

## TO OUR SHAREHOLDERS

In Japan, during the fiscal year ended March 31, 2002, consumer spending and corporate investment remained flat and high unemployment persisted. The economy overall continues to be unpredictable.

The market for ethical pharmaceuticals grew by approximately 3-4% during the year due to higher sales of new drugs and the continued growth of the elderly population. The dispensing pharmacy market continues to grow and is now estimated to account for over 30% of total ethical pharmaceutical sales. Nationally, the separation rate of the dispensing and prescribing functions now exceeds 46%.

Within Japan's pharmaceutical wholesaling industry, large-scale consolidation has settled, and the remaining wholesalers are currently restructuring, refining their customer support strategies and strengthening their business bases. Although the industry overall continued to experience a decline in gross margins due to discount demands from customers, the decline appears to be slowing due to concerted price negotiations with customers.



**Yoshiki Bessho**  
President and Chief Executive Officer

In the fiscal year ended March 31, 2002, net sales increased 4.2% to ¥955,749 million. However, the gross margin declined 0.3 percentage points. Offsetting this decline were the benefits of higher sales and an aggressive campaign to obtain discounts on purchases by taking advantage of expedited payment options. The result was a 10.7% increase in operating income to ¥11,206 million. After adjusting for a write-down of ¥3,731 million on investment securities, net income declined 4.4% to ¥8,794 million. Net income per share declined 1.1% to ¥117.16 and the return on equity was down 0.2 points to 5.1%. Dividends per share applicable to the fiscal year were ¥20, the same as in the previous fiscal year.

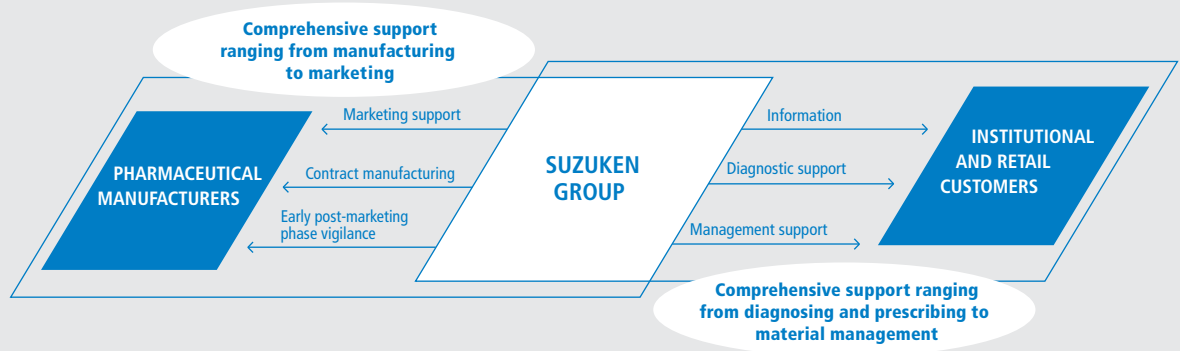
As of October 1, 2001, Japan's Commercial Code was partially amended to ease restrictions on share repurchases. Companies are now able to hold their own stock for any reasonable purpose. Taking advantage of this situation, we bought back 7 million shares of our common stock on November 14, 2001 at ¥2,350 per share. In accordance with the "Law of Land Revaluation," we revalued land held for business use on March 31, 2002. Our balance sheet now reflects the current fair value of our land assets.

### **A New Stage of Growth**

The Suzuken Group has long been pursuing a growth strategy in the "health creation" domain, with pharmaceutical wholesaling as the core business. Our goal is to become the leading wholesaler in Japan by 2010, well ahead of any competitor, with at least 25% of the pharmaceutical wholesaling market and a nationwide sales network. To sustain long-term growth, we have reinforced our operating base to be recognized by institutional and retail customers, and pharmaceutical manufacturers, as a valuable business partner. Specifically, we have enhanced our support programs in information, diagnoses, and management, which we offer to healthcare institutions and pharmacies to make their operations more efficient. A second platform is enhanced support for pharmaceutical manufacturers. For these entities, we are offering more outsourcing services for functions such as marketing, manufacturing and early post-marketing phase vigilance.

For institutional and retail customers, we assist in issuing and filling prescriptions through two information services: the Internet-based Suzuken Click Website and Suzuken Medical Information Service. Our diagnostic services are comprised of several related business segments. One is the Holter electrocardiograph analysis business, which is performed at our own analysis center. A second is the remote diagnostic services using

## Suzuken is well-positioned to provide value-added services



CT and MRI images sent over digital networks to radiologists. One more example is the Habit System, which analyzes eating and lifestyle habits and recommends ways to improve daily routines to reduce the number of people at high risk for lifestyle-related diseases. To support operations at healthcare facilities, we offer a variety of logistics and management consulting services. For example, we offer a service where we distribute and manage medical supplies within hospitals, which draws on our experience in logistics. Our goal is to continue to upgrade and expand these capabilities to play a more comprehensive role in boosting efficiency at healthcare facilities and pharmacies, our two primary customer groups.

For pharmaceutical manufacturing partners, we coordinate and implement promotional campaigns that effectively use the Internet as well as satellite broadcasting capabilities. Our nationwide customer database is another invaluable asset in this regard. Utilizing these technologies, Suzuken can extend sales and marketing functions to pharmaceutical manufacturers that competitors cannot match. By using the nationwide network of the Suzuken Group, we are also able to conduct early post-marketing phase vigilance services on behalf of manufacturers. Contract manufacturing is another strength. Having adopted a global-standard quality assurance system for pharmaceutical manufacturing practices, Suzuken Group member Sanwa Kagaku Kenkyusho Co., Ltd. is now fully capable of producing drugs on contract base. Manufacturing agreements have been signed with several major pharmaceutical companies, and production began during the past year.

As mentioned above, the Suzuken Group has the resources to offer a complete line of services to pharmaceutical manufacturers. Expertise begins with manufacturing and covers sales promotional activities, marketing, the provision of information and post-market surveillance. In the logistics field, subsidiary Aichi Medical Co., Ltd. has been renamed Suzuken Logicom Co., Ltd. Taking on a broader role, this company will be refining its logistics services and creating a system for the integrated management of

products encompassing their shipment from manufacturers through Suzuken and subsequent delivery to customers. Collectively, the measures I have just outlined, along with other services, will make the Suzuken Group an increasingly valued partner for every company and organization with which we conduct business.

### Overview by Business Segment

**Pharmaceutical distribution**—Fundamental healthcare reforms have become an urgent priority in Japan. This has been brought about by a shrinking national health insurance budget, an aging society, declining birthrates and generally weak economic conditions.

During the past fiscal year, we continued our strategy to enter new areas of Japan by initiating pharmaceutical wholesaling operations in Yamagata Prefecture in November 2001. Establishing more ties with dispensing pharmacies, we raised our coverage to about 60% of all dispensing pharmacies in Japan. In May 2002, in another move to raise our market share, we signed an agreement to merge on October 1 this year with Ohmori Co., Ltd., formerly the Tokyo and Osaka regional sales operations of Ohmori Co., Ltd. Enhancing the productivity of our sales force is another development theme. For this purpose, we have started eliminating the requirement for our sales force to make deliveries. This allows them more time to spend on honing their skills to conduct consulting-based sales. A new sales support system, “Suzuken Click,” is further contributing to productivity gains among our sales people. To stop the decline in the gross margin, we reexamined all customer relationships, and improvements were quickly implemented where deemed necessary.

As a result, net sales in this segment increased 4.3% to ¥934,302 million. The major contributors to this increase were growth in the Tokyo and Osaka regions and higher sales through dispensing pharmacies. Operating income rose 9.0% to ¥9,803 million. The increase in sales and steps to reduce selling, general and administrative expenses outweighed the 0.3 point decline in the gross margin.

**Pharmaceutical manufacturing**—Manufacturers in Japan are beginning to consolidate in response to increasingly challenging market conditions. Growth in demand is unlikely due to government actions to more closely oversee pharmaceuticals prescribed by healthcare institutions. The rising market shares of overseas manufacturers are making the situation even more difficult.

In response, Sanwa Kagaku Kenkyusho focused its manufacturing, reagent and

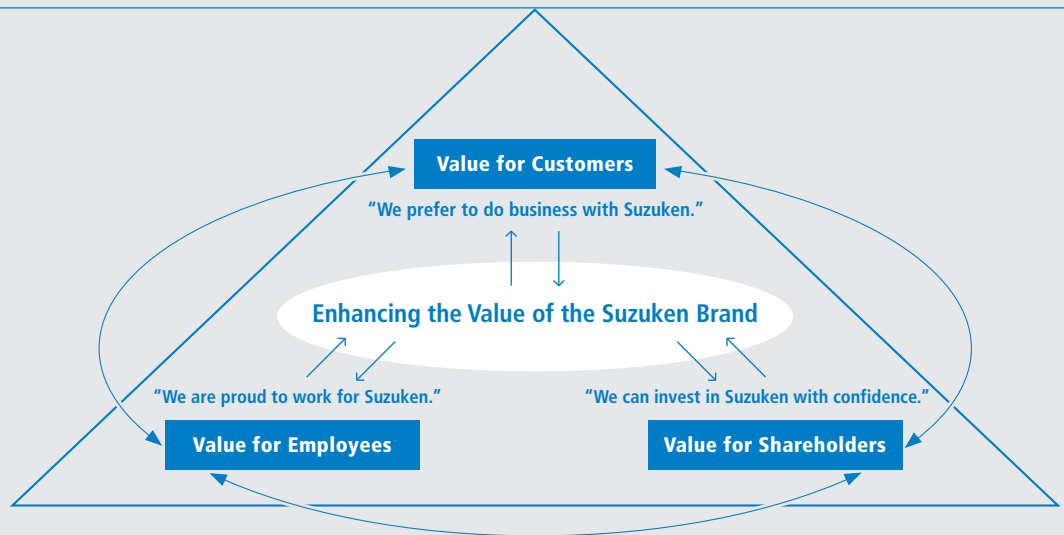
foodstuffs research on diabetes and other lifestyle-related diseases. The resulting improvements in the product lineup along with stepped-up marketing activities led to solid sales gains in two sectors: compact systems for blood glucose monitoring and health food for special dietary needs.

Net sales in the manufacturing segment increased 8.9% to ¥13,139 million, leading to an 84.5% improvement in operating income to ¥751 million. During the fiscal year, the construction of a second factory was completed at Fukushima Park Plant for the manufacturing of Suzuken products and those of other companies under manufacturing agreements. Plans call for expanding contract manufacturing to achieve further reductions in manufacturing costs.

**Other healthcare-related services**—In this segment, priority was placed on three major themes: 1) upgrading the patient record storage and management business of Suzuken Medical Information Bank Co., Ltd.; 2) increasing the medical equipment manufacturing business of Kenzmedico Co., Ltd.; and 3) growing the dispensing pharmacy business conducted by Ryoumou Iyakuhin Co., Ltd. and other group companies. Net sales were down 12.3% to ¥8,308 million in this segment and operating income declined 13.1% to ¥305 million. Both declines, however, were primarily due to the February 2001 exclusion from consolidated subsidiaries financial accounting of Hikari Heights VARUS Co., Ltd., an operator of elderly-care homes.

The Suzuken Group's many accomplishments during the year reflect numerous factors from many sources. We are grateful for the hard work of our talented associates. In addition, our loyal shareholders have been another key to our success. The support of healthcare institutions, dispensing pharmacies and other customers has also been invaluable, as well as the strong ties with suppliers. Since its inception, Suzuken has premised operations on the spirit of "learning from our customers." Our goal has always been to be the first choice of our customers as "the primary supplier of health resources." In the process, we have developed a unique identity within the pharmaceutical wholesaling industry.

In November 2002, we will celebrate our 70th anniversary. Leading up to this occasion, we are reaffirming our commitment to become one of 21st century's most exceptional



corporate groups. For this purpose, we are rebuilding the Suzuken brand. A corporate brand is inevitably rooted in a triangle of mutual value creation made up of customers, employees and shareholders. Value among customers is derived from the decisions of healthcare facilities, dispensing pharmacies and pharmaceutical manufacturers that conduct business with Suzuken. For employees, the corporate brand's value is represented by the pride each feels in belonging to the Suzuken team. Value among shareholders rests in the trust they have established in Suzuken as a solid investment. The Suzuken Group is dedicated to building deeper relationships to gain even greater recognition as a valued partner for customers and as a valued investment for shareholders.

Maximizing shareholder value is the ultimate goal of the dynamic rebuilding of the Suzuken corporate brand. We will reach the following three goals as quickly as possible: consolidated sales of ¥2 trillion, an ROE of 10% and net operating cash flows per share of ¥300. In summary, the Suzuken Group is an organization with great ambitions and the resources to make them come true. I am convinced that we will be generating much greater value in the coming years for our customers, shareholders and associates.

July 2002

Yoshiki Bessho  
President and Chief Executive Officer