

Consolidated Financial Statements

For the Fiscal Year Ended March 31, 2003

KYOWA EXEO CORPORATION

Code No. : 1951
 URL : <http://www.exeo.co.jp>
 Stock Exchange Listed : Tokyo and Osaka Stock Exchange-First Section
 Corporate Headquarters : 29-20, Shibuya 3-chome, Shibuya-ku, Tokyo Japan
 Representative : Shunji Kaibuchi, President
 Investor Relations : Sadao Ikeda, Director, General Manager,
 Finance & Accounts Division /Tel (03) 5778-1106
 Date of the meeting of the Board of Directors for approval of consolidated financial statements : May 14, 2003
 Adoption of U.S.GAAP : No

1. Consolidated Financial Results for the Fiscal Years Ended March 31, 2003 and 2002

(1) Consolidated Results of Operations (Millions of yen, except per share amounts)

	Sales		Operating Income		Ordinary Income	
Year ended March 31, 2003	186,334	(8.4)%	4,541	(45.3)%	4,741	(47.7)%
Year ended March 31, 2002	203,336	0.1 %	8,308	0.0 %	9,062	10.4 %

	Net Income	Net Income per Share	Diluted Net Income Per Share	ROE [Ratio of Net Income to Shareholders' Equity]	Ordinary Income/ Total Assets	Ordinary Income/ Net Sales
Year ended March 31, 2003	1,661 (44.4)%	14.00 yen	13.34 yen	2.7 %	3.5 %	2.5 %
Year ended March 31, 2002	2,989 (17.5)%	25.56 yen	22.52 yen	5.1 %	6.4 %	4.5 %

Notes : 1. Equity in earnings (losses) of affiliates : For the fiscal year ended March 31, 2003 : - million yen
 For the fiscal year ended March 31, 2002 : - million yen
 2. Weighted average number of shares outstanding : For the fiscal year ended March 31, 2003 : 113,563,358 shares
 For the fiscal year ended March 31, 2002 : 116,987,821 shares
 3. Change in accounting policy : No
 4. Percentages above represent annual changes over the preceding year unless otherwise stated.

(2) Consolidated Financial Positions (Millions of yen, except per share amounts)

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity per Share
Year ended March 31, 2003	130,779	60,653	46.4 %	543.59 yen
Year ended March 31, 2002	136,575	63,314	46.4 %	544.69 yen

Notes : Number of shares outstanding at end of period : March 31, 2003 : 111,447,130 shares
 March 31, 2002 : 116,239,154 shares

(3) Consolidated Cash Flows (Millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at Fiscal Year End
Year ended March 31, 2003	8,365	(1,932)	(4,656)	21,643
Year ended March 31, 2002	6,886	(357)	(14,035)	19,325

(4) Number of Consolidated Subsidiaries and Companies Accounted for Using the Equity Method

The number of consolidated subsidiaries : 24
 The number of unconsolidated subsidiaries accounted for using the equity method : -
 The number of affiliated companies accounted for using the equity method : -

(5) Change of Reporting Entities

The number of consolidated companies added : 3 The number of consolidated companies removed : -
 The number of companies on the equity method added : - The number of companies on the equity method removed : -

2. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2004

(Millions of yen)

	Sales	Ordinary Income	Net Income
Six months ending September 30, 2003	74,000	1,100	600
Year ending March 31, 2004	180,000	6,100	3,300

(Reference) Expected Net Income per Share : 28.97 yen

※Management of the Company has made estimates and assumptions relating to financial forecasts based on information available as of the reporting date.

Actual results could differ from those estimates.

Notes: All amounts less than one million yen have been disregarded.

Consolidated Balance Sheets (1)

March 31, 2002 and 2003

(Millions of yen)

	March 31, 2002		March 31, 2003		Increase (Decrease)
		%		%	
(ASSETS)					
Current assets	¥95,142	69.7	¥91,153	69.7	¥(3,989)
Cash and bank deposits	14,118		19,137		5,019
Notes and accounts receivable, trade	52,652		49,818		(2,833)
Marketable securities	5,696		3,505		(2,190)
Contracts in process	20,309		15,744		(4,564)
Deferred tax assets –current	679		893		214
Other	1,786		2,214		428
Allowance for doubtful accounts	(99)		(161)		(62)
Fixed assets	41,432	30.3	39,625	30.3	(1,806)
Property and equipment	26,974	19.7	26,792	20.5	(181)
Buildings and structures	10,322		10,265		(56)
Machinery, vehicles, tools and equipment	1,380		1,237		(143)
Land	15,271		15,290		18
Intangible fixed assets	2,711	2.0	1,914	1.5	(796)
Software	2,399		1,566		(833)
Other	311		348		36
Investments and other	11,746	8.6	10,918	8.3	(828)
Investment securities	5,082		4,591		(490)
Deferred tax assets-non-current	4,131		3,699		(432)
Other	2,788		3,123		334
Allowance for doubtful accounts	(256)		(495)		(239)
TOTAL ASSETS	¥136,575	100	¥130,779	100	¥(5,796)

Consolidated Balance Sheets (2)

March 31, 2002 and 2003

(Millions of yen)

	March 31, 2002		March 31, 2003		Increase (Decrease)
		%		%	
(LIABILITIES)					
Current liabilities	¥35,707	26.1	¥47,975	36.7	¥12,268
Notes and accounts payable, trade	22,836		22,067		(768)
Current portion of convertible bonds	—		14,664		14,664
Income taxes payable	1,424		1,048		(375)
Advances received on contracts in process	6,127		5,352		(774)
Allowance for compensation for construction damages	130		120		(9)
Other	5,188		4,721		(466)
Long-term liabilities	36,685	26.9	21,669	16.5	(15,015)
Bonds	14,100		14,100		—
Convertible bonds	14,664		—		(14,664)
Accrued pension and severance cost	5,577		5,034		(543)
Allowance for retirement benefits for directors and corporate auditors	602		420		(181)
Deferred tax liabilities-non-current	110		132		21
Negative consolidation goodwill	1,615		1,967		351
Other	14		15		0
TOTAL LIABILITIES	72,392	53.0	69,644	53.2	(2,747)
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES					
	868	0.6	480	0.4	(387)
(SHAREHOLDERS' EQUITY)					
Common stock	6,888	5.1	—	—	(6,888)
Additional paid-in capital	5,761	4.2	—	—	(5,761)
Retained earnings	51,914	38.0	—	—	(51,914)
Net unrealized gains on securities	209	0.2	—	—	(209)
Treasury stock	(1,459)	(1.1)	—	—	1,459
TOTAL SHAREHOLDERS' EQUITY	63,314	46.4	—	—	(63,314)
I Common stock	—	—	6,888	5.3	6,888
Capital surplus	—	—	5,761	4.4	5,761
Retained earnings	—	—	51,634	39.5	51,634
Net unrealized gains on securities	—	—	197	0.1	197
Treasury stock	—	—	(3,828)	(2.9)	(3,828)
TOTAL SHAREHOLDERS' EQUITY	—	—	60,653	46.4	60,653
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	¥136,575	100	¥130,779	100	¥(5,796)

Notes: All amounts less than one million yen have been disregarded.

Consolidated Statements of Income

Years Ended March 31, 2002 and 2003

(Millions of yen)

	Year ended March 31, 2002		Year ended March 31, 2003		Increase (Decrease)
		%		%	
Net sales	¥203,336	100	¥186,334	100	¥(17,002)
Cost of sales	178,691	87.9	166,216	89.2	(12,475)
Gross income	24,645	12.1	20,117	10.8	(4,527)
Selling, general and administrative expenses	16,336	8.0	15,576	8.4	(760)
Operating income	8,308	4.1	4,541	2.4	(3,767)
Non-operating income	1,762	0.9	1,170	0.6	(592)
Interest income	42		36		(5)
Dividends income	146		100		(46)
Commission income	250		150		(99)
Amortization of consolidation goodwill	593		587		(6)
Other	729		294		(434)
Non-operating expenses	1,008	0.5	970	0.5	(38)
Interest expenses	584		468		(116)
Foreign currency exchange losses	-		116		116
Other	423		385		(38)
Ordinary income	9,062	4.5	4,741	2.5	(4,321)
Special income	-	-	1,968	1.1	1,968
Gains on return of the substitutional portion of the employee pension fund	-		1,657		1,657
Gains on sales of investment securities	-		194		194
Gains on sales of fixed assets	-		116		116
Special losses	3,112	1.5	3,313	1.8	200
Special retirement benefits	1,635		1,898		262
Losses on devaluation of investment securities	487		1,103		616
Losses on write-offs of uncollectible accounts	545		-		(545)
Losses on devaluation of investment in memberships	345		-		(345)
Other	99		311		211
Income before income taxes and minority interests	5,949	3.0	3,395	1.8	(2,554)
Income taxes – current	1,898	1.0	1,384	0.7	(513)
Income taxes – deferred	1,013	0.5	325	0.2	(688)
Minority interests	47	0.0	23	0.0	(24)
Net income	¥2,989	1.5	¥1,661	0.9	¥(1,328)

Notes: All amounts less than one million yen have been disregarded.

Consolidated Statements of Retained Earnings

Years Ended March 31, 2002 and 2003

(Millions of yen)

	Year ended March 31, 2002		Year ended March 31, 2003	
(RETAINED EARNINGS)				
Balance, beginning of year		45,319		-
Increase in retained earnings		4,901		-
Increase due to merger	4,901		-	
Decrease in retained earnings		1,296		-
Cash dividends	1,170		-	
Directors' bonuses	125		-	
Net income		2,989		-
Balance, end of year		51,914		-
(CAPITAL SURPLUS)				
Balance, beginning of year		-		5,761
Balance, end of year		-		5,761
(RETAINED EARNINGS)				
Balance, beginning of year		-		51,914
Increase in retained earnings		-		1,661
Net income	-		1,661	
Decrease in retained earnings		-		1,941
Cash dividends	-		1,843	
Directors' bonuses	-		97	
Balance, end of year		-		51,634

Notes: All amounts less than one million yen have been disregarded.

Consolidated Statements of Cash Flows

Years Ended March 31, 2002 and 2003

(Millions of yen)

	Year ended March 31, 2002	Year ended March 31, 2003
Cash flows from operating activities:		
Income before income taxes and minority interests	¥5,949	¥3,395
Depreciation and amortization	2,221	2,152
Amortization of consolidation goodwill	(593)	(587)
Losses on devaluation of investment securities	487	1,103
Losses on devaluation of investment in memberships	345	-
Special retirement benefits	1,635	1,898
Gains on return of the substitutional portion of the employee pension fund	-	(1,657)
Gains on sales of fixed assets	-	(116)
Gains on sales of investment securities	-	(194)
Foreign currency exchange losses	-	24
Foreign currency exchange gains	(19)	-
Changes in other operating assets	1,499	(150)
Changes in other operating liabilities	(3,158)	(737)
Changes in allowance for doubtful accounts	(43)	301
Changes in accrued pension and severance cost	907	1,024
Interest and dividends income	(189)	(137)
Interest expenses	584	468
Changes in notes and accounts receivable, trade	10,082	3,610
Changes in contracts in process	943	5,157
Changes in accounts payable, trade	(7,509)	(1,551)
Changes in advances received on contracts in process	(181)	(1,198)
Other, net	76	385
Sub-total	13,039	13,190
Interest and dividends received	193	133
Interest expenses paid	(582)	(469)
Income taxes paid	(4,225)	(1,998)
Special retirement benefits paid	(1,538)	(2,179)
Other, net	-	(311)
Net cash provided by operating activities	6,886	8,365
Cash flows from investing activities:		
Proceeds from time deposits	173	164
Payments for purchases of marketable securities	(500)	(2,198)
Proceeds from sales of marketable securities	290	1,205
Payments for purchases of property and equipment	(721)	(931)
Proceeds from sales of property and equipment	89	240
Payments for purchases of intangible fixed assets and other investments	(99)	(170)
Payments for purchases of investment securities	(408)	(469)
Proceeds from sales of investment securities	713	392
Payments for purchases of subsidiary stock due to changing scope of consolidation	-	(8)
Proceeds from purchases of subsidiary stock due to changing scope of consolidation	51	-
Payment for loans receivable	(265)	(601)
Settlement of loans receivable	207	290
Other, net	111	154
Net cash used in investing activities	(357)	(1,932)
Cash flows from financing activities:		
Net change in short-term borrowings	(1,097)	(389)
Payments of long-term debt	(334)	(52)
Payments for redemption of bonds	(10,531)	-
Proceeds from common stock by a subsidiary	24	-
Payments for purchases of treasury stock	(940)	(2,368)
Proceeds from sales of treasury stock	44	-
Proceeds from sales of the parent company's stock owned by a subsidiary	35	-
Proceeds from sales of treasury stock owned by the merged company	55	-
Cash dividends paid	(1,170)	(1,843)
Cash dividends paid to minority shareholders	(11)	(1)
Cash delivered due to merger	(109)	-
Net cash used in financing activities	(14,035)	(4,656)
Effect of exchange rate changes on cash and cash equivalents	(9)	(3)
Net increase (decrease) in cash and cash equivalents	(7,516)	1,772
Cash and cash equivalents, beginning of year	24,053	19,325
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	-	367
Increase in cash and cash equivalents due to merger of non-consolidated subsidiaries	-	178
Increase in cash and cash equivalents due to merger	2,789	-
Cash and cash equivalents, end of year	¥19,325	¥21,643

Notes: All amounts less than one million yen have been disregarded.

[Accounting Basis for the Consolidated Financial Statements]

1. Principles of consolidation

The consolidated financial statements include the accounts of KYOWA EXEO CORPORATION (the "Company") and substantially all of its 24 subsidiaries except 6 subsidiaries.

2. Application of the equity method of accounting for investments

Investments in non-consolidated subsidiaries and affiliated companies have not been accounted for by the equity method because they have not been significant to the consolidated net income and retained earnings.

3. Fiscal year of consolidated subsidiaries

The fiscal year-ends for all consolidated subsidiaries are March 31.

4. Significant accounting policies

(1) Valuation of certain assets

a. Marketable and investment securities

Investments in unconsolidated subsidiaries and affiliated companies are stated at cost determined by the moving-average method.

Available-for-sale securities with available fair market values are stated at fair value, with unrealized gains and losses excluded from earnings and included in a separate component of shareholders' equity on a net-of-tax basis. The cost of securities sold is determined by the moving-average method.

Other securities that do not have fair values are stated at cost determined by the moving average method.

b. Derivative

Derivative financial instruments are stated at fair value.

c. Valuation of inventories

Contracts in process are stated at cost using the specific identification cost method.

Raw materials and supplies are stated at cost using the first-in, first-out method.

(2) Depreciation of fixed assets

a. Property and equipment

Property and equipment are stated at cost. For both financial and tax purposes, depreciation of property and equipment is computed using the declining-balance method at rates based on the estimated useful lives of the respective assets. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

b. Intangible fixed assets

Goodwill is amortized over five years by the straight-line method. Software for internal use is amortized for the estimated useful life (five years) by the straight-line method. Other intangible assets are amortized using the straight-line method.

(3) Accounting for allowances

a. Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful receivables principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

b. Allowance for compensation for construction damages

Allowance for compensation for construction damages is provided at the amount equal to 1/1,000 of total net sales for each fiscal year, except for sales of a portion that others are responsible for completion of construction, in order to cover possible losses of incompleteness.

c. Accrued pension and severance cost

In order to provide for the employees' retirement benefits, the Company and its consolidated subsidiaries accrue the liability by the amount calculated based on the estimated projected benefit obligation and plan asset at the end of the fiscal year.

Prior service cost is amortized by the straight-line method over the average remaining service periods of the employees.

Actuarial losses are amortized by the straight-line method over the average remaining service periods of the employees from next fiscal year.

(Additional Information)

On February 1, 2003, the KYOWA EXEO Employee Pension Fund received approval from the Minister of Health, Labour and Welfare, for exemption from payment of future benefits regarding the substitutional portion of the employee pension fund.

The Company applied the transitional accounting treatment specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)", and recognized an extinguishment of retirement benefit obligation with respect to such substitutional portion as of the date of the approval. As a result, The Company has accounted for 1,657 million yen as "Gains on return of the substitutional portion of the employee pension fund" in Special income.

d. Allowance for retirement benefits for directors and corporate auditors

Allowance for retirement benefits for directors and corporate auditors is provided in accordance with the Company's and consolidated subsidiaries' bylaws respectively.

(4) Accounting for certain lease transactions

Finance lease which do not transfer titles to lessees are accounted for in the same manner as operating leases.

(5) Others

a. Consumption tax

Consumption tax is excluded from each account that is subject to such tax.

b. Accounting standard concerning treasury stock and use of legal reserves

The Company and its consolidated subsidiaries applied "Accounting standard concerning treasury stock and use of legal reserves" (No.1 of corporate accounting standard) from this fiscal year.

This change of accounting standard did not have a material effect on profit and loss for this fiscal year.

The shareholder's equity sections in Consolidated balance sheets and Consolidated statements of retained earnings for this fiscal year were prepared in accordance with the revised Regulations of Consolidated Financial Statements.

c. Per share Information

The Company and its consolidated subsidiaries applied "Accounting standard concerning net income per share" (No. 2 of corporate accounting standard) and "Guideline for accounting standard concerning net income per share" (No. 4 of corporate accounting standard) from this fiscal year.

5. Valuation of assets and liabilities of consolidated subsidiaries

The subsidiaries' assets and liabilities are valued using gross basis fair value method.

6. Consolidation goodwill

Consolidation goodwill is amortized over an estimated useful life of five years.

7. Appropriation of retained earnings

Consolidated statements of retained earnings have been prepared based on the appropriation of the retained earnings approved during the fiscal year.

8. Cash and cash equivalents in the statement of cash flows

Cash and cash equivalents include cash balances and highly liquid investments with an original maturity of three months or less.

[Notes to Consolidated Balance Sheets]

1. Accumulated depreciation of property and equipment	14,308	million yen
2. Investments in non-consolidated subsidiaries and affiliated companies		
Investment securities (stock)	955	million yen
Other (Amount invested)	2	million yen
3. Liability for guarantee	1,065	million yen
4. Notes receivable discounted	83	million yen

[Notes to Consolidated Statements of Cash Flows]

Reconciliation between balance of cash and cash equivalents and the amounts shown on consolidated balance sheets.

		(March 31, 2003)
Cash and bank deposits	19,137	million yen
Marketable securities	3,505	million yen
Marketable securities with original maturities of more than three months	(999)	million yen
Cash and cash equivalents	21,643	million yen

Non-consolidated Financial Statements

For the Fiscal Year Ended March 31, 2003

KYOWA EXEO CORPORATION

Code No. : 1951
 URL : <http://www.exeo.co.jp>
 Stock Exchange Listed : Tokyo and Osaka Stock Exchange-First Section
 Corporate Headquarters : 29-20, Shibuya 3-chome, Shibuya-ku, Tokyo Japan
 Representative : Shunji Kaibuchi, President
 Investor Relations : Sadao Ikeda, Director, General Manager,
 Finance & Accounts Division /Tel (03) 5778-1106
 Date of the meeting of the Board of Directors for approval
 of non-consolidated financial statements : May 14, 2003
 Date of the meeting of shareholders for approval of
 non-consolidated financial statements : June 27, 2003
 Interim Dividends Plan : Yes
 Trading unit share plan : Yes (1,000 shares per trading unit share)

1. Non-consolidated Financial Results for the Fiscal Years Ended March 31, 2003 and 2002

(1) Non-consolidated Results of Operations (Millions of yen, except per share amounts)

	Sales		Operating Income		Ordinary Income	
Year ended March 31, 2003	176,206	(7.6)%	3,803	(47.2)%	3,410	(53.1)%
Year ended March 31, 2002	190,687	0.2 %	7,207	(4.0)%	7,265	3.0 %

	Net Income		Net Income Per Share	Diluted Net Income Per Share	ROE [Ratio of Net Income to Shareholders' Equity]	Ordinary Income/ Total Assets	Ordinary Income/ Net Sales
Year ended March 31, 2003	820	(64.8)%	6.88 yen	- yen	1.4 %	2.7 %	1.9 %
Year ended March 31, 2002	2,330	(30.0)%	19.92 yen	17.79 yen	4.2 %	5.5 %	3.8 %

- Notes : 1. Weighted average number of shares outstanding : For the fiscal year ended March 31, 2003 : 113,563,358 shares
 For the fiscal year ended March 31, 2002 : 116,995,978 shares
 2. Change in accounting policy : No
 3. Percentages above represent annual changes over the preceding period unless otherwise stated.

(2) Dividends (yen, except Total Dividends for the Year)

	Total Dividends per Share			Total Dividends for the Year	Payout Ratio	Ratio of Dividends to Shareholders' Equity
	Interim Dividends per Share	Year-End Dividends per Share				
Year ended March 31, 2003	11.00	5.00	6.00	1,233 million yen	159.9 %	2.2%
Year ended March 31, 2002	11.00	0.00	11.00	1,278 million yen	54.9 %	2.1%

(3) Non-consolidated Financial Positions (Millions of yen, except per share amounts)

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity per Share
Year ended March 31, 2003	124,156	56,249	45.3%	504.37 yen
Year ended March 31, 2002	129,940	59,685	45.9%	513.47 yen

- Notes : 1. Number of shares outstanding at end of period : March 31, 2003 : 111,447,130 shares
 March 31, 2002 : 116,239,154 shares
 2. Number of treasury stock : March 31, 2003 : 6,365,289 shares
 March 31, 2002 : 1,573,265 shares

2. Non-consolidated Financial Forecasts for the Fiscal Year ending March 31, 2004

(Millions of yen, except per share amounts)

	Sales	Ordinary Income	Net Income	Total Dividends per Share		
				Interim Dividends per Share	Year-End Dividends per Share	
Six months ending September 30, 2003	70,000	1,000	500	5.00 yen	- yen	- yen
Year ending March 31, 2004	170,000	5,000	2,500	- yen	6.00 yen	11.00 yen

(Reference) Expected Net Income per Share : 22.08 yen

Management of the Company has made estimates and assumptions relating to financial forecasts based on information available as of the reporting date.

Actual results could differ from those estimates.

Notes: All amounts less than one million yen have been disregarded.

Balance Sheets (1)

March 31, 2002 and 2003

(Millions of yen)

	March 31, 2002		March 31, 2003		Increase (Decrease)
		%		%	
(ASSETS)					
Current assets	¥93,157	71.7	¥89,020	71.7	¥(4,136)
Cash and bank deposits	13,761		18,892		5,131
Notes receivable	2,535		2,012		(523)
Accounts receivable, trade	47,098		45,258		(1,840)
Marketable securities	5,691		3,505		(2,185)
Contracts in process	18,239		13,716		(4,523)
Short-term loans receivable	3,614		3,207		(406)
Deferred tax assets –current	585		810		224
Other	1,854		1,777		(76)
Allowance for doubtful accounts	(223)		(158)		65
Fixed assets	36,783	28.3	35,135	28.3	(1,647)
Property and equipment	23,242	17.9	23,119	18.6	(123)
Buildings and structures	9,039		9,013		(26)
Machinery and vehicles	325		271		(53)
Tools and equipment	561		527		(33)
Land	13,316		13,306		(9)
Intangible fixed assets	2,617	2.0	1,817	1.5	(800)
Software	2,390		1,551		(838)
Other	227		265		38
Investments and other	10,923	8.4	10,199	8.2	(724)
Investment securities	5,612		5,256		(356)
Long-term loans receivable	207		511		304
Reorganization credits	180		230		49
Long-term prepaid expenses	270		154		(116)
Deferred tax assets-non-current	3,654		3,155		(499)
Other	1,586		1,684		98
Allowance for doubtful accounts	(588)		(793)		(205)
TOTAL ASSETS	¥129,940	100	¥124,156	100	¥(5,783)

Balance Sheets (2)

March 31, 2002 and 2003

(Millions of yen)

	March 31, 2002		March 31, 2003		Increase (Decrease)
		%		%	
(LIABILITIES)					
Current liabilities	¥36,696	28.3	¥49,608	40.0	¥12,911
Notes payable	302		550		248
Accounts payable, trade	24,261		22,589		(1,671)
Current portion of convertible bonds	-		14,664		14,664
Accrued expenses	2,220		1,871		(348)
Income taxes payable	662		854		192
Advances received on contracts in process	5,598		5,087		(510)
Deposits received	2,798		2,472		(326)
Allowance for compensation for construction damages	127		118		(9)
Other	725		1,399		673
Long-term liabilities	33,558	25.8	18,298	14.7	(15,260)
Bonds	14,100		14,100		-
Convertible bonds	14,664		-		(14,664)
Accrued pension and severance cost	4,450		3,899		(550)
Allowance for retirement benefits for directors and corporate auditors	339		297		(42)
Other	3		1		(2)
TOTAL LIABILITIES	70,255	54.1	67,906	54.7	(2,348)
(SHAREHOLDERS' EQUITY)					
Common stock	6,888	5.3	-	-	(6,888)
Additional paid-in capital	5,761	4.4	-	-	(5,761)
Legal reserve	1,547	1.2	-	-	(1,547)
Retained earnings	46,760	36.0	-	-	(46,760)
Voluntary reserves	44,482		-	-	(44,482)
Reserve for deferred gain on sale of property	152		-	-	(152)
General reserve	44,330		-	-	(44,330)
Unappropriated retained earnings	2,278		-	-	(2,278)
Net unrealized gains on securities	186	0.1	-	-	(186)
Treasury stock	(1,459)	(1.1)	-	-	1,459
TOTAL SHAREHOLDERS' EQUITY	59,685	45.9	-	-	(59,685)
Common stock	-	-	6,888	5.5	6,888
Capital surplus	-	-	5,761	4.6	5,761
Additional paid-in capital	-	-	5,761		5,761
Retained earnings	-	-	47,230	38.0	47,230
Legal reserve	-	-	1,547		1,547
Voluntary reserves	-	-	44,478		44,478
Reserve for deferred gain on sale of property	-	-	148		148
General reserve	-	-	44,330		44,330
Unappropriated retained earnings	-	-	1,204		1,204
Net unrealized gains on securities	-	-	197	0.2	197
Treasury stock	-	-	(3,828)	(3.1)	(3,828)
TOTAL SHAREHOLDERS' EQUITY	-	-	56,249	45.3	56,249
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥129,940	100	¥124,156	100	¥(5,783)

Notes: All amounts less than one million yen have been disregarded.

Statements of Income

Years Ended March 31, 2002 and 2003

(Millions of yen)

	Year ended March 31, 2002		Year ended March 31, 2003		Increase (Decrease)
		%		%	
Net sales	¥190,687	100	¥176,206	100	¥(14,481)
Cost of sales	169,382	88.8	158,825	90.1	(10,557)
Gross income	21,304	11.2	17,380	9.9	(3,923)
Selling, general and administrative expenses	14,096	7.4	13,577	7.7	(518)
Operating income	7,207	3.8	3,803	2.2	(3,404)
Non-operating income	932	0.5	471	0.2	(460)
Interest and dividends income	231		163		(68)
Commission income	250		150		(99)
Land and house rent income	-		101		101
Foreign currency exchange gains	112		-		(112)
Other	338		55		(282)
Non-operating expenses	874	0.5	864	0.5	(9)
Interest expenses	563		466		(96)
Foreign currency exchange losses	-		116		116
Other	310		281		(29)
Ordinary income	7,265	3.8	3,410	1.9	(3,855)
Special income	-	-	1,951	1.1	1,951
Gains on return of the substitutional portion of the employee pension fund	-		1,657		1,657
Gains on sales of investment securities	-		182		182
Gains on sales of fixed assets	-		112		112
Special losses	2,880	1.5	3,277	1.8	397
Special retirement benefits	1,635		1,886		250
Losses on devaluation of investment securities	420		1,079		659
Losses on write-offs of uncollectible accounts	492		-		(492)
Other	330		311		(19)
Income before income taxes	4,385	2.3	2,084	1.2	(2,301)
Income taxes – current	950	0.5	990	0.5	40
Income taxes – deferred	1,104	0.6	274	0.2	(830)
Net income	2,330	1.2	820	0.5	(1,510)
Retained earnings brought forward	1,906		948		(957)
Interim dividends	-		564		564
Undisposed deficit succeeded due to merger	1,958		-		(1,958)
Unappropriated retained earnings	¥2,278		¥1,204		¥(1,074)

Notes: All amounts less than one million yen have been disregarded.

Proposal for Appropriation of Retained Earnings

Years Ended March 31, 2002 and 2003

(Millions of yen)

	March 31,2002		March 31,2003	
Unappropriated retained earnings		¥2,278		¥1,204
Reversal of voluntary reserves				
Transfer from reserve for deferred gain on sale of property	3	3	3	3
Sub-total		2,282		1,207
Appropriations of retained earnings				
Cash dividends	1,278		668	
	(¥11.00 per share)		(¥6.00 per share)	
Directors' bonuses	55		39	
Voluntary reserves				
Reserve for deferred gain on sale of property	-	1,333	3	710
Retained earnings carried forward		¥948		¥496

Notes : All amounts less than one million yen have been disregarded.

The company paid interim dividends from this fiscal year. The interim dividends paid of this fiscal year are 564 million yen (¥ 5.00 per share).

[Breakdown of dividends per share]

(Yen)

	March 31,2002			March 31,2003		
	Annual	Interim	Year-End	Annual	Interim	Year-End
Common stock	¥11.00	¥0.00	¥11.00	¥11.00	¥5.00	¥6.00
Ordinary	7.00		7.00	11.00	5.00	6.00
Special	4.00		4.00			

[Significant accounting policies]**1. Marketable and investment securities**

Investments in subsidiaries and affiliated companies are stated at cost determined by the moving-average method.

Available-for-sale securities with available fair market values are stated at fair value, with unrealized gains and losses excluded from earnings and included in a separate component of shareholders' equity on a net-of-tax basis. The cost of securities sold is determined by the moving-average method.

Other securities that do not have fair values are stated at cost determined by the moving average method.

2. Derivative

Derivative financial instruments are stated at fair value.

3. Valuation of inventories

Contracts in process are stated at cost using the specific identification cost method.

Raw materials and supplies are stated at cost using the first-in, first-out method.

4. Depreciation of fixed assets**(1) Property and equipment**

Property and equipment are stated at cost. For both financial and tax purposes, depreciation of property and equipment is computed using the declining-balance method at rates based on the estimated useful lives of the respective assets. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

(2) Intangible fixed assets

Goodwill is amortized over five years by the straight-line method. Software for internal use is amortized for the estimated useful life (five years) by the straight-line method. Other intangible assets are amortized using the straight-line method.

5. Accounting for allowances**(1) Allowance for doubtful accounts**

The Company provides for doubtful receivables principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

(2) Allowance for compensation for construction damages

Allowance for compensation for construction damages is provided at the amount equal to 1/1,000 of total net sales for each fiscal year, except for sales of a portion that others are responsible for completion of construction, in order to cover possible losses of incompleteness.

(3) Accrued pension and severance cost

In order to provide for the employees' retirement benefits, the Company accrues the liability by the amount calculated based on the estimated projected benefit obligation and plan asset at the end of the fiscal year.

Prior service cost is amortized by the straight-line method over the average remaining service periods of the employees.

Actuarial losses are amortized by the straight-line method over the average remaining service periods of the employees from next fiscal year.

(Additional Information)

On February 1, 2003, the KYOWA EXEO Employee Pension Fund received approval from the Minister of Health, Labour and Welfare, for exemption from payment of future benefits regarding the substitutional portion of the employee pension fund.

The Company applied the transitional accounting treatment specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)", and recognized an extinguishment of retirement benefit obligation with respect to such substitutional portion as of the date of the approval. As a result, The Company has accounted for 1,657 million yen as "Gains on return of the substitutional portion of the employee pension fund" in Special income.

(4) Allowance for retirement benefits for directors and corporate auditors

Allowance for retirement benefits for directors and corporate auditors is provided in accordance with the Company's bylaws respectively.

6. Accounting for certain lease transactions

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases.

7. Others

(1) Consumption tax

Consumption tax is excluded from each account that is subject to such tax.

(2) Accounting standard concerning treasury stock and use of legal reserves

The Company applied "Accounting standard concerning treasury stock and use of legal reserves" (No.1 of corporate accounting standard) from this fiscal year.

This change of accounting standard did not have a material effect on profit and loss for this fiscal year .

The shareholder's equity section in Balance sheets for this fiscal year was prepared in accordance with the revised Regulations of Financial Statements.

(3) Per share Information

The Company applied "Accounting standard concerning net income per share" (No. 2 of corporate accounting standard) and "Guideline for accounting standard concerning net income per share" (No. 4 of corporate accounting standard) from this fiscal year.

[Notes to Balance Sheets]

1. Accumulated depreciation of property and equipment

11,407 million yen

2. Liability for guarantee

1,065 million yen

3. Restriction on dividends

(1) As long as the outstanding balance of the 2nd time unsecured convertible bond remains, the Company does not pay any dividend that the total amount of the dividend after the fiscal year 1993 will exceed the amount of the total ordinary income (or loss) after income taxes of same fiscal year added 4,300 million yen.

(2) Valuation of assets stipulated in Commercial Code before amendment of 2002 increased the net assets by 210 million yen.