Selected Financial Data

Years Ended March 31

	Millions of yen				
	2003	2002	2001	2000	1999
Results for the year:					
Net sales	**¥ 382,079**	¥341,356	¥297,517	¥289,142	¥277,281
Research and development expenses	**62,426**	57,093	52,016	45,565	41,831
Ratio to net sales (%)	**16.3%**	16.7%	17.5%	15.8%	15.1%
Operating income	**62,143**	46,852	33,606	34,843	33,357
Income before income taxes	**44,690**	47,007	36,190	36,554	29,399
Net income	**28,635**	26,151	20,529	22,907	8,862
Year-end financial position:					
Working capital	**169,784**	138,918	80,775	162,148	157,832
Property, plant and equipment	**102,757**	106,525	103,614	90,899	86,745
Total assets	**511,516**	474,546	462,325	421,689	436,208
Long-term debt	**16,704**	18,491	16,621	41,866	55,975
Shareholders' equity	**335,337**	317,870	278,581	249,106	234,335
Number of shares issued (in thousands)	**330,183**	330,183	322,763	322,499	322,091
Number of shareholders	**17,239**	18,480	18,612	19,581	24,060
Amounts per share (in yen)**:**					
Net income					
Basic	**¥ 86.62**	¥ 80.07	¥ 63.62	¥ 71.09	¥ 27.60
Diluted	**85.37**	78.14	61.76	68.85	27.07
Cash dividends	**18.00**	16.00	12.00	12.00	10.00
Shareholders' equity	**1,016.83**	962.94	863.12	772.44	727.57
Return on equity	**8.8%**	8.8%	7.8%	9.5%	3.9%

Note:

For accounting change, see Note 1-(15) of Notes to Consolidated Financial Statements.

Contents

Review of the Year

Financial Review

For the fiscal year ended March 31, 2003, net sales, operating income, recurring income and net income on a consolidated basis all reached historical highs.

Revenue

Net sales increased by 11.9% to **¥382,079 million (US$3,184 million)** over the previous business year. Operating income of **¥62,143 million (US$518 million)** showed growth of 32.6% over the previous year. Net income rose 9.5% to **¥28,635 million (US$239 million)**.
Geographically, net sales were divided as follows:

Geographically, net sales were divided as follows:

Years ended March 31	¥ million			US$ million
Area	**2003**	2002	Change (%)	**2003**
Japan	**¥221,992**	¥207,355	7.1	**$1,850**
North America	**102,525**	89,470	14.6	**854**
Europe	**48,928**	39,005	25.4	**408**
Asia	**8,634**	5,526	56.2	**72**

Sales in Japan increased by 7.1% to **¥221,992 million (US$1,850 million)**. Ethical pharmaceuticals, the Company's main business, recorded robust sales growth. The increases in sales come mainly from the antipsychotic agent *Seroquel®* (quetiapine fumarate), the hypnotic *Myslee®* (zolpidem tartrate) and the glycopeptide antibiotic *Targocid® Injection* (teicoplanin). *Funguard® for Infusion* (micafungin), a new candin antifungal agent launched during the year, also contributed to the sales growth. On the other hand, sales of such products as the oral cephalosporin antibiotic *Cefzon®* (cefdinir) and the antihypertensive *Nivadil®* (nilvadipine) declined. Exports of *Cefzon®* bulk chemicals increased, reflecting rapid sales increases in the US, where the product is marketed as *Omnicef®* by Abbott Laboratories. Although the OTC drug business and the chemicals business recorded unfavorable figures, total sales in Japan increased due to growth in sales of domestic ethical pharmaceuticals and exports.

North America recorded 14.6% growth with **¥102,525 million (US$854 million)**. Sales of Fujisawa Healthcare, Inc. increased due to strong sales of the immunosuppressant *Prograf®* (tacrolimus), the pharmacologic stress imaging agent *Adenoscan®* (adenosine injection), and *Protopic®* (tacrolimus ointment) for the treatment of atopic dermatitis.

Sales in Europe increased by 25.4% to **¥48,928 million (US$408 million)**. Sales of Fujisawa GmbH increased thanks to the growth of *Prograf®*. The lipid-lowering agent *Cranoc®* (fluvastatin) also contributed to the sales increase as well as *Protopic®*, newly launched in the area during the period. A favorable exchange rate against the euro also contributed to the sales increase on a yen basis.

In Taiwan, China and South Korea, sales increased by 56.2% to **¥8,634 million (US$72 million)**.

Total overseas sales, including export sales to and royalty income from third parties, showed growth of 18.5% at **¥178.4 billion (US$1,487 million)**. The ratio to net sales was 46.7%, up 2.6 percentage points over the year earlier.

The breakdown of net sales by business segment and by therapeutic category in ethical pharmaceuticals is given in "Sales by Business Segment" on pages 32–33.

Operating Income

Operating income increased by 32.6% to **¥62,143 million (US$518 million)** because increased gross profit more than offset increases in research and development expenses, and selling, general and administrative expenses.

Thanks to large increases in net sales, gross profit rose 11.6% to **¥244,881 million (US$2,041 million)**, although the gross margin of 64.1% was almost unchanged from the 64.3% for the previous year.

Selling, general and administrative expenses were **¥119,968 million (US$1,000 million)**, up 4.0%. Although the Company increased its spending on sales and marketing activities in major markets, it successfully contained the growth of selling, general and administrative expenses in total to less than the sales growth rate by taking steps to improve the efficiency of use of the expenses.

Research and development expenses soared 9.3% to **¥62,426 million (US$520 million)** reflecting the Company's heavy commitment to innovative research. The ratio to sales stood at 16.3%.

Operating income before elimination of internal transactions by geographic area is as follows. Japan and North America showed brisk growth to more than offset the decrease in Europe.

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

Years ended March 31	¥ million			US$ million
Area	**2003**	2002	Change (%)	**2003**
Japan	**¥35,485**	¥19,895	78.4	**$296**
North America	**26,556**	22,371	18.7	**221**
Europe	**5,290**	5,688	(7.0)	**44**
Asia	**1,017**	688	47.8	**8**

Net Income

¥4,717 million (US$39 million) from the sale of the German oncology business, previously held by Fujisawa Deutschland GmbH, during the period was recorded as other income.

The cost expected for the implementation of measures to reinforce Japanese business operations and recognition of impairment with respect to investment securities were recorded as other expenses of **¥14,700 million (US$123 million)** and **¥6,830 million (US$57 million)**, respectively. Income taxes decreased by **¥4,726 million (US$39 million)**.

As a result of the above, net income rose 9.5% to **¥28,635 million (US$239 million)** from the previous year.

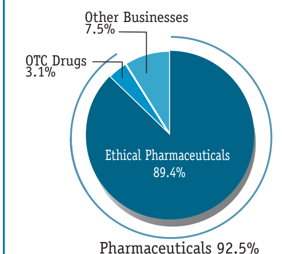
Cash Flow

Net cash provided by operating activities came to **¥56,932 million (US$474 million)**. Major adjustments to reconcile net income to net cash provided by operating activities consisted of depreciation and amortization in the amount of **¥21,176 million (US$176 million)**. Further, **¥14,700 million (US$123 million)** was recorded as other expenses in relation to the implementation of measures to reinforce operations in Japan.

Net cash used in investing activities came to **¥28,603 million (US$238 million)**. Acquisition of property, plant and equipment totaled **¥15,412 million (US$128 million)**, which was used mainly for reinforcing manufacturing facilities for *Prograf*® at the Toyama Plant, as well as the opening of a new employee training center.

Cash flow from financing activities recorded a decrease of **¥8,920 million (US$74 million)**. Payment of dividends in the amount of **¥5,987 million (US$50 million)** was a main component.

As a result, cash and cash equivalent at the end of the period rose to **¥69,140 million (US$576 million)**, an increase of **¥17,832 million** from the beginning of the period.



■Sales by Business Segment

Pharmaceuticals are the core of Fujisawa's operations. They are further divided into ethical pharmaceuticals operations — Fujisawa's main business carried out worldwide — and OTC drugs, which are sold in Japan. In addition to pharmaceuticals, Fujisawa is involved in healthcare-related businesses, i.e., medical supplies and systems, the home care business, and chemicals.

Pharmaceuticals

Pharmaceuticals accounted for 92.5% of net sales in the year ended March 31, 2003, up 1.4 percentage points over the previous year. Total sales of pharmaceuticals for the term showed 13.7% year-on-year growth, at **¥353,442 million (US$2,945 million)**.

■Ethical Pharmaceuticals

Sales increased by 14.8% year-on-year, to **¥341,565 million (US$2,846 million)**. The breakdown of sales by therapeutic category is as follows:

• *Metabolic Drugs*

Metabolic drugs achieved 23.1% growth at **¥89,864 million (US$749 million)** in the term to become the largest segment in the ethical pharmaceuticals category. *Prograf*®, the main product in this category, held the number one position in the Company's ethical pharmaceuticals sales rankings for the fourth consecutive year. This product, which is now marketed in 67 countries, recorded sales growth of 23.9% to **¥89.7 billion (US$748 million)** during the term.

• *Antibiotics and Biological Preparations*

While sales increased 9.7% to **¥89,511 million (US$746 million)**, this category occupied the number two position, with a share of 26.2%, although the share declined 1.2 percentage points from the year earlier.

Cefzon® is the largest product in this category and the top seller in the ethical pharmaceuticals business of the Company in Japan. *Cefzon*® performed well due to the high incidence of flu in Japan. Robust sales of *Omnicef*® by Abbott Laboratories in the US contributed to increased export sales of this product. *Targocid*®, which Fujisawa began marketing in January 2002, made a full year of contribution to sales. *Funguard*®, launched in Japan in December 2002, also had a good start and contributed to the growth of this category. Meanwhile, both the parenteral cephalosporin antibiotic *Cefamezin*® (cefazolin) and the oral cephalosporin antibiotic *Cefspan*® (cefixime) posted weaker sales.

• *Cardiovascular and Respiratory Drugs*

This category stayed at number three in the rankings with **¥55,484 million (US$462 million)** in sales, up 15.3% over the previous year. This growth came mainly from sales of *Adenoscan*® in the US. Sales of *Nivadil*® decreased.

Sales by Business Segment

	¥ million				
Years ended March 31	**2003**		2002		Change (%)
■Pharmaceuticals	**¥353,442**	**(92.5%)**	¥310,889	(91.1%)	113.7
Ethical pharmaceuticals	**341,565**	**(89.4%)**	297,616	(87.2%)	114.8
OTC drugs	**11,877**	**(3.1%)**	13,273	(3.9%)	89.5
■Other Businesses	**28,637**	**(7.5%)**	30,467	(8.9%)	94.0
Medical supplies and systems	**3,432**	**(0.9%)**	3,152	(0.9%)	108.9
Chemicals	**14,677**	**(3.8%)**	16,484	(4.8%)	89.0
Home care business	**6,784**	**(1.8%)**	6,844	(2.0%)	99.1
Others	**3,744**	**(1.0%)**	3,987	(1.2%)	93.9
Total	**¥382,079**	**(100.0%)**	¥341,356	(100.0%)	119.9
Overseas sales (included in the above total)	**¥178,407**	**(46.7%)**	¥150,549	(44.1%)	118.5

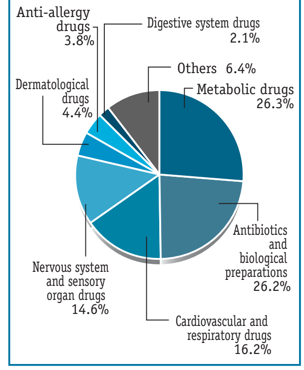
• ***Nervous System and Sensory Organ Drugs***
Sales grew 19.8% to **¥49,699 million (US$414 million)**. Increased sales of *Seroquel*® in Japan, and of *Myslee*® in Japan as well as Taiwan, contributed to the growth in this category.

• ***Anti-Allergy Drugs***
Sales decreased 8.7% to **¥12,972 million (US$108 million)** due to the decline in sales of the anti-asthmatic and anti-allergic *Intal*® (sodium cromoglicate), the main drug in this category.

• ***Dermatological Drugs***
Protopic® is the main product in this category. Sales showed double-digit growth with 15.5% at **¥14,882 million (US$124 million)** thanks to a rise in US *Protopic*® sales and also its roll-out in Europe.

• Digestive System Drugs
Sales in this category increased 6.4% to **¥7,092 million (US$59 million)**, mainly due to increased sales of *Colonel*® (polycarbophil calcium) for the treatment of irritable bowel syndrome.

Sales of Ethical Pharmaceuticals by Therapeutic Category



■OTC Drugs
Sales decreased by 10.5% to **¥11,877 million (US$99 million)** year-on-year, due to slack OTC drug consumption in Japan and stiff competition. While sales of the medicinal toothpaste *Clean Dental*® showed some increases, major products in this business such as *Precol*®, and *Neuvita*® *Gold* recorded declines in sales.

Other Healthcare-Related Businesses

■Medical Supplies and Systems
Sales rose 8.9% over the previous year, to **¥3,432 million (US$29 million)**, due to brisk sales of BD Pharmingen reagents.

■Chemicals
Sales dropped 11.0% from the previous year, to **¥14,677 million (US$122 million)**. A decline in sales of the chemicals business in the US affected overall business performance.

■Home Care Business
Sales were almost flat with **¥6,784 million (US$57 million)**, down 0.9%. Cuts in medical fees for the home oxygen therapy business, implemented in April 2002, dealt a hard blow to the home care business.

Top-Selling Ethical Pharmaceuticals

Years ended March 31	¥ billion		
Product Name	**2003**	2002	Change (%)
1) Prograf	**89.7**	72.4	123.9
2) Cefzon	**29.4**	28.4	103.5
3) Adenoscan	**24.5**	19.2	127.6
4) Protopic	**13.0**	8.8	147.7
5) Intal	**12.9**	14.1	91.5
6) AmBisome	**12.5**	11.8	105.9
7) Nivadil	**11.3**	12.9	87.6
8) Cefamezin	**10.0**	11.5	87.0
9) Myslee	**10.0**	5.8	172.4
10) Seroquel	**9.8**	5.1	192.2
11) Cefspan	**8.8**	9.3	94.6
12) Dogmatyl	**7.8**	8.3	94.0
13) Luvox	**7.0**	6.3	111.1
14) Rescula	**6.6**	7.0	94.3
15) Vaccines	**6.0**	5.2	115.4

Sales of Ethical Pharmaceuticals by Therapeutic Category

	¥ million				
Years ended March 31	**2003**		2002		Change (%)
Nervous system and sensory organ drugs	**¥ 49,699**	**(14.6%)**	¥ 41,474	(13.9%)	119.8
Cardiovascular and respiratory drugs	**55,484**	**(16.2%)**	48,128	(16.2%)	115.3
Digestive system drugs	**7,092**	**(2.1%)**	6,667	(2.2%)	106.4
Metabolic drugs	**89,864**	**(26.3%)**	72,983	(24.5%)	123.1
Anti-allergy drugs	**12,972**	**(3.8%)**	14,209	(4.8%)	91.3
Antibiotics and biological preparations	**89,511**	**(26.2%)**	81,633	(27.4%)	109.7
Dermatological drugs	**14,882**	**(4.4%)**	12,881	(4.3%)	115.5
Others	**9,100**	**(2.6%)**	8,203	(2.8%)	110.9
Processing fees	**8,737**	**(2.6%)**	7,565	(2.6%)	115.5
Royalty income	**4,223**	**(1.2%)**	3,873	(1.3%)	109.0
Total	**¥341,564**	**(100.0%)**	¥297,616	(100.0%)	114.8

Consolidated Balance Sheets

March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents	**¥ 69,140**	¥ 51,308	**$ 576,167**
Trade receivables (Note 7) —			
Notes	**7,651**	8,038	**63,758**
Accounts	**85,831**	78,429	**715,258**
Allowance for doubtful receivables	**(351)**	(970)	**(2,925)**
Marketable securities and short-term investments —			
Marketable securities (Note 4)	**19,286**	9,994	**160,717**
Short-term investments	**12,970**	1,400	**108,083**
Inventories (Note 5)	**50,277**	48,524	**418,975**
Deferred taxes (Note 10)	**23,036**	14,105	**191,967**
Prepaid expenses and other current assets (Note 7)	**11,959**	14,420	**99,658**
Total current assets	**279,799**	225,248	**2,331,658**
Property, plant and equipment — net (Note 6)	**102,757**	106,525	**856,308**
Investments and other assets:			
Excess of cost over net assets acquired — net	**1,609**	2,065	**13,408**
Goodwill and proprietary technology — net	**15,590**	20,698	**129,917**
Investments in affiliated companies	**2,498**	1,599	**20,817**
Marketable securities (Note 4)	**59,070**	68,277	**492,250**
Other investments in securities	**10,809**	11,341	**90,075**
Deferred taxes (Note 10)	**18,151**	16,521	**151,258**
Other assets	**21,233**	22,272	**176,942**
Total investments and other assets	**128,960**	142,773	**1,074,667**
Total	**¥511,516**	¥474,546	**$4,262,633**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Current liabilities:			
Short-term borrowings (Note 8)	**¥ 5,295**	¥ 6,180	**$ 44,125**
Current portion of long-term debt (Note 8)	**1,231**	1,034	**10,258**
Trade payables (Note 7) —			
Notes	**795**	1,884	**6,625**
Accounts	**57,549**	39,655	**479,575**
Accrued income taxes (Note 10)	**9,410**	6,866	**78,417**
Accrued expenses	**20,209**	14,141	**168,409**
Accrued bonuses	**9,187**	9,016	**76,558**
Other current liabilities	**6,339**	7,554	**52,825**
Total current liabilities	**110,015**	86,330	**916,792**
Long-term liabilities:			
Long-term debt (Note 8)	**16,704**	18,491	**139,200**
Accrued retirement benefits for employees (Note 11)	**43,540**	45,854	**362,833**
Accrued severance indemnities for the members of the board and corporate auditors	**1,288**	1,184	**10,733**
Other long-term liabilities (Note 10)	**3,097**	3,289	**25,809**
Total long-term liabilities	**64,629**	68,818	**538,575**
Minority interest in consolidated subsidiaries	**1,535**	1,528	**12,791**
Shareholders' equity (Note 12)**:**			
Common stock —			
Authorized — 800,000,000 shares			
Issued 2003 — 330,183,578 shares	**38,588**		**321,567**
Issued 2002 — 330,183,034 shares		38,588	
Capital surplus	**57,231**	57,231	**476,925**
Retained earnings	**242,351**	219,707	**2,019,591**
Translation adjustments	**(5,704)**	(683)	**(47,533)**
Unrealized gain on securities (Note 4)	**4,081**	3,250	**34,008**
Less treasury stock, at cost —			
2003 — 452,513 shares	**(1,210)**		**(10,083)**
2002 — 79,419 shares		(223)	
Shareholders' equity, net	**335,337**	317,870	**2,794,475**
Contingent liabilities and commitments (Note 14)			
Total	**¥511,516**	¥474,546	**$4,262,633**

Consolidated Statements of Income

For the Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	**2003**
Net sales (Notes 7 and 13)	**¥382,079**	¥341,356	¥297,517	**$3,183,992**
Cost of sales (Note 7)	**137,198**	121,894	108,425	**1,143,317**
Gross profit	**244,881**	219,462	189,092	**2,040,675**
Selling, general and administrative expenses	**119,968**	115,312	103,265	**999,733**
Research and development expenses	**62,426**	57,093	52,016	**520,217**
Amortization of excess of cost over net assets acquired	**344**	205	205	**2,867**
Operating income	**62,143**	46,852	33,606	**517,858**
Other income (expenses)				
Interest and dividend income	**1,797**	2,443	3,030	**14,975**
Interest expense	**(625)**	(1,254)	(2,059)	**(5,208)**
Equity in earnings of affiliated companies	**668**	244	1,186	**5,567**
Gain on sales of investments in affiliated companies	**4,717**	8	1,243	**39,309**
Loss on devaluation of investments in securities	**(6,830)**	(1,508)	(482)	**(56,917)**
Loss on disposal of obsolete inventories	**(1,362)**	(1,376)	(2,415)	**(11,350)**
Expense related to implementation of measures reinforcing the Japanese business	**(14,700)**	—	—	**(122,500)**
Other, net	**(1,118)**	1,598	2,081	**(9,317)**
Income before income taxes	**44,690**	47,007	36,190	**372,417**
Income taxes (Note 10)	**15,954**	20,680	15,490	**132,950**
Minority interest in consolidated subsidiaries	**(101)**	(176)	(171)	**(842)**
Net income	**¥ 28,635**	¥ 26,151	¥ 20,529	**$ 238,625**

	Yen			U.S. dollars (Note 2)
Amounts per share:				
Net income				
Basic	**¥86.62**	¥80.07	¥63.62	**$0.72**
Diluted	**85.37**	78.14	61.76	**0.71**
Cash dividends	**18.00**	16.00	12.00	**0.15**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

For the Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	**2003**
Common stock (Note 12)**:**				
Balance at beginning of year	**¥ 38,588**	¥ 32,045	¥ 31,820	**$ 321,567**
Shares issued upon conversion of debentures	**0**	6,543	225	**0**
Balance at end of year	**¥ 38,588**	¥ 38,588	¥ 32,045	**$ 321,567**
Capital surplus (Note 12)**:**				
Balance at beginning of year	**¥ 57,231**	¥ 50,691	¥ 50,465	**$ 476,925**
Increase due to conversion of debentures	**0**	6,540	226	**0**
Balance at end of year	**¥ 57,231**	¥ 57,231	¥ 50,691	**$ 476,925**
Retained earnings (Note 12)**:**				
Balance at beginning of year	**¥219,707**	¥197,513	¥180,705	**$1,830,891**
Net income	**28,635**	26,151	20,529	**238,625**
Adjustment to retained earnings at beginning of year to reflect change in currency of a foreign subsidiary	**—**	—	568	**—**
Cash dividends	**(5,941)**	(3,907)	(4,194)	**(49,508)**
Bonuses to the members of the board and corporate auditors	**(50)**	(50)	(95)	**(417)**
Balance at end of year	**¥242,351**	¥219,707	¥197,513	**$2,019,591**
Translation adjustments	**¥ (5,704)**	¥ (683)	¥ (10,048)	**$ (47,533)**
Unrealized gain on securities	**¥ 4,081**	¥ 3,250	¥ 8,389	**$ 34,008**
Treasury stock, at cost	**¥ (1,210)**	¥ (223)	¥ (9)	**$ (10,083)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

For the Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	**2003**
Cash flows from operating activities:				
Net income	**¥28,635**	¥26,151	¥20,529	**$238,625**
Adjustments to reconcile net income to net cash provided by operating activities —				
Depreciation and amortization	**21,176**	20,377	16,103	**176,467**
Expenses related to implementation of measures reinforcing the Japanese business	**14,700**	—	—	**122,500**
Gain on sales of investments in affiliated companies	**(4,716)**	(8)	(1,243)	**(39,300)**
Equity in earnings of affiliated companies, net	**(668)**	(244)	(1,186)	**(5,567)**
Foreign exchange (gain) loss	**329**	(723)	(974)	**2,742**
Dividends earned from affiliated companies	**256**	620	491	**2,133**
Loss on disposal of obsolete inventories	**1,362**	1,376	2,415	**11,350**
Loss on devaluation of investments in securities	**6,830**	1,508	482	**56,917**
Changes in assets and liabilities —				
Increase in trade receivables	**(7,015)**	(5,237)	(3,997)	**(58,458)**
Increase in inventories	**(3,114)**	(6,915)	(6,641)	**(25,950)**
(Increase) decrease in deferred tax assets	**(10,971)**	(3,958)	125	**(91,425)**
(Increase) decrease in other current assets	**1,841**	2,000	(2,859)	**15,342**
Increase in trade payables	**306**	226	82	**2,550**
Increase (decrease) in accrued income taxes	**2,544**	(2,578)	7,870	**21,200**
Increase in other current liabilities	**7,458**	4,644	4,485	**62,150**
Increase (decrease) in accrued retirement benefits for employees	**(2,314)**	1,412	(690)	**(19,283)**
Other	**293**	(3,437)	(1,984)	**2,440**
Total adjustments	**28,297**	9,063	12,479	**235,808**
Net cash provided by operating activities	**56,932**	35,214	33,008	**474,433**
Cash flows from investing activities:				
Acquisition of property, plant and equipment	**(15,412)**	(24,350)	(19,730)	**(128,433)**
(Increase) decrease in marketable securities and short-term investments	**(10,682)**	8,941	(1,134)	**(89,017)**
Proceeds from sales of non-current marketable securities	**13,065**	37,902	42,533	**108,875**
Acquisition of non-current marketable securities	**(17,323)**	(21,574)	(55,397)	**(144,358)**
Proceeds from sales of other investments in securities	**5,047**	409	6,656	**42,058**
Acquisition of other investments in securities	**(3,002)**	(686)	(1,052)	**(25,017)**
(Increase) decrease in other investments	**(1,076)**	(2,498)	2,655	**(8,967)**
Other	**780**	(1,482)	1,737	**6,501**
Net cash used in investing activities	**(28,603)**	(3,338)	(23,732)	**(238,358)**
Cash flows from financing activities:				
Net decrease in short-term borrowings	**(1,847)**	(25,370)	(8,681)	**(15,392)**
Borrowings of long-term debt	**—**	2,200	—	**—**
Repayments of long-term debt	**(100)**	(61)	(506)	**(833)**
Dividends paid	**(5,987)**	(4,006)	(4,247)	**(49,892)**
Common stock issued upon conversion of debentures	**1**	13,083	451	**8**
Other	**(987)**	(215)	13	**(8,224)**
Net cash used in financing activities	**(8,920)**	(14,369)	(12,970)	**(74,333)**
Effect of exchange rate changes on cash and cash equivalents	**(1,577)**	2,006	741	**(13,142)**
Net increase (decrease) in cash and cash equivalents	**17,832**	19,513	(2,953)	**148,600**
Cash and cash equivalents at beginning of year	**51,308**	32,023	34,998	**427,567**
Cash and cash equivalents of the subsidiaries excluded from consolidation	**(0)**	(228)	(22)	**(0)**
Cash and cash equivalents at end of year	**¥69,140**	¥51,308	¥32,023	**$576,167**

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, have been 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, 2003 consist of the accounts of the Company and those of all of its majority-owned subsidiaries.

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 the shares in a consolidated subsidiary during the year ended March 31, 2002. As a result, the previous consolidated subsidiary became an affiliated company.

The most of the Company's foreign subsidiaries are, consolidated using fiscal year-end 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, one foreign subsidiary changed its fiscal year-end from December 31 to March 31 in 2002. Accordingly, this subsidiary was consolidated using its financial statements for the 15-month period ended March 31, 2002. Furthermore, three subsidiaries changed its fiscal year-end from December 31 to March 31, in 2003. Accordingly, these subsidiaries were consolidated using their financial statements for the 15-month period ended March 31, 2003.

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

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rates of exchange prevailing at the balance sheet date. Resulting exchange gains or losses are credited or charged to income as incurred.

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."

(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.

(5) Financial instruments

(a) Derivatives

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 classified into one of the following categories;

— 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 recoverable, they are written down to fair value and the resulting losses are charged to income as incurred.

Securities held in trusts for trading purposes and debt securities due within one year are presented as "current" and all other securities are presented as "non-current."

(c) Hedge accounting

(i) Hedge accounting method

The Accounting Standard for financial instruments allows 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) Method of assessing 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.

(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 term 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.

Accrued retirement benefits for employees represent the estimated present value of projected benefit obligations in excess of the fair value of plan assets except that the unrecognized prior service cost is amortized on a straight-line basis over the period of 10 years from the year in which it arises, and that 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.

(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 inter-period tax allocation based on the methods generally accepted in the respective country where each entity is located.

(13) Research and development expenses

Costs relating to the research and development of new products as well as product improvements are charged to income 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.

Effective from the year ended March 31, 2003, the Company adopted the new Japanese Accounting Standard for Earnings Per Share. If the new standard had been applied in 2002, basic and diluted net income per share would have been ¥79.92 and ¥77.99, respectively.

(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 ¥120=US$1, the approximate rate of exchange on March 31, 2003. 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 ¥24,063 million ($200,525 thousand), ¥26,810 million and ¥7,982 million for the years ended March 31, 2003, 2002 and 2001, respectively; in these respective periods, interest payments made in cash were ¥641 million ($5,342 thousand), ¥1,304 million and ¥2,192 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, 2003 and 2002 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2003		2002		**2003**	
	Current	Non-current	Current	Non-current	Current	Non-current
Cost	**¥19,434**	**¥51,940**	¥10,077	¥62,597	**$161,950**	**$432,833**
Gross unrealized gains (see Note 1-(5)-(b))	**22**	**8,990**	5	10,144	**184**	**74,917**
Gross unrealized losses	**(170)**	**(1,860)**	(88)	(4,464)	**(1,417)**	**(15,500)**
Book value	**¥19,286**	**¥59,070**	¥ 9,994	¥68,277	**$160,717**	**$492,250**

5. Inventories:

Inventories at March 31, 2003 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished products and merchandise	**¥24,452**	¥27,455	**$203,767**
Work in process	**12,252**	11,966	**102,100**
Materials and supplies	**13,573**	9,103	**113,108**
Total	**¥50,277**	¥48,524	**$418,975**

6. Property, Plant and Equipment:

Depreciation charges for the years ended March 31, 2003, 2002 and 2001 were ¥15,839 million ($131,992 thousand), ¥15,855 million and ¥13,213 million, respectively. Property, plant and equipment at March 31, 2003 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Land	**¥ 14,780**	¥ 12,528	**$ 123,167**
Buildings	**98,192**	96,916	**818,267**
Machinery and equipment	**148,921**	147,092	**1,241,008**
Construction in progress	**4,140**	3,203	**34,500**
Total	**266,033**	259,739	**2,216,942**
Less accumulated depreciation	**(163,276)**	(153,214)	**(1,360,634)**
Property, plant and equipment, net	**¥102,757**	¥106,525	**$ 856,308**

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
	2003	2002	**2003**
Account balances at March 31:			
Trade receivables	**¥ 981**	¥ 927	**$ 8,175**
Prepaid expenses and other current assets	**3,526**	3,567	**29,383**
Trade payables	**3,621**	3,220	**30,175**

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Transactions for the year ended March 31:				
Net sales	**¥ 5,892**	¥ 5,082	¥ 3,810	**$ 49,100**
Purchases	**23,890**	21,175	17,269	**199,083**

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

Short-term borrowings at March 31, 2003 consisted of unsecured bank loans with a weighted average interest rate of 2.11% per annum.

Long-term debt at March 31, 2003 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
1.7% convertible bonds due 2004	¥11,452	$ 95,434
Loans from insurance companies —		
• with interest at rates from 0.76% to 0.90% due 2004	2,200	18,333
• payable in U.S. dollars with interest at LIBOR as adjusted in accordance with the agreements due 2005	1,191	9,925
Loans from banks —		
• payable in U.S. dollars with interest at LIBOR as adjusted in accordance with the agreements due 2003 to 2005	2,190	18,250
Other	902	7,516
Total	17,935	149,458
Less: Current portion of long-term debt	1,231	10,258
Total long-term debt less current portion	¥16,704	$139,200

The aggregate annual maturities of long-term debt at March 31, 2003 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 1,231	$ 10,258
2005	14,132	117,767
2006	1,670	13,917
2007	—	—
2008	—	—
Thereafter	902	7,516
Total	¥17,935	$149,458

The 1.7% convertible bonds due 2004 were convertible into common stock at a conversion price of ¥1,837.70 ($15.3) per share at March 31, 2003. 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, 2003 and 2002, 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, 2003	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**	**¥ (49)**	**¥(49)**	**$25,000**	**$ (408)**	**$(408)**
Foreign currency							
forward contract	US$	**¥4,861**	**¥4,913**	**¥(52)**	**$40,508**	**$40,942**	**$(434)**
	euro	**¥1,961**	**¥1,985**	**¥(24)**	**$16,342**	**$16,542**	**$(200)**

		Millions of yen		
At March 31, 2002	Currency	Notional principal amounts	Market value	Net unrealized gains (losses)
Interest rate swaps	yen	¥3,000	¥(41)	¥ (41)
Currency options	yen	¥8,031	¥487	¥(440)

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%. For the year beginning April 1, 2004, the statutory tax rate used for the calculation of deferred tax assets and liabilities relating to temporary differences will change from 42% to 41% due to the revision of the Japanese local tax law, which was approved by the Japanese National Diet on March 31, 2003. The Company, therefore, adopted 41% as the statutory tax rate to be applied to these temporary differences as of March 31, 2003 which are expected to be dissolved on or after April 1, 2004. As a result, net deferred tax assets decreased by ¥314 million ($2,617 thousand) and income taxes increased by ¥410 million ($3,417 thousand).

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, 2003, 2002 and 2001 was as follows:

	2003	2002	2001
Statutory tax rate	**42%**	42%	42%
Add (Deduct):			
Non-deductible expenses	**9**	7	9
Non-taxable income	**(5)**	(0)	(1)
Valuation allowance change	**(2)**	2	—
Deduction of net operating loss carryforwards of subsidiaries	**(1)**	(3)	(3)
Tax credit primarily for research and development expenses	**(3)**	(2)	(2)
Undistributed earnings of foreign subsidiaries	**1**	1	2
Equity in earnings of affiliated companies	**(1)**	(0)	(1)
International rate differences	**(7)**	(4)	(1)
Reduction in deferred taxes due to statutory rate change	**1**	—	—
Other	**2**	1	(2)
Effective tax rate	**36%**	44%	43%

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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Retirement benefits	**¥13,348**	¥13,628	**$111,233**
Accrued expenses	**10,040**	5,589	**83,667**
Inventories	**7,283**	4,393	**60,692**
Deferred charges	**5,250**	5,994	**43,750**
Loss on devaluation of investments in securities and other investments	**3,340**	751	**27,833**
Research and development expenses	**2,718**	1,837	**22,650**
Net operating loss carryforwards	**2,073**	2,226	**17,275**
Depreciation and amortization	**976**	871	**8,133**
Accrued enterprise tax	**956**	729	**7,967**
Other	**2,696**	2,083	**22,466**
Total deferred tax assets	**48,680**	38,101	**405,666**
Valuation allowance	**(1,393)**	(2,068)	**(11,608)**
Net deferred tax assets	**47,287**	36,033	**394,058**
Deferred tax liabilities:			
Unrealized gain on marketable securities	**(2,735)**	(2,325)	**(22,792)**
Undistributed earnings of foreign subsidiaries	**(1,491)**	(1,218)	**(12,425)**
Accelerated depreciation and amortization	**(1,132)**	(1,010)	**(9,433)**
Deferred gain on sale of plant assets	**(386)**	(387)	**(3,217)**
Reserve for special depreciation	**(333)**	(437)	**(2,775)**
Other	**(43)**	(39)	**(358)**
Total deferred tax liabilities	**(6,120)**	(5,416)	**(51,000)**
Net deferred tax assets	**¥41,167**	¥30,617	**$343,058**

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, 2003 and 2002 were ¥20 million ($167 thousand) and ¥9 million, respectively.

11. Pension Plans and Accrued Severance Indemnities:

At March 31, 2003 and 2002	Millions of yen		Thousands of U.S. dollars
Contents of retirement benefit obligation, etc.	**2003**	2002	**2003**
Retirement benefit obligation			
Retirement benefit obligation	**¥(114,004)**	¥(115,027)	**$(950,033)**
Fair value of pension plan assets	**44,512**	49,741	**370,933**
Unreserved retirement benefit obligation	**(69,492)**	(65,286)	**(579,100)**
Unrecognized actuarial losses — net	**27,495**	19,432	**229,125**
Unrecognized prior service cost	**(1,543)**	—	**(12,858)**
Accrued retirement benefits for employees	**¥ (43,540)**	¥ (45,854)	**$(362,833)**
Retirement benefit cost			
Service cost	**¥ 6,127**	¥ 6,101	**$ 51,058**
Interest cost	**2,687**	2,837	**22,392**
Expected return on pension plan assets	**(1,237)**	(1,484)	**(10,308)**
Amortization of actuarial gains and losses	**1,961**	592	**16,342**
Extra severance pay	**3,974**	1,658	**33,116**
Retirement benefit cost	**¥ 13,512**	¥ 9,704	**$ 112,600**

	2003	2002
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 2.5%
Expected rate of return on pension plan assets	**Mainly 3.0%**	Mainly 3.0%
Amortization period of service cost	**Mainly 10 years**	—
Amortization period of actuarial gains and losses	**Mainly 10 years**	Mainly 10 years

Besides retirement benefit cost shown above, extra retirement payment of ¥14,700 million ($122,500 thousand) were recognized for those who transferred to subsidiaries and those who retired under the Company's Voluntary Retirement Program, which were enforced as a part of implementation of measures to reinforce Japanese business operations. The amount is recorded as other expense in the financial results for the year ended March 31, 2003.

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 ($53,875 thousand) as of March 31, 2003.

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 25, 2003.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥10 ($0.083) per share)	¥3,297	$27,475
Bonuses to the members of the Board and corporate auditors	55	458
	¥3,352	$27,933

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, 2003				
	Pharmaceuticals	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**¥353,442**	**¥28,637**	**¥382,079**	**¥ —**	**¥382,079**
Transfers between business segments	**8**	**8,311**	**8,319**	**(8,319)**	**—**
Total net sales	**353,450**	**36,948**	**390,398**	**(8,319)**	**382,079**
Operating expenses	**290,970**	**37,423**	**328,393**	**(8,457)**	**319,936**
Operating income (loss)	**¥ 62,480**	**¥ (475)**	**¥ 62,005**	**¥ 138**	**¥ 62,143**
Assets	**¥371,489**	**¥29,472**	**¥400,961**	**¥110,555**	**¥511,516**
Depreciation and amortization	**¥ 19,253**	**¥ 1,923**	**¥ 21,176**	**¥ —**	**¥ 21,176**
Capital expenditures	**¥ 14,063**	**¥ 1,244**	**¥ 15,307**	**¥ —**	**¥ 15,307**

By business segment	Thousands of U.S. dollars				
	Year ended March 31, 2003				
	Pharmaceuticals	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**$2,945,350**	**$238,642**	**$3,183,992**	**$ —**	**$3,183,992**
Transfers between business segments	**67**	**69,258**	**69,325**	**(69,325)**	**—**
Total net sales	**2,945,417**	**307,900**	**3,253,317**	**(69,325)**	**3,183,992**
Operating expenses	**2,424,750**	**311,859**	**2,736,609**	**(70,475)**	**2,666,134**
Operating income (loss)	**$ 520,667**	**$ (3,959)**	**$ 516,708**	**$ 1,150**	**$ 517,858**
Assets	**$3,095,742**	**$245,600**	**$3,341,342**	**$921,291**	**$4,262,633**
Depreciation and amortization	**$ 160,442**	**$ 16,025**	**$ 176,467**	**$ —**	**$ 176,467**
Capital expenditures	**$ 117,192**	**$ 10,366**	**$ 127,558**	**$ —**	**$ 127,558**

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	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	¥ 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 geographic area	Millions of yen						
	Year ended March 31, 2003						
	Japan	North America	Europe	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**¥221,992**	**¥102,525**	**¥48,928**	**¥8,634**	**¥382,079**	**¥ —**	**¥382,079**
Transfers between geographic areas	**46,499**	**4,461**	**2,815**	**23**	**53,798**	**(53,798)**	**—**
Total net sales	**268,491**	**106,986**	**51,743**	**8,657**	**435,877**	**(53,798)**	**382,079**
Operating expenses	**233,006**	**80,430**	**46,453**	**7,640**	**367,529**	**(47,593)**	**319,936**
Operating income	**¥ 35,485**	**¥ 26,556**	**¥ 5,290**	**¥1,017**	**¥ 68,348**	**¥ (6,205)**	**¥ 62,143**
Assets	**¥287,414**	**¥ 85,039**	**¥51,745**	**¥5,348**	**¥429,546**	**¥81,970**	**¥511,516**

By geographic area	Thousands of U.S. dollars						
	Year ended March 31, 2003						
	Japan	North America	Europe	Others	Total	Eliminations or Corporate	Consolidated
Net sales to unrelated entities	**$1,849,933**	**$854,375**	**$407,734**	**$71,950**	**$3,183,992**	**$ —**	**$3,183,992**
Transfers between geographic areas	**387,492**	**37,175**	**23,458**	**192**	**448,317**	**(448,317)**	**—**
Total net sales	**2,237,425**	**891,550**	**431,192**	**72,142**	**3,632,309**	**(448,317)**	**3,183,992**
Operating expenses	**1,941,717**	**670,250**	**387,108**	**63,667**	**3,062,742**	**(396,608)**	**2,666,134**
Operating income	**$ 295,708**	**$221,300**	**$ 44,084**	**$ 8,475**	**$ 569,567**	**$ (51,709)**	**$ 517,858**
Assets	**$2,395,117**	**$708,658**	**$431,208**	**$44,567**	**$3,579,550**	**$683,083**	**$ 4,262,633**

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	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

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, 2003, 2002 and 2001 amounted to ¥178,407 million ($1,486,726 thousand), ¥150,549 million and ¥108,080 million, accounting for 46.7%, 44.1% and 36.3% of consolidated net sales, respectively.

14. Contingent Liabilities and Commitments:

Contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Contingent liabilities as guarantor of—			
indebtedness of affiliated companies and other parties	**¥ —**	¥ 112	**$ —**
indebtedness of employees	**1,155**	1,714	**9,625**
Other contingent liabilities—			
relating to debt assumption contract	**1,320**	1,560	**11,000**
others	**188**	168	**1,567**

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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Acquisition cost			
Machinery and automobiles	**¥1,743**	¥1,930	**$14,525**
Others (computers and equipment)	**4,570**	4,191	**38,083**
Accumulated depreciation	**(2,845)**	(2,921)	**(23,708)**
Net book value	**¥3,468**	¥3,200	**$28,900**

Outstanding future lease payments due at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Within one year	**¥1,348**	¥1,287	**$11,233**
Over one year	**2,339**	2,147	**19,492**
Total	**¥3,687**	¥3,434	**$30,725**

Lease expenses on finance lease contracts for the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Lease expenses	**¥1,781**	¥1,925	¥2,037	**$14,842**
including:				
Depreciation (assumed)	**1,426**	1,523	1,838	**11,883**
Interest (assumed)	**350**	389	422	**2,917**

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

15. Litigation and Legal Matters:

Starting from the case in the United States District Court for the District of Massachusetts in December 2001, several substantially identical purported class actions were filed in several courts in the U.S., against several companies including the Company, Fujisawa Healthcare, Inc., and Fujisawa USA, 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. Most of these cases have been consolidated into one multi-district case in Boston. We cannot determine the basis or possible damages assessable against us, if, any, at this time.

16. Subsequent Events:

The Company resolved at a meeting of the Board of Directors held on April 25, 2003 to divide 4 of its domestic pharmaceutical product plants to further improve the Company's business efficiency. The Toyama plant, Takaoka plant, and Osaka plant will be integrated and then spun off as Fujisawa Toyama Co., Ltd., and the Fuji plant will be spun off as Fujisawa Shizuoka Co., Ltd., both of which will become wholly-owned subsidiaries of the Company. With this corporate spin-off, the newly established companies will contribute to the improvement of the business performance of the Fujisawa group by dealing with changes in the pharmaceuticals market environment more promptly and flexibly, as well as by strengthening their profitability on a stand-alone basis.

This plan was approved at the annual general meeting of shareholders held on June 25, 2003.

Report of Independent Auditors

PricewaterhouseCoopers
Nakanoshima Mitsui Bldg.,
16th Floor 3-3-3, Nakanoshima,
Kita-Ku, Osaka 530-8248,
Japan

To the Board of Directors and Shareholders of
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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fujisawa Pharmaceutical Company Limited and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

As described in Note 16, to the consolidated financial statements, the Company resolved at a meeting of the Board of Directors held on April 25, 2003 to spin off 4 of its domestic pharmaceutical product plants into Fujisawa Toyama Co., Ltd. and Fujisawa Shizuoka Co., Ltd., both of which will become wholly-owned subsidiaries of the Company. This plan was approved at the annual general meeting of shareholders held on June 25, 2003.

PricewaterhouseCoopers

June 25, 2003

(Notice to readers)

The accompanying consolidated financial statements are not intended to present the consolidated financial positions 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.