Selected Financial Data

Years Ended March 31

	Millions of yen				
	2002	2001	2000	1999	1998
Results for the year:					
Net sales	**¥341,356**	¥297,517	¥289,142	¥277,281	¥281,584
Research and development expenses	**57,093**	52,016	45,565	41,831	41,490
Ratio to net sales (%)	**16.7%**	17.5%	15.8%	15.1%	14.7%
Operating income	**46,852**	33,606	34,843	33,357	22,191
Income (loss) before income taxes	**47,007**	36,190	36,554	29,399	(18,802)
Net income (loss)	**26,151**	20,529	22,907	8,862	(1,496)
Year-end financial position:					
Working capital	**138,918**	80,775	162,148	157,832	131,796
Property, plant and equipment	**106,525**	103,614	90,899	86,745	91,096
Total assets	**474,546**	462,325	421,689	436,208	491,397
Long-term debt	**18,491**	16,621	41,866	55,975	80,977
Shareholders' equity	**317,870**	278,581	249,106	234,335	215,678
Number of shares issued (in thousands)	**330,183**	322,763	322,499	322,091	321,058
Number of shareholders	**11,985**	12,062	12,838	17,176	18,421
Amounts per share (in yen):					
Net income (loss)					
Basic	**¥ 80.07**	¥ 63.62	¥ 71.09	¥ 27.60	¥ (4.66)
Diluted	**78.14**	61.76	68.85	27.07	—
Cash dividends	**16.00**	12.00	12.00	10.00	7.50
Shareholders' equity	**962.94**	863.12	772.44	727.57	671.78
Return on equity	**8.8%**	7.8%	9.5%	3.9%	(0.7%)

Note:
For accounting changes and reclassifications, see Notes 1-(3), 1-(5), 1-(10), and 1-(12) of Notes to Consolidated Financial Statements. Shareholders' equity per share and return on equity are restated for the previous periods including such reclassifications.

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Review of the Year

Financial Review

Revenue

Net sales set a historical high for the third consecutive year at **¥341,356 million (US$2,567 million)**, up 14.7% over the previous year. While the weakness of the yen against both the dollar and the euro favorably affected our business performance for the year ended March 31, 2002, the underlying strength of our business—both in Japan and overseas—was the main cause of this strong performance.

Geographically, net sales were divided as follows:

Years ended March 31	¥ million			US$ million
Area	**2002**	2001	Change (%)	**2002**
Japan	**¥207,355**	¥205,150	1.1	**$1,559**
North America	**89,470**	58,095	54.0	**673**
Europe	**39,005**	29,753	31.1	**293**
Asia	**5,526**	4,519	22.3	**42**

Japan

Sales in Japan increased by 1.1%, to **¥207,355 million (US$1,559 million)**. Ethical pharmaceuticals sales rose 5.1 % to **¥150,727 million (US$1,133 million)** thanks to growth in such products as *Prograf*®, *Seroquel*®, *Myslee*® and the digestive behavior modifier *Colonel*® (polycarbophil calcium). *Targocid*®, acquired from Aventis Pharma Ltd. during the term, also contributed to the sales increases. Increases in these items exceeded decreases in sales of *Intal*® and *Cefzon*® (cefdinir). Export and royalty income from overseas was boosted to **¥16,548 million (US$124 million)**, up 5.3% over the year earlier. Although the OTC drugs and chemicals businesses posted unfavorable figures, total sales in Japan increased due to a rise in sales of ethical pharmaceuticals and higher revenue from the home care business.

Overseas

Total sales of overseas subsidiaries jumped by 45.1% to **¥134,001 million (US$1,008 million)**. All overseas subsidiaries achieved sales growth on a local currency basis. Further, the weak yen contributed to sales increases on a reported currency basis.

North America recorded 54.0% growth to **¥89,470 million (US$673 million)**. Fujisawa Healthcare, Inc. enjoyed remarkable sales growth led by *Prograf*®, *Adenoscan*®, *AmBisome*®, and the newly launched *Protopic*®.

Sales in Europe increased by 31.1% to **¥39,005 million (US$293 million)** over the previous year. Fujisawa GmbH increased its sales thanks to the growth of *Prograf*®. Klinge Pharma GmbH also recorded increased sales.

In other regions, sales increased by 22.3% to **¥5,526 million yen (US$42 million)**.

Net sales by business segment and by therapeutic category in ethical pharmaceuticals are discussed in "Sales by Business Segment" on page 28-29.

Operating Income

The gross margin improved by 0.7 percentage points to 64.3% of net sales for the year ended March 31, 2002 from 63.6% for the year before. Due to increases in net sales together with this higher margin, gross profit soared 16.1% over the year before, to **¥219,462 million (US$1,650 million)**.

Selling, general and administrative expenses grew by 11.7% over a year earlier, to **¥115,312 million (US$867 million)**, mainly due to increased sales and marketing activities in line with the recent launch of new products such as *Protopic®*.

Research and development expenses were up 9.8% at **¥57,093 million (US$429 million)** because of a wide range of drug discovery activities as well as the various clinical development programs in place. The ratio to net sales was 16.7%, down 0.8 percentage points from a year earlier.

As growth of gross profit more than offset increases in R&D expenses and selling, general and administrative expenses, operating income jumped 39.4 % to **¥46,852 million (US$352 million)**, setting a record high.

Operating income (before elimination of internal transaction) by geographic area is as follows:

Years ended March 31	¥ million			US$ million
Area	**2002**	2001	Change (%)	**2002**
Japan	**¥19,895**	¥17,553	13.3	**$150**
North America	**22,371**	13,574	64.8	**168**
Europe	**5,688**	3,582	58.8	**43**
Asia	**688**	430	60.0	**5**

Net Income

¥1,508 million (US$11 million) was recorded in loss on devaluation of investment in securities owned by Fujisawa in accordance with a fall in their market price. Income taxes were **¥20,680 million (US$155 million)**.

As a result of the above, net income increased by 27.4 % to **¥26,151 million (US$197 million)** over the previous year.

Cash Flow

Net cash provided by operating activities came to **¥35,214 million (US$265 million)**. Major adjustments to reconcile net income to net cash provided by operating activities consisted of depreciation and amortization in the amount of **¥20,377 million (US$153 million)**.

Net cash used in investing activities came to **¥3,338 million (US$25 million)**. Acquisition of property, plant and equipment totaled **¥24,350 million (US$183 million)**, which was used mainly for the construction of new manufacturing facilities for tacrolimus bulk chemicals at the Toyama Plant and new formulation and packaging facilities for micafungin at the Takaoka Plant.

Cash flow from financing activities recorded a decrease of **¥14,369 million (US$108 million)**. Short-term borrowings of **¥25,370 million (US$191 million)** were repaid during the term in line with the Company's policy of improving asset efficiency through reduction of outstanding debt.

As a result, cash and cash equivalent at the end of the period rose to **¥51,308 million (US$386 million)**, an increase of ¥19,285 million from the beginning of the period.

Business Review

■Sales by Business Segment

Fujisawa's business consists of the manufacture and sale of pharmaceuticals, as well as other healthcare-related businesses. Pharmaceuticals are further divided into ethical pharmaceuticals, the core of Fujisawa's operations, and OTC drugs. Healthcare-related businesses include medical supplies and systems, the home care business, and chemicals.

Pharmaceuticals

Pharmaceuticals accounted for 91.1% of net sales in the year ended March 31, 2002, 2.7 percentage points up over the previous year. Total sales of pharmaceuticals for the term showed 18.2% year-on-year growth, at ¥310,889 million (US$2,338 million).

Ethical Pharmaceuticals

Sales increased by 19.8% year-on-year, to ¥297,616 million (US$2,238 million). A breakdown of sales by therapeutic category is given on page 29.

OTC Drugs

Sales decreased by 9.7% to ¥13,273 million (US$100 million) year-on-year, due to stagnant OTC drug consumption in Japan and stiff competition. While sales of the anti-allergic nasal spray *AG Nose* increased, major products in this business such as *Precol®*, *Pyroace®* and *Neuvita® Gold* recorded declines in sales.

Other Businesses

Medical Supplies and Systems

Sales rose 5.6% over the previous year, to ¥3,152 million (US$24 million), due to brisk sales of BD Phamingen reagents and Vysis products.

Chemicals

Sales dropped 25.4% from the previous year, to ¥16,484 million (US$124 million). The divesture of the veterinary business and transfer of the concrete admixture business to a joint venture company with an outside party negatively affected sales in this category.

Home Care Business

Sales came to ¥6,844 million (US$51 million), up 21.1%, thanks to continuous growth in the home oxygen therapy business.

Sales by Business Segment

	¥ million				
Years ended March 31	2002		2001		Change (%)
■Pharmaceuticals	**¥310,889**	**(91.1%)**	¥263,020	(88.4%)	118.2
Ethical pharmaceuticals	**297,616**	**(87.2%)**	248,325	(83.5%)	119.8
OTC drugs	**13,273**	**(3.9%)**	14,695	(4.9%)	90.3
■Other Businesses	**30,467**	**(8.9%)**	34,497	(11.6%)	88.3
Medical supplies and systems	**3,152**	**(0.9%)**	2,984	(1.0%)	105.6
Chemicals	**16,484**	**(4.8%)**	22,084	(7.4%)	74.6
Home care business	**6,844**	**(2.0%)**	5,652	(1.9%)	121.1
Others	**3,987**	**(1.2%)**	3,777	(1.3%)	105.6
Total	**¥341,356**	**(100.0%)**	¥297,517	(100.0%)	114.7
Overseas sales (included in the above total)	**¥150,549**	**(44.1%)**	¥108,080	(36.3%)	139.3

Sales of Ethical Pharmaceuticals by Therapeutic Category

Antibiotics and Biological Preparations

Sales increased 7.5 % to ¥81,633 million (US$614 million). This category remains the largest in the ethical pharmaceuticals business, with a share of 27.4%.

AmBisome®, which recorded more than 50% growth, is the main contributor to growth in this category. Sales of *Cefzon*® decreased slightly, due to a decline in the Japanese market, while exports of bulk chemicals for *Cefzon*® increased, thanks to robust sales of *Omnicef*® by Abbott Laboratories in the US.

Both *Cefamezin*® and *Cefspan*® posted slightly weaker sales.

Metabolic Drugs

Staying at second place in the rankings with ¥72,983 million (US$549 million), metabolic drugs achieved 42.1% sales growth in the term. *Prograf*®, the main product in this category, placed number one in the Company's ethical pharmaceuticals sales rankings for the third consecutive year. The product is now marketed in 57 countries, and sales jumped 43.1% to ¥72.4 billion (US$544 million) during the term.

Cardiovascular and Respiratory Drugs

This category stayed at number three in the rankings with ¥48,128 million (US$362 million) in sales, but this constituted a 15.0% growth over the previous year. This growth came mainly from sales of *Adenoscan*® in the US. Meanwhile, sales of the antihypertensive agent *Nivadil*® (nilvadipine) decreased.

Nervous System and Sensory Organ Drugs

Sales grew 24.4% to ¥41,474 million (US$312 million). Increased sales of *Seroquel*® in Japan, and of *Myslee*® in Japan as well as Taiwan, contributed to the growth in this category.

Anti-Allergy Drugs

Sales decreased 11.9 % to ¥14,209 million (US$107 million) due to the 11.9% decline in sales of *Intal*®, the main drug in this category.

Digestive System Drugs

Sales in this category increased 24.2% to ¥6,667 million (US$50 million), mainly due to the full-year contribution of *Colonel*®, which was launched in Japan in October 2000.

Others

The topical formulation *Protopic*® is the main product in this category. Sales jumped 65.8% to ¥21,084 million (US$159 million) thanks to the launch of *Protopic*® in the US.

Top-Selling Ethical Pharmaceuticals

Years ended March 31	¥ billion		
Product Name	**2002**	2001	Change (%)
1) Prograf	**72.4**	50.6	143.1
2) Cefzon	**28.4**	29.1	97.6
3) Adenoscan	**19.2**	13.1	146.6
4) Intal	**14.1**	16.0	88.1
5) Nivadil	**12.9**	14.2	90.8
6) AmBisome	**11.8**	7.7	153.2
7) Cefamezin	**11.5**	11.8	97.5
8) Cefspan	**9.3**	9.7	95.9
9) Protopic	**8.8**	1.3	676.9
10) Dogmatyl	**8.3**	8.6	96.5

Sales of Ethical Pharmaceuticals by Therapeutic Category

Years ended March 31	¥ million				
	2002		2001		Change (%)
Nervous system and sensory organ drugs	**¥ 41,474**	**(13.9%)**	¥ 33,335	(13.4%)	124.4
Cardiovascular and respiratory drugs	**48,128**	**(16.2%)**	41,854	(16.9%)	115.0
Digestive system drugs	**6,667**	**(2.2%)**	5,366	(2.2%)	124.2
Metabolic drugs	**72,983**	**(24.5%)**	51,354	(20.7%)	142.1
Anti-allergy drugs	**14,209**	**(4.8%)**	16,131	(6.5%)	88.1
Antibiotics and biological preparations	**81,633**	**(27.4%)**	75,921	(30.6%)	107.5
Others	**21,084**	**(7.1%)**	12,714	(5.1%)	165.8
Processing fees	**7,565**	**(2.6%)**	7,816	(3.1%)	96.8
Royalty income	**3,873**	**(1.3%)**	3,834	(1.5%)	101.0
Total	**¥297,616**	**(100.0%)**	¥248,325	(100.0%)	119.8

Consolidated Balance Sheets

March 31, 2002 and 2001

ASSETS	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 2) 2002
Current assets:			
Cash and cash equivalents	**¥ 51,308**	¥ 32,023	**$ 385,774**
Trade receivables (Note 7) —			
Notes	**8,038**	9,376	**60,436**
Accounts	**78,429**	73,509	**589,692**
Allowance for doubtful receivables	**(970)**	(892)	**(7,293)**
Marketable securities and short-term investments —			
Marketable securities (Note 4)	**9,994**	7,846	**75,143**
Short-term investments	**1,400**	5,989	**10,526**
Inventories (Note 5)	**48,524**	43,160	**364,842**
Deferred taxes (Note 10)	**14,105**	9,725	**106,053**
Prepaid expenses and other current assets (Note 7)	**14,420**	16,319	**108,421**
Total current assets	**225,248**	197,055	**1,693,594**
Property, plant and equipment — net (Note 6)	**106,525**	103,614	**800,940**
Investments and other assets:			
Excess of cost over net assets acquired — net	**2,065**	773	**15,526**
Goodwill and proprietary technology — net	**20,698**	19,043	**155,624**
Investments in affiliated companies	**1,599**	1,097	**12,023**
Marketable securities (Note 4)	**68,277**	100,659	**513,361**
Other investments in securities	**11,341**	9,707	**85,271**
Deferred taxes (Note 10)	**16,521**	13,285	**124,218**
Other assets	**22,272**	17,092	**167,458**
Total investments and other assets	**142,773**	161,656	**1,073,481**
Total	**¥474,546**	¥462,325	**$3,568,015**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 2) 2002
Current liabilities:			
Short-term borrowings (Note 8)	**¥ 6,180**	¥ 7,620	**$ 46,466**
Current portion of long-term debt (Note 8)	**1,034**	24,100	**7,774**
Trade payables (Note 7) —			
Notes	**1,884**	1,774	**14,165**
Accounts	**39,655**	46,888	**298,158**
Accrued income taxes (Note 10)	**6,866**	9,514	**51,624**
Accrued expenses	**14,141**	11,616	**106,323**
Accrued bonuses	**9,016**	8,301	**67,789**
Other current liabilities	**7,554**	6,467	**56,799**
Total current liabilities	**86,330**	116,280	**649,098**
Long-term liabilities:			
Long-term debt (Note 8)	**18,491**	16,621	**139,030**
Accrued retirement benefits for employees (Note 11)	**45,854**	44,550	**344,767**
Accrued severance indemnities for the members of the board and corporate auditors	**1,184**	1,164	**8,902**
Other long-term liabilities (Note 10)	**3,289**	3,181	**24,730**
Total long-term liabilities	**68,818**	65,516	**517,429**
Minority interest in consolidated subsidiaries	**1,528**	1,948	**11,488**
Shareholders' equity (Note 12):			
Common stock —			
Authorized — 800,000,000 shares			
Issued 2002 — 330,183,034 shares	**38,588**		**290,135**
Issued 2001 — 322,762,775 shares		32,045	
Capital surplus	**57,231**	50,691	**430,308**
Retained earnings	**219,707**	197,513	**1,651,932**
Translation adjustments	**(683)**	(10,048)	**(5,135)**
Unrealized gain on securities (Note 4)	**3,250**	8,389	**24,437**
Less treasury stock, at cost —			
2002 — 79,419 shares	**(223)**		**(1,677)**
2001 — 3,045 shares		(9)	
Shareholders' equity, net	**317,870**	278,581	**2,390,000**
Contingent liabilities and commitments (Note 14)			
Total	**¥474,546**	¥462,325	**$3,568,015**

Consolidated Statements of Income

For the Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	**2002**
Net sales (Notes 7 and 13)	**¥341,356**	¥297,517	¥289,142	**$2,566,586**
Cost of sales (Note 7)	**121,894**	108,425	102,089	**916,496**
Gross profit	**219,462**	189,092	187,053	**1,650,090**
Selling, general and administrative expenses	**115,312**	103,265	106,441	**867,007**
Research and development expenses	**57,093**	52,016	45,565	**429,271**
Amortization of excess of cost over net assets acquired	**205**	205	204	**1,541**
Operating income	**46,852**	33,606	34,843	**352,271**
Other income (expenses)				
Interest and dividend income	**2,443**	3,030	2,983	**18,368**
Interest expense	**(1,254)**	(2,059)	(2,978)	**(9,429)**
Equity in earnings of affiliated companies	**244**	1,186	332	**1,835**
Gain on sales of investment securities	**—**	—	1,157	**—**
Gain on sales of investments in affiliated companies	**8**	1,243	—	**60**
Loss on devaluation of investments in securities	**(1,508)**	(482)	—	**(11,338)**
Loss on disposal of obsolete inventories	**(1,376)**	(2,415)	(709)	**(10,346)**
Recovery from the settlement of pending litigations	**—**	—	4,105	**—**
Extra provision for accrued retirement benefit obligation (Note 11)	**—**	—	(2,563)	**—**
Foreign exchange loss on long-term advances	**—**	—	(1,828)	**—**
Other, net	**1,598**	2,081	1,212	**12,015**
Income before income taxes	**47,007**	36,190	36,554	**353,436**
Income taxes (Note 10)	**20,680**	15,490	13,495	**155,489**
Minority interest in consolidated subsidiaries	**(176)**	(171)	(152)	**(1,323)**
Net income	**¥ 26,151**	¥ 20,529	¥ 22,907	**$ 196,624**

	Yen			U.S. dollars (Note 2)
Amounts per share:				
Net income				
Basic	**¥80.07**	¥63.62	¥71.09	**$0.60**
Diluted	**78.14**	61.76	68.85	**0.59**
Cash dividends	**16.00**	12.00	12.00	**0.12**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

For the Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	**2002**
Common stock (Note 12):				
Balance at beginning of year	**¥ 32,045**	¥ 31,820	¥ 31,487	**$ 240,940**
Shares issued upon conversion of debentures	**6,543**	225	333	**49,195**
Balance at end of year	**¥ 38,588**	¥ 32,045	¥ 31,820	**$ 290,135**
Capital surplus (Note 12):				
Balance at beginning of year	**¥ 50,691**	¥ 50,465	¥ 50,132	**$ 381,135**
Increase due to conversion of debentures	**6,540**	226	333	**49,173**
Balance at end of year	**¥ 57,231**	¥ 50,691	¥ 50,465	**$ 430,308**
Retained earnings (Note 12):				
Balance at beginning of year	**¥197,513**	¥180,705	¥160,325	**$1,485,060**
Net income	**26,151**	20,529	22,907	**196,624**
Adjustments to retained earnings at beginning of year to reflect				
—change in currency of a foreign subsidiary	**—**	568	—	**—**
—inclusion of newly consolidated subsidiaries	**—**	—	1,534	**—**
—change in accounting regulation for consolidation	**—**	—	(363)	**—**
Cash dividends	**(3,907)**	(4,194)	(3,623)	**(29,376)**
Bonuses to the members of the board and corporate auditors	**(50)**	(95)	(75)	**(376)**
Balance at end of year	**¥219,707**	¥197,513	¥180,705	**$1,651,932**
Translation adjustments	**¥ (683)**	¥ (10,048)	¥ (13,862)	**$ (5,135)**
Unrealized gain on securities	**¥ 3,250**	¥ 8,389	¥ —	**$ 24,437**
Treasury stock, at cost	**¥ (223)**	¥ (9)	¥ (22)	**$ (1,677)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the Years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2002	2001	2000	2002
Cash flows from operating activities:				
Net income	**¥26,151**	¥20,529	¥22,907	**$196,624**
Adjustments to reconcile net income to net cash provided by operating activities —				
Depreciation and amortization	**20,377**	16,103	15,580	**153,211**
Provision for accrued severance indemnities, less payments	**—**	—	673	**—**
Gain on sales of investment securities	**—**	—	(1,157)	**—**
Gain on sales of investments in affiliated companies	**(8)**	(1,243)	—	**(60)**
Equity in earnings of affiliated companies, net	**(244)**	(1,186)	(332)	**(1,835)**
Foreign exchange (gain) loss	**(723)**	(974)	2,855	**(5,436)**
Dividends earned from affiliated companies	**620**	491	494	**4,662**
Loss on disposal of obsolete inventories	**1,376**	2,415	709	**10,346**
Loss on devaluation of investments in securities	**1,508**	482	—	**11,338**
Changes in assets and liabilities —				
(Increase) decrease in trade receivables	**(5,237)**	(3,997)	4,526	**(39,376)**
Increase in inventories	**(6,915)**	(6,641)	(4,982)	**(51,992)**
(Increase) decrease in deferred tax assets	**(3,958)**	125	9,062	**(29,759)**
(Increase) decrease in other current assets	**2,000**	(2,859)	7,434	**15,038**
Increase (decrease) in trade payables	**226**	82	(2,754)	**1,699**
Increase (decrease) in accrued income taxes	**(2,578)**	7,870	433	**(19,383)**
Increase in other current liabilities	**4,644**	4,485	301	**34,917**
Increase (decrease) in accrued retirement benefits for employees	**1,412**	(690)	—	**10,617**
Other	**(3,437)**	(1,984)	178	**(25,842)**
Total adjustments	**9,063**	12,479	33,020	**68,145**
Net cash provided by operating activities	**35,214**	33,008	55,927	**264,769**
Cash flows from investing activities:				
Acquisition of property, plant and equipment	**(24,350)**	(19,730)	(19,780)	**(183,083)**
(Increase) decrease in marketable securities and short-term investments	**8,941**	(1,134)	(8,812)	**67,226**
Proceeds from sales of non-current marketable securities	**37,902**	42,533	455	**284,977**
Acquisition of non-current marketable securities	**(21,574)**	(55,397)	(672)	**(162,211)**
Proceeds from sales of other investments in securities	**112**	3,711	1,596	**842**
Acquisition of other investments in securities	**(686)**	(1,052)	(281)	**(5,158)**
(Increase) decrease in other investments	**(2,498)**	2,655	(72)	**(18,782)**
Proceeds from sales of investments in affiliated companies	**297**	2,945	—	**2,233**
Other	**(1,482)**	1,737	2,426	**(11,143)**
Net cash used in investing activities	**(3,338)**	(23,732)	(25,140)	**(25,099)**
Cash flows from financing activities:				
Net decrease in short-term borrowings	**(25,370)**	(8,681)	(26,724)	**(190,752)**
Borrowings of long-term debt	**2,200**	—	4,693	**16,541**
Repayments of long-term debt	**(61)**	(506)	(12,622)	**(459)**
Dividends paid	**(4,006)**	(4,247)	(3,697)	**(30,120)**
Common stock issued upon conversion of debentures	**13,083**	451	666	**98,368**
Other	**(215)**	13	0	**(1,617)**
Net cash used in financing activities	**(14,369)**	(12,970)	(37,684)	**(108,039)**
Effect of exchange rate changes on cash and cash equivalents	**2,006**	741	(1,152)	**15,083**
Net increase (decrease) in cash and cash equivalents	**19,513**	(2,953)	(8,049)	**146,714**
Cash and cash equivalents at beginning of year	**32,023**	34,998	41,783	**240,774**
Cash and cash equivalents of newly consolidated subsidiaries	**—**	—	1,264	**—**
Cash and cash equivalents of the subsidiaries excluded from consolidation	**(228)**	(22)	—	**(1,714)**
Cash and cash equivalents at end of year	**¥51,308**	¥32,023	¥34,998	**$385,774**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Significant Accounting Policies:

(1) Preparation of consolidated financial statements

Fujisawa Pharmaceutical Company Limited (the "Company") and its domestic and foreign subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan or the respective countries in which the subsidiaries are established.

The accompanying consolidated financial statements, which are a translation of those publicly issued in Japan after modification to enhance foreign readers' understanding, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Accounting Standards or accounting principles generally accepted in the United States of America.

In addition, certain financial information included in these notes to the consolidated financial statements is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

(2) Basis of consolidation and investments in affiliated companies

The consolidated financial statements for the year ended March 31, 2002 consist of the accounts of the Company and those of all of its majority owned subsidiaries.

For the year ended March 31, 2001, a previous affiliated company which had been included in the consolidation for the year ended March 31, 2000 as described below, became a subsidiary.

During the year ended March 31, 2000, fifteen subsidiaries which were previously excluded from the consolidation and a subsidiary which was newly established during the year were included in the consolidation. A 50% owned affiliated company which was recognized to be substantially controlled by the Company had also been included in the consolidation in accordance with the new accounting regulations in Japan.

All significant intercompany transactions and accounts have been eliminated. Investments in other affiliated companies (20% to 50% owned companies) are stated at cost plus equity in undistributed earnings; consolidated net income includes the Company's equity in the current net earnings of such companies after elimination of unrealized intercompany profits.

The company sold part of its shares in a previous consolidated company during the year ended March 31, 2002. As a result, the previous consolidated company became an affiliated company.

The Company's foreign subsidiaries are, consolidated using the fiscal year ending December 31 which differs from that of the Company. Those subsidiaries do not prepare their financial statements at any date after December 31 or on or before March 31 in the succeeding year. Any material events occurring during the January 1 to March 31 period are adjusted in these consolidated financial statements. However, a foreign subsidiary changed its fiscal year-end from December 31 to March 31. Accordingly, the subsidiary applied 15 months fiscal period for the fiscal year ended March 31, 2002.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries and companies accounted for under the equity method is deferred and amortized using the straight-line method over a period of 10 years.

(3) Translation of foreign currencies

Foreign currency accounts are translated into Japanese yen at rates of exchange prevailing at the balance sheet date for all monetary assets and liabilities. Resulting exchange gains or losses are credited or charged to income as incurred.

Effective April 1, 2000, the Company changed its translation method due to a revision of the Japanese Accounting Standard for Foreign Currency Translation. Previously, foreign currency accounts had been translated at rates of exchange prevailing at the balance sheet date for monetary current assets and current liabilities, and at historical rates for other assets and liabilities, except for items that were hedged by forward exchange contracts or foreign currency swaps, which were converted at the contracted rates of exchange. When historical rates significantly fell at the respective balance sheet dates, exchange rates at the balance sheet dates were applied to other assets and liabilities. As a result, the Company recognized "Foreign exchange loss on long-term advances" in an amount of ¥1,828 million for the year ended March 31, 2000.

The effect of this change resulted in an increase in income before income taxes of ¥843 million for the year ended March 31, 2001.

Income and expenses denominated in foreign currencies are translated at rates of exchange prevailing at the time of the transactions.

In translating the financial statements of foreign subsidiaries and affiliates into Japanese yen, balance sheet items are translated at rates of exchange prevailing at their fiscal year-end, except for shareholders' equity, which is translated at historical rates. Revenue and expense accounts are translated at the average rates of exchange prevailing during the year. Resulting differences are reflected as a separate component of shareholder's equity as "Translation adjustments."

Effective April 1, 2000, the Company changed the classification of "Translation adjustments" in the balance sheet due to a revision of the Japanese Securities and Exchange Law and related accounting regulations which requires such account, previously recorded as an asset or liability item, to be classified as a separate component of shareholder's equity.

(4) Cash and cash equivalents

"Cash and cash equivalents" comprise cash and highly liquid investments, with an original maturity of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Effective April 1, 1999, the Company changed the definition of "Cash and cash equivalents" due to a revision of the Japanese Securities and Exchange Law and related accounting regulations. Previously, the Company had defined "Cash and cash equivalents" as cash and time deposits with maturity of one year or less which could be withdrawn at least at the face amount at any time without penalty.

(5) Financial instruments

Effective April 1, 2000, the Company and its domestic subsidiaries adopted the new Japanese Accounting Standard for Financial Instruments, which is effective for periods beginning on or after April 1, 2000, outlined in the following paragraph. As a result of the adoption of the new standard, income before income taxes for the year ended March 31, 2001 decreased by ¥410 million, as compared with the amount which would have been reported if the previous standard had been applied consistently.

(a) Derivatives

Under the standard, all derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which the changes arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge accounting below).

(b) Securities

Securities held by the Company and its subsidiaries are, under the standard, classified into one of the following;

— Securities held in trusts for trading purposes are stated at fair value, with changes in fair value included in net profit or loss in the period in which the changes arise. Securities held in trusts for trading purposes are included in "Short-term investments" in the consolidated balance sheets.

— Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity at a net-of-tax amount.

— Other securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of other securities has declined significantly and such impairment of value is not deemed temporary, those securities are written down to fair value and the resulting losses are charged to income as incurred.

Under the standard, securities held in trusts for trading purposes and debt securities due within one year are presented as "current" and all the other securities are presented as "non-current." Securities held by the Company and its subsidiaries had been reclassified as of April 1, 2000. As a result of such reclassification, securities in the current portfolio had decreased by ¥58,418 million and securities in the non-current portfolio had increased by the same amount.

(c) Hedge accounting

(i) Hedge accounting method

The standard provides for two general accounting methods for hedging financial instruments. One method is to recognize the changes in fair value of a hedging instrument in earnings in the period of the change as a gain or loss, together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The other method is to defer the gain or loss over the period of the hedging contract together with deferral of the offsetting loss or gain on the hedged items. The Company adopts the latter accounting method principally, except that the former method is adopted where other securities are hedged items.

(ii) Hedging instruments and hedged items

Hedging instruments: Derivative financial instruments

Hedged items: Assets and debts exposed to market fluctuation risks

(iii) Hedging policy

The Company uses derivative financial instruments to hedge market fluctuation risks in accordance with its internal policies and procedures.

(iv) Assessment method of hedge effectiveness

For the hedging activities to which the latter hedge accounting method in (i) above is adopted, the Company evaluates the effectiveness of the hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges. For the hedging activities to which the former hedge accounting method in (i) above is adopted, the Company evaluates the effectiveness thereof by reference to the respective fair value of the hedging instruments and the related hedged items on the balance sheet dates.

The Company and certain of its consolidated subsidiaries have utilized interest rate swaps and foreign currency swaps to manage interest and currency risks. Until the year ended March 31, 2000, differentials paid or received were recognized in interest expense over the terms of the agreements. Also, until the year ended March 31, 2001, marketable securities were carried at the lower of cost or market value, cost being determined by the moving average method. Short-term investments and other investments in securities were carried at cost, determined by the moving average method.

(6) Inventories

Inventories are stated at cost, except for materials and merchandise of the Company and inventories of foreign consolidated subsidiaries, which are stated at the lower of cost or market value, cost being determined generally by the average cost method.

(7) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed by the declining balance method at rates based on the estimated useful lives of the assets. For depreciation of buildings acquired after April 1, 1998, Japanese income tax law requires use of the straight-line method. The declining-balance method is permitted for buildings acquired prior to April 1, 1998.

Significant renovations and additions are capitalized at cost. Maintenance and repairs, including minor renovations and betterments, are charged to income as incurred.

(8) Goodwill and proprietary technology

Goodwill and proprietary technology principally represents the cost of rights for proprietary pharmaceutical products, which Fujisawa Healthcare, Inc. acquired in the U.S., and are amortized by the straight-line method over a period of 20 years.

(9) Accounting for leases

Lease agreements which do not transfer ownership of the leased asset to the Company or its domestic subsidiaries at the end of the lease are accounted for as operating leases.

(10) Accrued retirement benefits for employees
Employees whose service with the Company or its domestic consolidated subsidiaries is terminated are, in most circumstances, entitled to a combination of lump-sum severance indemnities and pension payments, determined by reference to the current basic rate of pay, length of service and conditions under which the termination occurs. Effective April 1, 2000, the Company and its domestic subsidiaries adopted the new Japanese Accounting Standard for Employee Retirement Benefits, which become effective for periods beginning on or after April 1, 2000. In accordance with the new standard, accrued retirement benefits for employees represents the estimated present value of projected benefit obligations in excess of the fair value of plan assets except that, as permitted under the new standard, the unrecognized actuarial gains or losses are amortized on a straight-line basis over the period of 10 years from the year following the year in which the gains or losses arise. During the year ended March 31, 2000, the Company changed its method of accounting for pension and accrued severance indemnities for employees from the vested benefit cost method to the accrued benefit cost method. Under the new method the Company recognized the liability for severance indemnities at an actuarially estimated amount of benefits that employees have earned in return for their service in the current and prior periods, discounted to present value, less the funded pension assets at the respective balance sheet dates.

The effect of this change resulted in a decrease in income before income taxes of ¥2,563 million for the year ended March 31, 2000.

(11) Accrued severance indemnities for the members of the board and corporate auditors
Accrued severance indemnities for the members of the board and corporate auditors of the Company are provided for based on internal regulations which are similar to those for employees. The accrued provision for severance indemnities of the members of the board and corporate auditors is not funded. Payments of such indemnities are subject to approval of shareholders.

(12) Income taxes
Income taxes applicable to the Company and its subsidiaries in Japan include corporation tax, enterprise tax and inhabitants tax.

The income statements of the Company and its subsidiaries include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable. With respect to such temporary differences, the Company and its subsidiaries follow the practice of interperiod tax allocation based on the methods generally accepted in the respective country where each entity is located.

Effective April 1, 2000, provision for income taxes on undistributed earnings of a foreign consolidated subsidiary had been recorded because such earnings are recognized to be distributed to the Company. Until the year ended March 31, 2000, such provision was not made where the Company had considered that such earnings would be permanently reinvested.

(13) Research and development expenses
Costs relating to the research and development of new products as well as product improvements are charged to expenses as incurred.

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

(15) Amounts per share
The computation of net income per share is based on the weighted average number of common stock outstanding during each year, exclusive of treasury stock.

The calculation of diluted net income per share includes the dilutive effects of convertible bonds.

(16) Reclassifications
Certain reclassifications of previously reported amounts have been made to conform with current classifications.

2. U.S. Dollar Amounts:

The United States dollar amounts are included solely for convenience and represent translations of Japanese yen amounts, as a matter of arithmetical computation only, at the rate of ¥133= US$1, the approximate rate of exchange on March 31, 2002. The translation should not be construed as a representation that Japanese yen amounts could be realized or converted into United States dollars at the above or any other rate.

3. Cash Flow Information:

Cash payments for income taxes were ¥26,810 million ($201,579 thousand), ¥7,982 million and ¥5,870 million for the years ended March 31, 2002, 2001 and 2000, respectively; in these respective periods, interest payments made in cash were ¥1,304 million ($9,805 thousand), ¥2,192 million and ¥2,472 million.

4. Marketable Securities:

The cost and book value which represented the fair market value of current and non-current marketable securities at March 31, 2002 and 2001 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2002		2001		**2002**	
	Current	Non-current	Current	Non-current	Current	Non-current
Cost	**¥10,077**	**¥62,597**	¥7,829	¥ 86,134	**$75,767**	**$ 470,654**
Gross unrealized gains (see Note 1-(5)-(b))	**5**	**10,144**	17	17,428	**38**	**76,271**
Gross unrealized losses	**(88)**	**(4,464)**	(0)	(2,903)	**(662)**	**(33,564)**
Book value	**¥ 9,994**	**¥68,277**	¥7,846	¥100,659	**$75,143**	**$ 513,361**

5. Inventories:

Inventories at March 31, 2002 and 2001 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Finished products and merchandise	**¥27,455**	¥22,950	**$206,428**
Work in process	**11,966**	11,386	**89,970**
Materials and supplies	**9,103**	8,824	**68,444**
Total	**¥48,524**	¥43,160	**$364,842**

6. Property, Plant and Equipment:

Depreciation charges for the years ended March 31, 2002, 2001 and 2000 were ¥15,855 million ($119,211 thousand), ¥13,213million and ¥12,374 million, respectively. Property, plant and equipment at March 31, 2002 and 2001 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Land	**¥ 12,528**	¥ 12,855	**$ 94,195**
Buildings	**96,916**	86,564	**728,692**
Machinery and equipment	**147,092**	131,933	**1,105,955**
Construction in progress	**3,203**	12,827	**24,083**
Total	**259,739**	244,179	**1,952,925**
Less accumulated depreciation	**(153,214)**	(140,565)	**(1,151,985)**
Property, plant and equipment, net	**¥106,525**	¥ 103,614	**$ 800,940**

Estimated useful lives of the major classes of depreciable properties range from 7 to 50 years (principally 38 years) for buildings and from 4 to 17 years (principally 7 years) for machinery and equipment.

7. Related Party Transactions:

Significant account balances and transactions with affiliated companies were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Account balances at March 31:			
Trade receivables	**¥ 927**	¥ 629	**$ 6,970**
Prepaid expenses and other current assets	**3,567**	3,119	**26,820**
Trade payables	**3,220**	2,701	**24,211**

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	**2002**
Transactions for the year ended March 31:				
Net sales	**¥ 5,082**	¥ 3,810	¥ 3,596	**$ 38,211**
Purchases	**21,175**	17,269	17,576	**159,211**

8. Short-Term Borrowings and Long-Term Debt:

Short-term borrowings at March 31, 2002 consisted of unsecured bank loans with a weighted average interest rate of 3.03% per annum.

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

	Millions of yen	Thousands of U.S. dollars
	2002	2002
1.7% convertible bonds due 2004	¥11,453	$ 86,113
Loans from insurance companies —		
• with interest at rates from 0.76% to 0.90% due 2004	2,200	16,541
• payable in U.S. dollars with interest at LIBOR as adjusted in accordance with the agreements due 2005	1,322	9,940
Loans from banks —		
• payable in U.S. dollars with interest at LIBOR as adjusted in accordance with the agreements due 2002 to 2005	3,248	24,421
Other	1,302	9,789
Total	19,525	146,804
Less: Current portion of long-term debt	1,034	7,774
Total long-term debt less current portion	¥18,491	$139,030

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2003	¥ 1,034	$ 7,774
2004	1,423	10,699
2005	14,209	106,835
2006	1,853	13,932
2007	3	23
Thereafter	1,003	7,541
Total	¥19,525	$146,804

The 1.7% convertible bonds due 2004 were convertible into common stock at a conversion price of ¥1,837.70 ($13.8) per share at March 31, 2002. The conversion prices are subject to adjustments as provided in the related indentures. The convertible bonds have been redeemable at the Company's option since October 1, 1997 as provided in the indentures.

9. Derivative Financial Instruments:

The Company (including certain of its consolidated subsidiaries) uses derivative financial instruments ("derivatives") to reduce its exposure to the adverse impact of fluctuations in foreign exchange rates and interest rates. The principal derivatives used by the Company are foreign exchange forward contracts, currency swaps, currency options and interest rate swaps.

The derivatives are subject to market risk and credit risk. Market risk means that gains or losses on the derivatives could result from fluctuations in foreign exchange rates and interest rates. Gains or losses are, however, effectively offset by gains and losses on the underlying assets and liabilities which also result from fluctuations in foreign exchange rates and interest rates.

Credit risk means that the Company is exposed to losses which could result from the default of counterparties. The Company believes, however, that risk of loss due to the default of the counterparties is extremely small because the Company limits its dealings to financial institutions with higher credit ratings.

At March 31, 2002 and 2001, the aggregate notional principal amounts and market values of the derivatives (except for those for which hedge accounting is adopted) held by the Company were as follows:

		Millions of yen			Thousands of U.S. dollars		
At March 31, 2002	Currency	Notional principal amounts	Market value	Net unrealized gains (losses)	Notional principal amounts	Market value	Net unrealized gains (losses)
Interest rate swaps	yen	**¥3,000**	**¥ (41)**	**¥ (41)**	**$22,556**	**$ (308)**	**$ (308)**
Currency options	yen	**¥8,031**	**¥487**	**¥(440)**	**$60,383**	**$3,662**	**$(3,308)**

		Millions of yen		
At March 31, 2001	Currency	Notional principal amounts	Market value	Net unrealized gains (losses)
Currency options	yen	¥ 7,955	¥ 463	¥ (423)
Foreign currency forward contracts	DM	¥ 167	¥ 166	¥ 1

10. Income Taxes:

The Company and its consolidated subsidiaries are subject to a number of different income taxes which, in the aggregate, indicate a normal statutory tax rate of approximately 42%. The ordinary relationship between income tax expense and pretax accounting income is distorted by a number of items including various tax credits, permanent non-deductible expenses, operating losses incurred by certain consolidated subsidiaries of the Company, and certain reduced tax rates.

Reconciliation between statutory tax rate and effective tax rate for the years ended March 31, 2002, 2001 and 2000 was as follows:

	2002	2001	2000
Statutory tax rate	**42%**	42 %	42%
Add (Deduct):			
Non deductible expenses	**7**	9	10
Non taxable income	**(0)**	(1)	(1)
Valuation allowance change	**2**	—	(12)
Deduction of net operating loss carryforwards of subsidiaries	**(3)**	(3)	—
Tax credit primarily for research and development expenses	**(2)**	(2)	—
Undistributed earnings of foreign subsidiaries	**1**	2	—
Equity in earnings of affiliated companies	**(0)**	(1)	—
International rate differences	**(4)**	(1)	—
Other	**1**	(2)	(2)
Effective tax rate	**44%**	43 %	37 %

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deferred tax assets:			
Retirement benefits	**¥13,628**	¥12,758	**$102,466**
Deferred charges	**5,994**	5,849	**45,068**
Accrued expenses	**5,589**	3,532	**42,023**
Inventories	**4,393**	3,571	**33,030**
Net operating loss carryforwards	**2,226**	1,418	**16,737**
Research and development expenses	**1,837**	980	**13,812**
Depreciation and amortization	**871**	645	**6,549**
Loss on devaluation of investments in securities and other investments	**751**	459	**5,647**
Accrued enterprise tax	**729**	829	**5,481**
Other	**2,083**	1,911	**15,661**
Total deferred tax assets	**38,101**	31,952	**286,474**
Valuation allowance	**(2,068)**	(919)	**(15,549)**
Net deferred tax assets	**36,033**	31,033	**270,925**
Deferred tax liabilities:			
Unrealized gain (or loss) on marketable securities	**(2,325)**	(6,046)	**(17,481)**
Undistributed earnings of foreign subsidiaries	**(1,218)**	(591)	**(9,158)**
Accelerated depreciation and amortization	**(1,010)**	(809)	**(7,594)**
Reserve for special depreciation	**(437)**	(55)	**(3,286)**
Deferred gain on sale of plant assets	**(387)**	(395)	**(2,910)**
Other	**(39)**	(418)	**(293)**
Total deferred tax liabilities	**(5,416)**	(8,314)	**(40,722)**
Net deferred tax assets	**¥30,617**	¥22,719	**$230,203**

Deferred tax assets, among others, relating to operating losses incurred by foreign subsidiaries are recorded because the liability method of computing deferred income taxes requires that the benefit of certain loss carryforwards be estimated and recorded as an asset unless it is “more likely than not” that the benefit will not be realized.

Deferred tax liabilities included in “other long-term liabilities” at March 31, 2002 and 2001 were ¥9 million ($68 thousand) and ¥291 million, respectively.

11. Pension Plans and Accrued Severance Indemnities:

At March 31, 2002 and 2001	Millions of yen		Thousands of U.S. dollars
Contents of retirement benefit obligation, etc.	**2002**	2001	**2002**
Retirement benefit obligation			
Retirement benefit obligation	**¥(115,027)**	¥(100,281)	**$(864,865)**
Fair value of pension plan assets	**49,741**	49,813	**373,993**
Unreserved retirement benefit obligation	**(65,286)**	(50,468)	**(490,872)**
Unrecognized actuarial losses — net	**19,432**	5,918	**146,105**
Accrued retirement benefits for employees	**¥ (45,854)**	¥ (44,550)	**$(344,767)**

	Millions of yen		Thousands of U.S. dollars
Retirement benefit cost	**2002**	2001	**2002**
Service cost	**¥ 6,101**	¥ 5,189	**$ 45,872**
Interest cost	**2,837**	2,738	**21,331**
Expected return on pension plan assets	**(1,484)**	(1,539)	**(11,158)**
Amortization of actuarial gains and losses	**592**	—	**4,451**
Extra severance pay	**1,658**	1,553	**12,466**
Retirement benefit cost	**¥ 9,704**	¥ 7,941	**$ 72,962**

	2002	2001
Calculation basis of retirement benefit obligation, etc.		
Method of attributing the projected benefits to periods of service	**Straight-line basis**	Straight-line basis
Discount rate	**Mainly 2.5%**	Mainly 3.0%
Expected rate of return on pension plan assets	**Mainly 3.0%**	Mainly 3.0%
Amortization period of actuarial gains and losses	**Mainly 10 years**	Mainly 10 years

At March 31, 2000

The amount charged to income for the year ended March 31, 2000 with respect to pension plans and provision for accrued severance indemnities were ¥8,882 million. The provision for the year ended March 31, 2000 includes the effect of the accounting change amounting to ¥2,563 million which is recorded as an extra provision for accrued retirement benefit obligation, as discussed in Note 1-(10). The assets of the pension plans of the Company at March 31, 2000 were ¥34,382 million.

12. Shareholders' Equity:

Pursuant to the Japanese Commercial Code (the "Code"), the issue (or conversion) price of shares is in principle required to be accounted for in its entirety in the common stock account, although a company's board of directors may authorize recording no more than one-half of the issue (or conversion) price as capital surplus.

The Code provides that an amount equal to at least 10% of cash disbursements from retained earnings (dividends and bonuses to the members of the board, etc.) be appropriated from retained earnings each period as a legal reserve. This reserve may be used to reduce a deficit or transferred to common stock by appropriate legal procedures. Before September 30, 2001, no further appropriation was required as a legal reserve when the legal reserve equaled 25% of common stock. Effective October 1, 2001, the Code provides that no further appropriation is required as a legal reserve when the total amount of legal reserve and capital surplus equals 25% of common stock. However, on the condition that the total amount of legal reserve and capital surplus exceeds 25% of common stock, the excess amount can be available for distributions by the resolution of the shareholder's meeting.

Legal reserve is included in retained earnings in the accompanying consolidated financial statements. The legal reserve amounted to ¥6,465 million ($48,609 thousand) as of March 31, 2002.

In addition to the above, the Code provides that all appropriations of retained earnings, except for interim cash dividends, be approved at an ordinary general meeting of shareholders. This meeting is held within three months following the close of the Company's fiscal year ending March 31. In accordance with customary practice in Japan, the appropriations are not accrued in the financial statements for the year to which they relate, but are recorded in the subsequent fiscal year after shareholder approval has been obtained.

The following appropriations of retained earnings of the Company were proposed and approved at the general meeting of shareholders held on June 26, 2002.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥10 ($0.075) per share)	¥3,301	$24,820
Bonuses to the members of the Board and corporate auditors	45	338
	¥3,346	$25,158

13. Segment Information:

The Company and its consolidated subsidiaries are mainly engaged in the pharmaceutical business, including ethical pharmaceuticals and OTC drugs, which is shown as "Pharmaceuticals." The rest of the Company's business, which is shown as "Others," includes medical supplies and systems, home care business, and chemicals business. The Company also enhances its overseas businesses through its subsidiaries mainly in North America, Europe and Asia.

Certain segment information about the operations of the Company and its consolidated subsidiaries in different geographic areas and business segments are disclosed below. Intercompany sales between geographic areas and business categories are recorded at cost plus a mark-up. However, intercompany sales and profits are eliminated. Corporate assets are composed principally of cash and cash equivalents, marketable securities and short-term investments.

By business segment	Millions of yen				
	Year ended March 31, 2002				
	Pharmaceuticals	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**¥310,889**	**¥30,467**	**¥341,356**	**¥ —**	**¥341,356**
Transfers between business segments	**12**	**5,361**	**5,373**	**(5,373)**	**—**
Total net sales	**310,901**	**35,828**	**346,729**	**(5,373)**	**341,356**
Operating expenses	**263,127**	**36,861**	**299,988**	**(5,484)**	**294,504**
Operating income (loss)	**¥ 47,774**	**¥ (1,033)**	**¥ 46,741**	**¥ 111**	**¥ 46,852**
Assets	**¥355,217**	**¥31,943**	**¥387,160**	**¥ 87,386**	**¥474,546**
Depreciation and amortization	**¥ 17,699**	**¥ 2,678**	**¥ 20,377**	**¥ —**	**¥ 20,377**
Capital expenditures	**¥ 26,635**	**¥ 1,735**	**¥ 28,370**	**¥ —**	**¥ 28,370**

By business segment	Thousands of U.S. dollars				
	Year ended March 31, 2002				
	Pharmaceuticals	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**$2,337,511**	**$229,075**	**$2,566,586**	**$ —**	**$2,566,586**
Transfers between business segments	**91**	**40,308**	**40,399**	**(40,399)**	**—**
Total net sales	**2,337,602**	**269,383**	**2,606,985**	**(40,399)**	**2,566,586**
Operating expenses	**1,978,399**	**277,150**	**2,255,549**	**(41,234)**	**2,214,315**
Operating income (loss)	**$ 359,203**	**$ (7,767)**	**$ 351,436**	**$ 835**	**$ 352,271**
Assets	**$2,670,805**	**$240,172**	**$2,910,977**	**$657,038**	**$3,568,015**
Depreciation and amortization	**$ 133,075**	**$ 20,136**	**$ 153,211**	**$ —**	**$ 153,211**
Capital expenditures	**$ 200,263**	**$ 13,045**	**$ 213,308**	**$ —**	**$ 213,308**

By business segment	Millions of yen				
	Year ended March 31, 2001				
	Pharmaceuticals	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	¥ 263,020	¥ 34,497	¥ 297,517	¥ —	¥ 297,517
Transfers between business segments	22	5,158	5,180	(5,180)	—
Total net sales	263,042	39,655	302,697	(5,180)	297,517
Operating expenses	229,555	39,450	269,005	(5,094)	263,911
Operating income (loss)	¥ 33,487	¥ 205	¥ 33,692	¥ (86)	¥ 33,606
Assets	¥ 324,867	¥ 39,125	¥ 363,992	¥ 98,333	¥ 462,325
Depreciation and amortization	¥ 13,545	¥ 2,558	¥ 16,103	¥ —	¥ 16,103
Capital expenditures	¥ 27,569	¥ 3,054	¥ 30,623	¥ —	¥ 30,623

By business segment	Millions of yen				
	Year ended March 31, 2000				
	Pharmaceuticals	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	¥ 255,450	¥ 33,692	¥ 289,142	¥ —	¥ 289,142
Transfers between business segments	14	4,156	4,170	(4,170)	—
Total net sales	255,464	37,848	293,312	(4,170)	289,142
Operating expenses	218,397	39,789	258,186	(3,887)	254,299
Operating income (loss)	¥ 37,067	¥ (1,941)	¥ 35,126	¥ (283)	¥ 34,843
Assets	¥ 292,558	¥ 37,316	¥ 329,874	¥91,815	¥ 421,689
Depreciation and amortization	¥ 13,063	¥ 2,517	¥ 15,580	¥ —	¥ 15,580
Capital expenditures	¥ 19,939	¥ 2,248	¥ 22,187	¥ —	¥ 22,187

By geographic area	Millions of yen						
	Year ended March 31, 2002						
	Japan	North America	Europe	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**¥207,355**	**¥89,470**	**¥39,005**	**¥5,526**	**¥341,356**	**¥ —**	**¥341,356**
Transfers between geographic areas	**27,995**	**4,125**	**14,101**	**62**	**46,283**	**(46,283)**	**—**
Total net sales	**235,350**	**93,595**	**53,106**	**5,588**	**387,639**	**(46,283)**	**341,356**
Operating expenses	**215,455**	**71,224**	**47,418**	**4,900**	**338,997**	**(44,493)**	**294,504**
Operating income	**¥ 19,895**	**¥22,371**	**¥ 5,688**	**¥ 688**	**¥ 48,642**	**¥ (1,790)**	**¥ 46,852**
Assets	**¥281,341**	**¥79,897**	**¥45,228**	**¥5,088**	**¥411,554**	**¥62,992**	**¥474,546**

By geographic area	Thousands of U.S. dollars						
	Year ended March 31, 2002						
	Japan	North America	Europe	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**$1,559,060**	**$672,707**	**$293,271**	**$41,548**	**$2,566,586**	**$ —**	**$2,566,586**
Transfers between geographic areas	**210,489**	**31,015**	**106,023**	**465**	**347,992**	**(347,992)**	**—**
Total net sales	**1,769,549**	**703,722**	**399,294**	**42,013**	**2,914,578**	**(347,992)**	**2,566,586**
Operating expenses	**1,619,963**	**535,519**	**356,527**	**36,840**	**2,548,849**	**(334,534)**	**2,214,315**
Operating income	**$ 149,586**	**$168,203**	**$ 42,767**	**$ 5,173**	**$ 365,729**	**$ (13,458)**	**$ 352,271**
Assets	**$2,115,346**	**$600,729**	**$340,060**	**$ 38,256**	**$3,094,391**	**$473,624**	**$3,568,015**

By geographic area	Millions of yen						
	Year ended March 31, 2001						
	Japan	North America	Europe	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	¥205,150	¥58,095	¥29,753	¥4,519	¥297,517	¥ —	¥297,517
Transfers between geographic areas	18,298	3,447	6,728	22	28,495	(28,495)	—
Total net sales	223,448	61,542	36,481	4,541	326,012	(28,495)	297,517
Operating expenses	205,895	47,968	32,899	4,111	290,873	(26,962)	263,911
Operating income	¥ 17,553	¥13,574	¥ 3,582	¥ 430	¥ 35,139	¥(1,533)	¥ 33,606
Assets	¥281,044	¥58,961	¥39,759	¥4,169	¥383,933	¥78,392	¥462,325

By geographic area	Millions of yen						
	Year ended March 31, 2000						
	Japan	North America	Europe	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	¥204,138	¥49,144	¥31,920	¥3,940	¥289,142	¥ —	¥289,142
Transfers between geographic areas	13,405	4,821	5,343	18	23,587	(23,587)	—
Total net sales	217,543	53,965	37,263	3,958	312,729	(23,587)	289,142
Operating expenses	197,244	42,222	34,316	3,672	277,454	(23,155)	254,299
Operating income	¥ 20,299	¥11,743	¥ 2,947	¥ 286	¥ 35,275	¥ (432)	¥ 34,843
Assets	¥254,211	¥49,499	¥39,843	¥3,636	¥347,189	¥74,500	¥421,689

Overseas sales consisting of the Company's export sales to and royalty income from foreign third parties and the sales outside Japan of foreign consolidated subsidiaries for the years ended March 31, 2002, 2001 and 2000 amounted to ¥150,549 million ($1,131,947 thousand), ¥108,080 million and ¥102,195 million, accounting for 44.1%, 36.3% and 35.3% of consolidated net sales, respectively.

Sales to a single customer (Suzuken Co., Ltd.) represented 10.0%, 11.1% and 11.1% of consolidated net sales for each of the years ended March 31, 2002, 2001 and 2000.

14. Contingent Liabilities and Commitments:

Contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Contingent liabilities as guarantor of—			
indebtedness of affiliated companies and other parties	**¥ 112**	¥ 123	**$ 842**
indebtedness of employees	**1,714**	2,285	**12,887**
Other contingent liabilities—			
relating to debt assumption contract	**1,560**	1,800	**11,729**
others	**168**	233	**1,263**

Lease commitments exclude finance lease contracts of the Company and its consolidated subsidiaries, under which the ownership of the leased assets is transferred to lessees.

Assumed acquisition cost, accumulated depreciation and net book value of the leased assets at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Acquisition cost			
Machinery and automobile	**¥1,930**	¥3,350	**$14,511**
Others (computer and equipment)	**4,191**	4,770	**31,511**
Accumulated depreciation	**(2,921)**	(4,535)	**(21,962)**
Net book value	**¥3,200**	¥3,585	**$24,060**

Outstanding future lease payments due at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Within one year	**¥1,287**	¥1,496	**$ 9,677**
Over one year	**2,147**	2,479	**16,143**
Total	**¥3,434**	¥3,925	**$25,820**

Lease expenses on finance lease contracts for the years ended March 31, 2002, 2001 and 2000 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	**2002**
Lease expenses	**¥1,925**	¥2,037	¥2,376	**$14,474**
including:				
Depreciation (assumed)	**1,523**	1,838	1,917	**11,451**
Interest (assumed)	**389**	422	465	**2,925**

Depreciation is based on the straight-line method over the lease term of the leased assets.

15. Litigation and Legal Matters:

During December 2001 through April 2002, three substantially identical purported class actions were filed i) in the United States District Court for the District of Massachusetts against several companies including a U.S. subsidiary, Fujisawa Healthcare, Inc., ii) in the U.S. District Court for the Northern District of Illinois against the Company, Fujisawa Healthcare, Inc., and Fujisawa USA, Inc., and iii) in the U.S. District Court for the East District of Pennsylvania against several companies including Fujisawa Healthcare, Inc., alleging that Fujisawa violated U.S. laws by inflating the average wholesale price of its certain pharmaceutical products and plaintiffs have been injured by having to pay higher premiums and co-payments under Medicare. We cannot determine the basis or possible damages assessable against the Company and the subsidiary, if, any, at this time.

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Nihon Seimei Imabashi Bldg.,
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Japan

June 26, 2002

To the Shareholders and Board of Directors
Fujisawa Pharmaceutical Company Limited

We have audited the accompanying consolidated balance sheets of Fujisawa Pharmaceutical Company Limited and its consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practice generally accepted and applied in Japan and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Fujisawa Pharmaceutical Company Limited and its consolidated subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change in the year ended March 31, 2000, which we concur, in the method of accounting for pension and accrued severance indemnities for employees as described in Note 1-(10).

As described in Note 1, Fujisawa Pharmaceutical Company Limited and its domestic consolidated subsidiaries have adopted the new Japanese accounting standards for Financial Instruments, Retirement Benefits, and Foreign Currency Translation effective from the year ended March 31, 2001.

PricewaterhouseCoopers

(Notice to readers)

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Japan.

Management and Corporate Auditors

(As of July 3, 2002)

Board of Directors

Akira Fujiyama
Chairman of the Board

Michio Iida*
Vice Chairman and Chief Financial Officer

Hatsuo Aoki, Ph. D.*
President and Chief Executive Officer

Koichi Sejima*
Corporate Executive Vice President and Chief Administrative Officer

Tomokichiro Fujisawa, Ph. D.
Chairman Emeritus

Akiro Kojima
Member of the Board (Senior Counselor, Daicel Chemical Industries, Ltd.)

Kanji Kobayashi
Member of the Board (Senior Advisor, Nippon Life Insurance Company)

Corporate Auditors

Kohei Adachi
Tateo Horita
Yoshiharu Senoue
Masahiko Kimbara

Corporate Officers

Takeshi Shimomura*
Corporate Executive Vice President, Sales & Marketing

Shuji Inoue*
Corporate Senior Vice President, Overseas Operations

Hideo Tanaka*
Corporate Senior Vice President, External Relations

Masafumi Nogimori*
Corporate Senior Vice President, Global Strategy

Tadahiko Inoue
Corporate Vice President, General Affairs

Susumu Honda
Corporate Vice President, Home Care

Hideo Fukumoto
Corporate Vice President, and Chairman & Chief Executive Officer, Fujisawa Healthcare, Inc.

Hirofumi Onosaka
Corporate Vice President, Global Corporate Strategic Planning

Naoki Fujimoto
Corporate Vice President, Tokyo Business Branch, Sales & Marketing

Masao Shimizu
Corporate Vice President, Development

Hiroaki Horii
Corporate Vice President, Osaka Business Branch, Sales & Marketing

Hitoshi Ohta
Corporate Vice President, Manufacturing

Toshio Goto, Ph. D.
Corporate Vice President, Research

Masaji Ohe
Corporate Vice President, OTC & Consumer Products

Osamu Nagai
Corporate Vice President, Finance

* Member of Management Committee

Corporate Directory
(As of July 1, 2002)

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Business Branches
Sapporo, Sendai, Kan-etsu, Tokyo, Nagoya, Osaka, Takamatsu,
Hiroshima, Fukuoka

Plants
Osaka, Fuji, Takaoka, Toyama, Nagoya

Laboratories
Exploratory Research Lab., Tsukuba
Advanced Technology Platform Research Lab., Tsukuba
Medicinal Chemistry Research Lab., Osaka
Medicinal Biology Research Lab., Osaka
Biopharmaceutical & Pharmacokinetic Research Lab., Osaka
Toxicology Research Lab., Osaka
Analytical Research Lab., Osaka
Chemical Development Lab., Osaka
Pharmaceutical Science Lab., Osaka
Fermentation Development Lab., Nagoya
OTC Technology Lab., Osaka
Chemicals, Research & Development, Nagoya

Domestic Subsidiaries

Analytical Science Laboratories Inc.
Fujisawa Technical Services Co., Ltd.
Fujisawa Medical System Co., Ltd.
Fujisawa Distribution Service Co., Ltd.
Fujisawa Business Service Co., Ltd.
Hoshienu Pharmaceutical Co., Ltd.
Serachem Co., Ltd.
Daisan Kogyo Co., Ltd.
Fujisawa Insurance and Benefits Services, Ltd.
Rainbow Tourist Inc.
Gakuei Co., Ltd.
Koei Co., Ltd.
Fujisawa Home Care Co., Ltd.
Fujisawa ProGrowth Co., Ltd.
Fujisawa Facilities Service Co., Ltd.
Fujisawa System Technology Inc.
Business Force Co., Ltd.

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Facsimile: 2-564-3421

Stock Information

Fujisawa Pharmaceutical Company Limited

Founded:
January 1894

Date of Incorporation:
December 20, 1930

Paid-in Capital:
¥38,588 million

Number of Shareholders:
11,985

Issued and Outstanding Number of Shares:
330,183,034

Independent Certified Public Accountants:
PricewaterhouseCoopers
Nihon Seimei Imabashi Bldg.,
7th Floor 3-1-7, Imabashi,
Chuo-ku, Osaka 541-8582,
Japan

Stock Exchange Listing:
Tokyo, Osaka, Nagoya

Transfer Agent:
UFJ Trust Bank Limited
6-3, Fushimi-machi 3-chome,
Chuo-ku, Osaka 541-8502

Major Shareholders:
Nippon Life Insurance Co.
The Chase Manhattan Bank, NA, London (SL Omnibus Account)
Japan Trustee Services Bank, Ltd. (Trust Account)
The Mitsubishi Trust & Banking Corporation (Trust Account)
UFJ Bank Limited
NIPPONKOA Insurance Company, Limited
UFJ Trust Bank Limited (Trust Account A)
UFJ Trust Bank Limited (Daido Life Insurance Co. Account)
The Bank of Tokyo-Mitsubishi, Ltd.
State Street Bank & Trust Co.

(As of March 31, 2002)

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■ Tokyo Head Office

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(Fujisawa GmbH)

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Fujisawa Pharmaceutical Co.,Ltd.

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