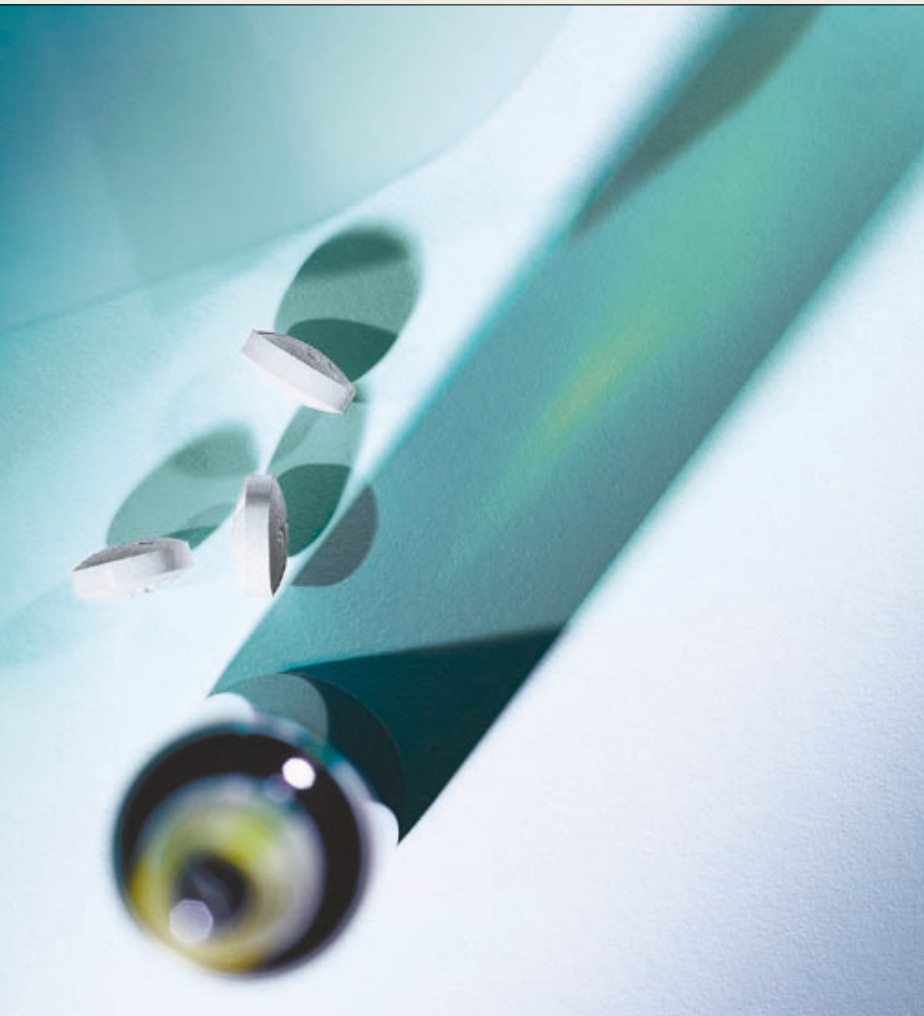


Vision, legacy and
quality are shaping
our growth.

WATSON PHARMACEUTICALS, INC.



Annual Report 2000

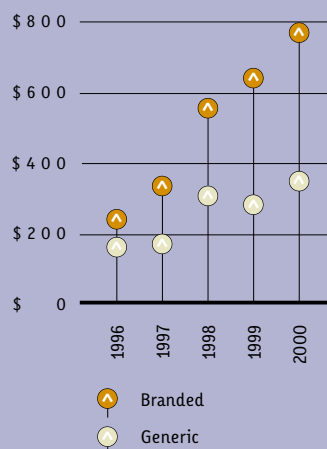


We are a leading specialty pharmaceutical company that develops, manufactures, markets and distributes branded and generic pharmaceutical products. We were incorporated in 1985 and began operations as a manufacturer and marketer of generic pharmaceuticals. Through internal product development and synergistic acquisitions of products and businesses, we have grown into a diversified specialty pharmaceutical company.

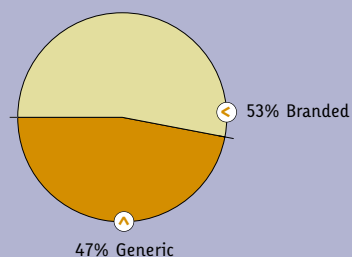
Currently, we market more than 28 branded pharmaceutical product lines, including several that hold leading market positions. In addition to our branded products, we market approximately 140 generic pharmaceutical products in over 900 package sizes and dosage strengths, making us one of the top three marketers of generic pharmaceutical companies in the U.S., based on number of units sold. We also develop advanced drug delivery systems designed to enhance the therapeutic benefits of existing drug forms.

We intend to continue to grow our business by increasing both our branded and generic pharmaceutical product offerings. We have more than eight branded products in development and 14 Abbreviated New Drug Applications (ANDAs) filed with the U.S. Food and Drug Administration (FDA).

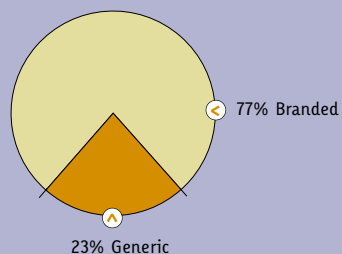
Product Revenues
(In millions)
1996 to 2000



Product Revenues
2000



Gross Profit Contribution from Product Revenues*
2000



*Excludes non-recurring integration costs.

FINANCIAL HIGHLIGHTS ⁽¹⁾

In thousands, except earnings per share

YEARS ENDED DECEMBER 31,	2 0 0 0	1 9 9 9	1 9 9 8	1 9 9 7	1 9 9 6
> Operating Highlights:					
Net revenues	\$ 811,524	\$ 704,890	\$ 607,185	\$ 369,260	\$ 265,461
Gross profit	\$ 439,743	\$ 470,550	\$ 395,144	\$ 236,729	\$ 156,645
Operating income	\$ 8,232	\$ 241,075	\$ 193,254	\$ 126,642	\$ 90,582
Net income	\$ 157,495	\$ 182,661	\$ 121,774	\$ 94,655	\$ 83,286
Net income before non-recurring items ⁽²⁾	\$ 115,695	\$ 167,050	\$ 134,774	\$ 105,907	\$ 83,286
Diluted earnings per share	\$ 1.52	\$ 1.82	\$ 1.22	\$ 0.97	\$ 0.86
Diluted earnings per share before non-recurring items ⁽²⁾	\$ 1.12	\$ 1.66	\$ 1.35	\$ 1.08	\$ 0.86
Weighted average shares outstanding, diluted basis	103,575	100,520	100,140	97,830	96,300
> Balance Sheet Highlights:					
Current assets	\$ 831,345	\$ 459,918	\$ 328,305	\$ 281,157	\$ 359,778
Working capital	\$ 550,905	\$ 309,137	\$ 222,335	\$ 171,706	\$ 316,639
Total assets	\$ 2,579,898	\$ 1,465,581	\$ 1,138,231	\$ 824,011	\$ 535,198
Long-term debt	\$ 483,272	\$ 150,365	\$ 151,381	\$ 10,270	\$ 12,873
Stockholders' equity	\$ 1,547,969	\$ 1,058,908	\$ 802,897	\$ 612,535	\$ 464,668

(1) Watson merged with Makoff R&D Laboratories, Inc. in 2000, with TheraTech, Inc. in 1999 and with Oclassen Pharmaceuticals, Inc. and Royce Laboratories, Inc. in 1997. We accounted for all of these transactions under the pooling of interests accounting method, and accordingly, all financial information has been restated to reflect the results of operations of these businesses.

(2) Non-recurring items included: (a) the 2000 and 1999 gains on sales of securities of \$358.6 million and \$44.3 million, respectively; (b) the 2000, 1999 and 1997 charges for merger and related expenses of \$22.4 million, \$20.5 million and \$14.7 million, respectively; (c) the 2000 and 1998 charges for acquired in-process research and development of \$125 million and \$13 million, respectively; (d) the 2000 charge for integration costs of \$22.2 million; (e) the 2000 cumulative effect of change in accounting principle of \$12 million; and (f) the 2000 extraordinary loss on early retirement of debt of \$1.2 million. Net income and diluted earnings per share before non-recurring items were adjusted for the income tax effect of such items.

2000 ACCOMPLISHMENTS

- > The broadening of our branded product line
- > Further expansion of our brand franchise with the addition of our Nephrology Division
- > The near-doubling of our generic product portfolio, to approximately 140 products
- > Continued progress implementing our quality initiatives and enhancing quality systems at each of our facilities
- > Increased flow of FDA product approvals, with a total of 10 approvals in 2000
- > Realignment and growth of our branded products sales and marketing force
- > Further strengthening of our senior and middle-management teams



A message to our stockholders and friends.

A MOMENT COMES IN THE EVOLUTION OF EVERY SUCCESSFUL business strategy when its elements coalesce, integrating what has gone before and producing a synergism that sets the stage for future accomplishments. This past year represented such a period for Watson Pharmaceuticals and signaled our arrival as a growing force in the branded pharmaceutical industry.

As we have from our inception, we employed a multi-layered strategy of internal research and development, industry alliances and key acquisitions to achieve a year of extraordinary branded and generic product growth. We were able to craft an undeniably compelling brand presence by building on the rich legacy of our generic origins and strengths.

Our accomplishments in the past year are many, from expanding our branded product line across an increasingly diversified spectrum to enhancing our capabilities at almost every level of our organization. We established our newest branded specialty area, Nephrology, and launched numerous products in a range of categories by year-end. At the same time, we continued to implement key quality initiatives and strengthen our senior and middle-management teams.

As proud as we are of these achievements, we define our success at Watson Pharmaceuticals in human terms. Throughout our history, our

Any strategy we
employ must reflect
our commitment to
integrity in the face
of one of the most vital
human agendas –
health.

mission has been to develop treatment alternatives of the highest quality and, in this way, make a positive impact on the lives of patients.

Guided by this unyielding commitment, we were able to close 2000 having achieved one of our long-term goals. We are a leading specialty pharmaceutical company with a balanced portfolio of branded and generic products, a strong sales and marketing presence and burgeoning branded product development activities. As a result, we believe we are better positioned now than ever before to achieve our objective of consistent growth and higher margins in the future.

Having established our company on a firm foundation, thanks to our generic heritage, we took a bold business step in 1996. With one product and a sales force of four, Watson entered the branded product marketplace. Now, just four years later, our sales force has grown to 422 representatives and we market 28 branded product lines with over \$420 million of branded revenue in 2000.

Since 1996, our revenues from branded product sales have increased year-over-year at a compounded annual growth rate of 54%. Not to be forgotten, our generic operations performed well too, with revenues from generic product sales having increased at a compounded annual growth rate of 18%.

We are proud of these financial accomplishments, which validate Watson's leadership position within the specialty pharmaceutical industry. Yet, we also recognize financial performance is but one measure of a successful organization.

We are pleased to report that our efforts to improve and enhance our quality systems achieved positive results in 2000. These outcomes are due to concerted management initiatives and outstanding employee participation in implementing our quality improvement programs. Quality is an integral part of our day-to-day business. As we proceed, we intend to continue adopting uniform, "best practice" approaches to quality and quality systems.

The single most dramatic growth development last year, in terms of sheer numbers, was our acquisition of Schein Pharmaceutical, Inc. (Schein).

This acquisition had a visible impact on the generic side of our business. Based on units sold, Watson became the third-largest generic drug manufacturer in the U.S., thanks in part, to the addition of Schein's significant generic product portfolio.

The Schein acquisition also provided meaningful contributions to our pipeline of generic products. More than 25 generic products are now in development at Watson, plus we have 14 abbreviated new

WATSON'S CORPORATE ACQUISITIONS

	COMPANY	PRODUCT TYPE	DATE
>	Circa Pharmaceuticals	Generic	1995
>	Oclassen Pharmaceuticals	Brand	1997
>	Royce Laboratories	Generic	1997
>	The Rugby Group	Generic	1998
>	TheraTech	Brand	1999
>	Schein Pharmaceutical	Brand & Generic	2000
>	Makoff R&D Laboratories	Brand	2000

drug applications (ANDAs) pending FDA approval, with a collective 2000 branded value of \$8 billion.

Acquiring Schein further enhanced our branded business through the addition of a new specialty area, Nephrology. Schein's two branded specialty iron management products, INFED® and Ferrlecit®, have helped propel us to a leading position in this important market segment. Our subsequent acquisition of Makoff R&D Laboratories, Inc. (Makoff), the new drug application (NDA) sponsor of Ferrlecit®, has enhanced this status.

We are confident of the long-term strategic value of the Schein acquisition. Our integration plans are on track and we are well on our way toward achieving our planned synergies.

Internal product development added to our growth story in 2000. Following a successful and precedent-setting legal battle, we commenced sales of our nicotine polacrilex gum (a generic form of Nicorette®) in April 2000, positively impacting our 2000 earnings. In addition, we received 10 generic product approvals in 2000.

With respect to our branded business, we continue to target medical needs that leverage our distinct capabilities in drug delivery technology. We work to advance that technological expertise, in such examples as our thriving Androderm® and Alora® hormone replacement products, to the newest product on the horizon: our proprietary oxybutynin transdermal patch for overactive bladder.

Simply put, we do difficult things well, which helps strengthen both our competitive position and our financial profile.

We share a sense of
belonging to a larger
purpose, mindful
that our ultimate
consumers are our
mothers, our fathers,
our sons and daughters,
and our friends.

Findings from our Phase II study for the experimental oxybutynin patch showed that this alternative delivery system can produce beneficial effects on the treatment of overactive bladder comparable to immediate release oral oxybutynin treatments, but with significantly fewer side effects. We initiated a multi-center Phase III trial on this product in early 2000 and plan to file an NDA with the FDA in 2001, assuming successful Phase III results.

In 2000, we also entered into two strategic alliances we believe will add two significant products to our branded portfolio and contribute to future growth.

Under an exclusive worldwide agreement with Jerome Stevens Pharmaceuticals, Inc., we now are marketing and distributing Unithroid™, a synthetic hormone used for treatment of hypothyroidism, one of the most common medical conditions in the U.S.

In November, we entered into a license and collaboration agreement with Genelabs Technologies, Inc., to market Aslera™, an investigational drug for treatment of the chronic autoimmune disease systemic lupus erythematosus, or Lupus. Aslera™ has been granted priority review designation by the FDA, in recognition of the fact that no satisfactory treatments exist for this life-threatening disease.

Both of these products are expected to provide value to our company and our consumers in years to come.

To better support our evolving branded product lines in areas we believe have the greatest opportunities for growth, we have realigned our sales and marketing forces into three core therapeutic areas – Women's Health, General Products and Nephrology – and increased their sales force numbers to 422, up from 1999's 380. Our Oclassen® dermatology products are now being promoted more broadly through our expanded General Products sales force.

Several of our branded products achieved market-leader status in 2000, according to published data. Androderm®, our testosterone transdermal system for male hormone replacement therapy, led

its category. INFeD® and Ferrlecit®, our iron replacement products, represented 80% of the total injectable iron market. And, Watson became the nation's second largest provider of oral contraceptives, based on written prescriptions.

The fourth quarter of 2000 was significant in that it marked the launches of Unithroid™ and three pain management products, including line extensions of our Norco® analgesics franchise. We hope to continue to introduce new branded products to our portfolios in subsequent years, as clinical trials come to fruition.

In 2000, our product revenue mix was approximately 53% branded and 47% generic. In 2001, we envision that branded and generic products each will provide 50% of our revenues, with branded products representing 65% of gross profit contribution and generic 35%.

We have arrived at this positive view of the future empowered by the leadership of a creative management team and the dedication of a loyal group of employees, whose contributions we gratefully acknowledge and without whom we would not be the successful company that we are today. Accordingly, we firmly believe that equity ownership is an important element of our compensation package, helping to better align the long-term interests of our employees with those of our stockholders.

Together, we come to work each day driven by individual accountability and inspired by the knowledge that the products we make help people live better, healthier lives. We share a sense of belonging to this larger purpose, mindful that our ultimate consumers are our mothers, our fathers, our sons and daughters, and our friends.

I speak from experience, having fully recovered from early-stage stomach cancer. Now blessed with continuing good health, I look forward with my colleagues to an even more prosperous future for Watson Pharmaceuticals in this new century.

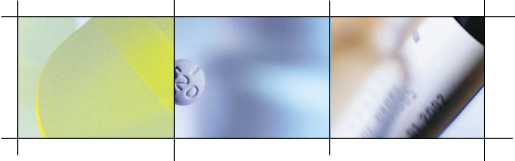


ALLEN CHAO, Ph.D.

Chairman, Chief Executive Officer and President

Together, we come to
work each day driven by
individual accountability
and inspired by the
knowledge that the
products we make help
people live better,
healthier lives.

Insight, wisdom, flexibility: elements of our balanced strategy.



IN A WORLD OF GLOBAL COMPETITION and rapid change, success depends not only on being able to think strategically, but also on knowing how to turn ideas into achievements. Watson Pharmaceuticals' strategies for growth – internal product development, licensing and collaborative arrangements, and acquisitions – have fueled our metamorphosis from our beginnings in 1984 to the fully integrated specialty pharmaceutical company we are today.

These approaches work separately and in concert, with one or another taking the lead, depending on the opportunities presented to us and the growth stage of our company. The process is fluid, intuitive, animated, interactive, in many ways like the interplay of molecules in a test tube.

In our earliest years, internal research and development assumed the most critical role in what was then a young, entrepreneurial company. We announced our presence by producing quality generic products through our command of complex chemistry, often in overlooked and under-served market areas.

Throughout the 1990s, acquisition became a dominant strategy, as we pursued a broader range of products and companies and put down roots in a branded business. Using this formula, we made inroads into women's health, pain management, neurology, endocrinology, dermatology, nephrology and other areas.

Some acquisitions added new products and financial resources to the company, others bolstered our technical expertise, such as our 1999 acquisition of TheraTech, Inc.

Today, the use of proprietary drug delivery technologies to improve the safety or effectiveness of existing drugs forms the cornerstone of our development and acquisition philosophy. We welcome technological challenges in our pursuit of better delivery methods. Simply put, we do difficult things well, which helps strengthen both our competitive position and our financial profile.

Along the way, we have augmented our active program of acquisitions with creative licensing and collaborative arrangements, partnering with leading industry players to maximize our mutual effectiveness.

In 2001, we anticipate a greater emphasis on internal product development, which brings us full circle, although significantly transformed.

At all times, we remain alert and responsive to changes in the fast-paced pharmaceuticals industry. An effective strategy isn't something you can put on paper and leave on a shelf. It must balance insight, wisdom and flexibility. Throughout, one thing is paramount: Any strategy we employ must reflect our commitment to integrity in the face of one of the most vital human agendas – health.

We make good products
better through innovative
delivery technology.

1

RESEARCH & DEVELOPMENT

Since our founding, Watson Pharmaceuticals has been willing to place our own resources, talent and expertise on the line to develop value-added products that benefit consumers and stockholders alike. Through internal research and development, we make good drugs better, finding ways to deliver them with greater safety, stability and/or effectiveness. Our technological achievements are possible because of our skillful employee teams, who lend vision and enthusiasm to our continual quest for quality.

DRUG DELIVERY TECHNOLOGIES

- > Solid dosage form
- > Transdermal
- > Oral transmucosal
- > Drug cell targeting

Our experimental oxybutynin transdermal patch for overactive bladder

We make good products
better through innovative
delivery technology.

1

RESEARCH & DEVELOPMENT

Our exceptional R&D teams, both in branded and generic development, represent a formidable knowledge base in such drug delivery systems as solid dosage, transdermal, oral transmucosal and drug cell targeting.

IN OUR EARLIEST DAYS AS A COMPANY, we initially concentrated our internal product development efforts on difficult-to-produce generics in specialty areas that required technology to solve stability issues. Using this strategy, we were able to advance into new market areas and differentiate our products from competitors.

Microzide®, for hypertension and angina, and Norco®, for pain management, were our first internally developed branded products. They ushered Watson Pharmaceuticals into the branded market and remain in our portfolio today.

Our investment in internal research and development continues to rise, as we develop line extensions for existing products and original formulations furthered by our proprietary R&D capabilities. Our exceptional R&D teams, both in brand and generic development, represent a formidable knowledge base in such drug delivery systems as solid dosage, transdermal, oral transmucosal and drug cell targeting.

Our proprietary oxybutynin patch, now under development, is a perfect case in point.

This experimental transdermal patch to treat urinary incontinence associated with overactive bladder, currently in Phase III clinical trials across the U.S., is a natural addition to our Women's Health portfolio.

Using Watson's proprietary transdermal technology in a twice-weekly dosing regimen, this experimental patch product reduced incontinent episodes comparable to an immediate-release orally administered form of the drug during a previous Phase II trial.

According to the same Phase II results, the oxybutynin patch significantly reduced undesirable side effects, particularly dry mouth, that occurred with the oral treatment and which, we believe, can

lead to poor patient compliance and discontinuation of therapy. After six weeks, only 39% of transdermal patients reported dry mouth complaints in our Phase II study, compared to 82% in the oral treatment group. Further, the severity of dry mouth reported by the transdermal treated patients was notably reduced compared to the immediate oral oxybutynin treated group. The oxybutynin patch adhered well during the trial, with less than 3% of all patches failing to adhere during the study. Skin irritation was also low, with 91% of the patients reporting only mild or no erythema at the patch application site.

We believe these features will help differentiate this product in the marketplace, once it completes the FDA approval process.

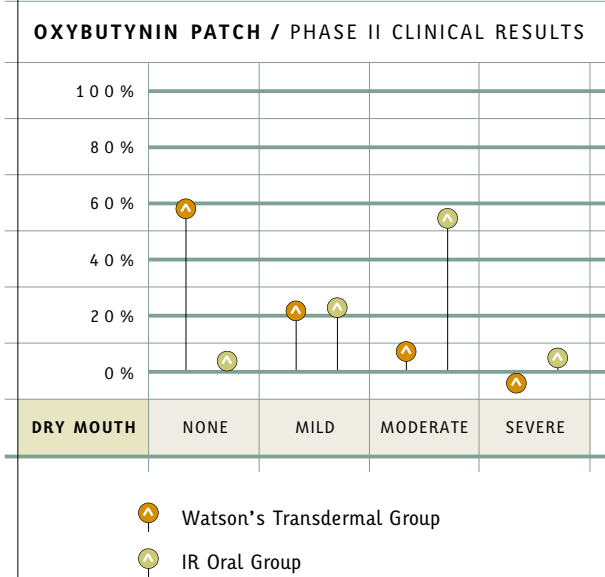
During 2000, we initiated pivotal Phase III clinical trials, evaluating our experimental oxybutynin patch in over 500 patients at 40 U.S. clinical centers. Assuming a positive outcome, we expect to file a new drug application in 2001.

Given the market need, this product could be a noteworthy contributor to our growth in the future. An estimated 5% to 10% of the U.S. population suffers from overactive bladder. This highly under-diagnosed and under-treated condition affects primarily post-menopausal women. With an aging baby boomer population, the incontinence market could grow to over \$1 billion in sales by 2005.

Watson Pharmaceuticals currently is developing other products using our proprietary transdermal technologies, including a testosterone patch for female sexual dysfunction (in conjunction with Procter & Gamble) and an onychomycosis patch for nail fungal infections.

Our research scientists, chemists, formulators and drug manufacturing experts are hard at work on products that rely on other Watson proprietary delivery systems, including an estradiol/progesterone capsule for hormone replacement therapy and a fentanyl lozenge for pain management.

As we chart our path ahead, we remain committed to internal research and development as one of the essential building blocks for our continued evolution.



Seeking vigorous alliances amplifies our own strengths.

2

L I C E N S I N G & C O - M A R K E T I N G

We build on our own strengths with those of other forward-looking companies. With the energy generated by these mutually powerful collaborations, Watson Pharmaceuticals carves out new opportunities. Our ongoing product licensing and co-marketing strategy allows us to move into therapeutic areas that complement and expand our existing portfolio. We gain new market advantages or increase our technological capabilities through such judicious alliances. Each move is deliberate, in accordance with our long-term strategy for growth.





LICENSING & CO-MARKETING STRATEGY

- > Branded focus
- > Targeted therapeutic areas
- > Late stage development

Unithroid™, our solid dose
tablet for the treatment
of hypothyroidism

Seeking vigorous
alliances amplifies
our own strengths.

2

L I C E N S I N G & C O - M A R K E T I N G



THE PARTNERSHIPS THAT WATSON PHARMACEUTICALS has formed testify to industry recognition of our role as a leading specialty pharmaceutical company with a maturing, balanced portfolio. Last year, two such collaborations – with Jerome Stevens Pharmaceuticals, Inc. (Jerome Stevens) and Genelabs Technologies, Inc. (Genelabs) – brought two exciting, new branded products to center stage.

We entered the thyroid treatment market in 2000, by acquiring from Jerome Stevens exclusive marketing rights to Unithroid™, the first and currently only FDA approved form of levothyroxine sodium, USP tablets. Levothyroxine sodium, a synthetic hormone – used to treat hypothyroidism, or underactive thyroid glands – is one of the top three prescribed drug products in the U.S.

Levothyroxine has been used to treat hypothyroidism for over 50 years. The drug is effective within a narrow range in the blood stream – if the dosage is too high or too low there could be adverse effects on the patient. Over the years, the FDA has received numerous reports from physicians noting issues with stability and potency of certain levothyroxine products. The FDA found that the potency of these forms of the drug oftentimes varied. As a result, the FDA adopted regulations in 1997 that now require all levothyroxine sodium products marketed in the U.S. to be approved by FDA.

The FDA approved Unithroid™'s New Drug Application in August 2000. The FDA found Unithroid™ safe and effective based, in part, on studies submitted that demonstrated Unithroid™'s consistent stability and potency. To date, no other levothyroxine product has demonstrated this to FDA and received its approval.

A majority of patients treated for hypothyroidism are women. Our expertise in women's health – which has concentrated on oral contraceptives and hormone replacement therapy – provides us with an excellent position from which to market this product.

We introduced Unithroid™ in December 2000, promoting it jointly through our Women's Health Division and our General Products Division, with a collective presence of 368 sales and marketing professionals.

Our partnership with Genelabs illustrates Watson's ability and willingness as a specialty pharmaceutical company to venture into therapeutic areas that larger companies often ignore.

This agreement provides us with an exclusive license for the

UNITHROID™: THE ONLY CURRENT NDA-APPROVED LEVOTHYROXINE SODIUM

UNIQUE status:
The first approved NDA

UNIVERSAL commitment:
A record one billion tablets
produced over 10 years

UNIFORM quality:
Tablet-to-tablet consistency

North American rights to Genelabs' new investigational drug Aslera™ (prasterone), which has the potential to be the first new treatment in 40 years for the chronic autoimmune disease systemic lupus erythematosus, or Lupus.

Approximately 200,000 people in the United States and more than one million worldwide have Lupus – the vast majority of patients are women, many of whom experience its initial onset in their late teens and early twenties. Lupus causes the immune system to attack the body's own tissue, which can lead to inflammation, arthritis pain, tissue injury and major organ damage.

The FDA granted Aslera™ priority review designation in October 2000, following Genelabs' submission of an NDA in September 2000. That fast-track response reflects the agency's recognition that the drug is designed to treat a serious condition for which there is no adequate therapy at hand.

Because Aslera™ will serve a relatively small population of patients – compared to cardiovascular disease drugs, for example – the FDA in 1994 also granted Aslera™ Orphan Drug designation, which provides for up to seven years of marketing exclusivity in the U.S. from the date of a drug's approval.

Despite its specialized appeal, we view Aslera™ as a noteworthy addition to our branded portfolio.

Lupus patients – and the physicians who treat them – currently have few treatment options. Typically, Lupus sufferers are now given steroids to reduce inflammation, but no adequate remedy addresses the fundamental symptoms. Further, chronic dosing with steroid drugs is known to produce serious and potentially dose-limiting side effects in Lupus.

In a survey conducted by Genelabs at the November 2000 American College of Rheumatology Annual Meeting, physicians with Lupus patients said they are looking for better therapies and would welcome a drug that reduces dependence on steroids.

Our alliance with Genelabs merges their development expertise and Watson's established sales and marketing infrastructure, which should maximize value to both companies. The majority of Lupus patients are treated by rheumatologists, internal medicine physicians and gynecologists – specialists already called on by our branded sales force.

We expect to launch Aslera™ in 2001, assuming FDA approval. We also are joining forces with Genelabs to pursue other commercial applications beyond the initial indication for Aslera™, as well as for other products based on prasterone.

As a company, we always find it exciting to invest in new products, such as Unithroid™ and Aslera™, and to find new partners whose capabilities enhance our own. However, it is particularly gratifying to know that through these strategic alliances, we may bring reliable products to market and help to bring forward new treatment options for debilitating diseases.

Aslera™ (prasterone),
has the potential to be
the first new treatment
in 40 years for the
chronic autoimmune
disease systemic lupus
erythematosus, or Lupus.

Strategic acquisitions
give rise to a
branded profile.

3

A C Q U I S I T I O N S

Ferlecit®, our newest
injectable iron
replacement product

	INJECTABLE IRON FRANCHISE
>	Second generation product
>	Improved safety profile
>	Medicare reimbursement
>	Newly-approved labeling

Recognizing an opportunity for growth isn't enough – you must be capable of seizing the moment. As English philosopher Francis Bacon said nearly four hundred years ago, “A wise man will make more opportunities than he finds.” He might just as easily have said, “A wise company.” At Watson, we have built our branded and generic businesses by understanding and capitalizing on market trends. Since 1996, our aggressive acquisition strategy has redrawn our company profile.

Strategic acquisitions
give rise to a
branded profile.

3

ACQUISITIONS



We intend to maintain
the highest standards
of excellence, motivated
and energized by the
awareness that what
we do is helping to
create better todays
and tomorrows for the
people we serve.

TODAY, OUR ACQUISITION STRATEGY at Watson Pharmaceuticals centers on obtaining products in late-stage development nearing market readiness. Such products can best benefit from our expertise in alternative delivery systems and focused marketing, while minimizing the risks our investors would take in nurturing products from the pre-clinical stage.

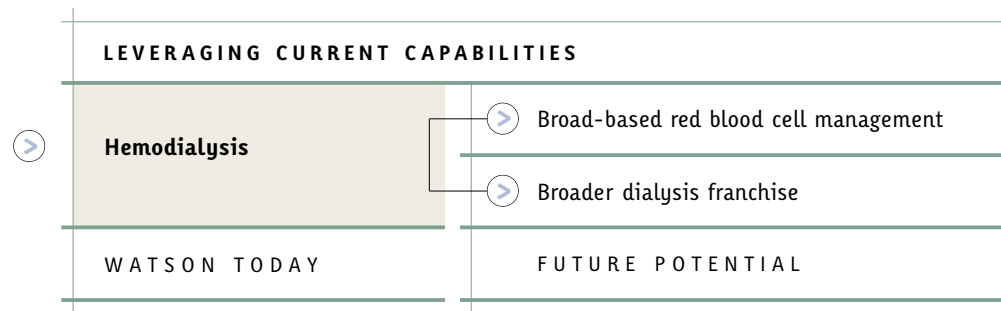
Our acquisition of Schein in 2000 illustrates the wisdom of this approach. This milestone set in motion several interwoven dividends. Chief among them: our entry into the branded Nephrology market, with two products for iron deficiency anemia, INFeD® (iron dextran injection) and Ferrlecit® (sodium ferric gluconate complex in sucrose injection).

We solidified that standing by acquiring Makoff, Ferrlecit's® NDA sponsor. This move gave us ownership of Ferrlecit's® NDA, greater control over the product supply process and enhanced our top-notch marketing capabilities with Makoff's dedicated nephrology telemarketing sales organization. It also created a direct relationship between our company and Aventis, the manufacturer of Ferrlecit®.

Injectable iron products are primarily marketed to patients suffering from end-stage renal disease, the majority which are undergoing kidney dialysis. More than 225,000 patients are currently on kidney dialysis in this country alone, with those numbers increasing between 8% and 10% a year. However, we believe injectable iron products may have potentially broader benefits.

While INFeD® has been a market leader since its introduction in 1992, we are centering our marketing efforts on the next generation product Ferrlecit®, which is indicated for use in iron deficiency anemia with hemodialysis patients currently on erythropoietin therapy.

In February 2001, the FDA approved our supplemental NDA (SNDAs) for Ferrlecit®, including new, less restrictive labeling. The approval eliminates the requirement for a test dose to confirm lack of hypersensitivity and allergic reactions and allows undiluted injections of the therapeutic dose over 10 minutes – an impressive convenience compared to the previous dosing requirements. In addition, the warnings' bolded type, present in the product label at initial approval, was removed based upon



safety data from clinical trials in approximately 1,100 patients submitted post-marketing. In addition to the new labeling changes, Ferrlecit® also received J-code approval in 2000 by the Health Care Financing Administration (HCFA) regarding Medicare coverage.

Medicare will now cover sodium ferric gluconate complex in sucrose injection when used as a first-line treatment of iron deficiency anemia in patients undergoing chronic hemodialysis who are receiving supplemental erythropoietin therapy. The HCFA J-code approval will also allow for quicker and more uniform coverage and billing procedures for healthcare providers.

We are promoting Ferrlecit® through our Nephrology Division, with 54 sales force professionals. Our primary targets are nephrologists and dialysis centers, with the 10 largest national dialysis chains representing over 80% of patients. We are also reaching out to major teaching hospitals, as we initiate support for this and other Watson products within this important arena.

Going forward, we will continue to rely on the thoughtful, balanced strategies that have helped us reach this point in our history. Through licensing and other collaborative alliances, we plan to capitalize on opportunities for additional late-stage development or already marketed products. In addition, we may enhance our own internal research and development with the acquisition of useful technologies.

At each step in this evolution, we intend to maintain the highest standards of excellence, motivated and energized by the awareness that what we do is helping to create better today's and tomorrow's for the people we serve.

WE HAVE MADE CONSIDERABLE PROGRESS with our branded product development activities. Focusing on our proprietary drug delivery technology expertise and core therapeutic categories, we continue to review strategic additions to our branded product pipeline.

WATSON'S BRANDED PRODUCT PIPELINE STATUS				
	PRODUCT (INDICATION)	PHASE	ESTIMATED SUBMISSION	ESTIMATED APPROVAL
>	Alora (Osteoporosis)	Completed	Submitted	First Quarter 2002
>	L-5HTP (Bioplerin deficiency)	Phase III	Second Quarter 2001	Second Quarter 2002
>	Oxybutynin Patch (Incontinence)	Phase III	First Half 2001	First Half 2002
>	Topical Anti-Acne (Acne)	Phase I/ Phase III 2001	2002	2003
>	Onychomycosis Patch (Anti-fungal)	Phase II/ Phase III 2001	2003	2004
>	E2+P Combi Oral (Hormone replacement therapy)	Phase I/ Phase III 2001	2003	2004
>	Fentanyl Oral (Pain management)	Phase I/ Phase III 2002	2003	2004
>	Female-T Patch/P&G (Female sexual dysfunction)	Phase II	To Be Determined	To Be Determined



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