanematsu Corporation
Nippon Life Insurance Company
Nakano Kosan Co., Ltd.
The Tokyo Marine and Fire Insurance Co., Ltd.
Asahi Kasei Corporation

ORDINARY GENERAL MEETING

The Ordinary General Meeting of Shareholders is held annually in June.

TRANSFER AGENT

The Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome,
Minato-ku, Tokyo 105-8574, Japan

STOCK LISTINGS (TICKER CODE: 4518)

Tokyo Stock Exchange, First Section
Osaka Securities Exchange, First Section

FOR FURTHER INFORMATION, PLEASE CONTACT:

Licensing Dept.
Telephone: (03) 5381-3889
Facsimile: (03) 3348-6460

(As of March 31, 2003)

 TOYAMA CHEMICAL CO., LTD.

<http://www.toyama-chemical.co.jp>