Changing tomorrow

Annual Report 2008

Initiatives for growth

Contents

Note about forward-looking statements and forecasts

Statements made in this annual report with respect to current plans, estimates, strategies and beliefs and other statements of Astellas that are not historical facts are forward-looking statements about the future performance of Astellas. These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. Consequently, undue reliance should not be placed on these statements. Astellas cautions the reader that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to: (i) changes in general economic conditions, and in the Pharmaceutical Affairs Law and other laws and regulations relating to markets of Astellas, (ii) currency exchange rate fluctuations, (iii) delays in new product launches, (iv) the inability of Astellas to market existing and new products effectively, (v) the inability of Astellas to continue to effectively research and develop products accepted by customers in highly competitive markets and (vi) infringements of intellectual property rights of third parties.

Changing tomorrow

Maximizing our strengths in a new growth phase

— Toward becoming a global category leader (GCL), fully utilizing our rich resources

We offer a lineup of distinctive products, and have created a balanced presence in the global market. Specifically, Astellas has realized global leadership in the highly specialized fields of transplantation and urology. We are working to realize the growth of next-generation mainstay products through our unique pipeline. In addition, we have recently established antibody drug research technology. Finally, we enjoy a strong cash position, which enables investments for future growth.

1. Marketing

Transforming our global marketing structure

Astellas is transforming its business structure to respond to changes in the operating environment, and is strengthening its global market capabilities. Specifically, we aim to expand our marketing capabilities in the US, Europe and Asia, as well as in Japan.

2. Development

Accelerating clinical trials, enriching our pipeline

Astellas has a unique pipeline. We are accelerating development by concentrating resources in high-priority products in the pipeline.

3. Research

Focusing on strategic therapeutic areas and diseases

Astellas acquired antibody drug technology through the acquisition of Agensys in December 2007. We will utilize this advanced drug discovery technology to achieve steady progress in strategic therapeutic areas and seek treatments for diseases where there is a high degree of unmet medical needs.

4. People

Leveraging human resources to achieve a competitive advantage

We believe the key to becoming a truly global category leader lies in the effective utilization of our employees' skills and expertise. Human resource development is thus a top priority at Astellas.

Results of fiscal 2007

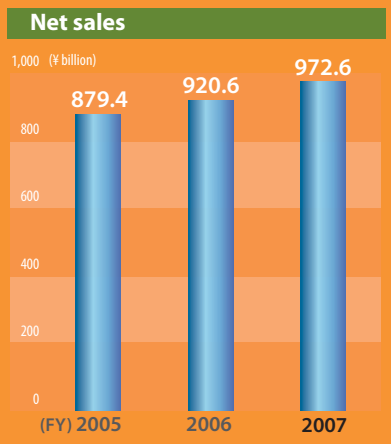
Astellas recorded a favorable business performance in fiscal 2007*. Thus we have achieved solid growth over the three years following the merger.

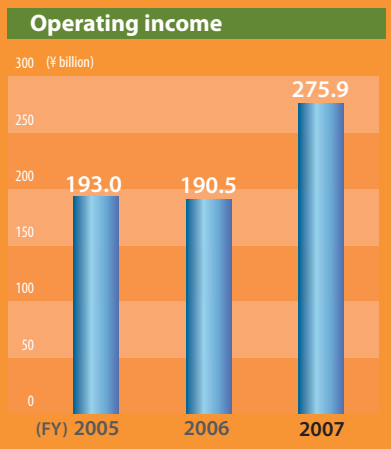
Three years have gone by since the establishment of Astellas. For fiscal 2007, net sales were ¥972.6 billion (US$9,726 million) on a consolidated basis, operating income was ¥275.9 billion (US$2,759 million), and net income was ¥177.4 billion (US$1,774 million), all revenue and profit increases year-on-year. Astellas achieved ¥250.0 billion (US$2,500 million) in operating income, which was our stated management goal at the time of the merger, making fiscal 2007 a pivotal year.

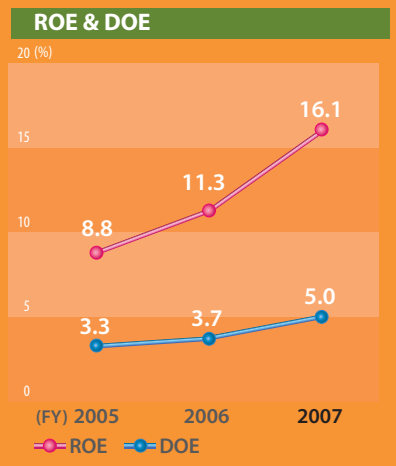
In addition to global sales growth of the mainstay products of Prograf® and Vesicare®, Micardis® also greatly expanded in Japan, and the new domestic products Celecox® and Geninax® also contributed to revenue increase.

We significantly raised ROE from 11.3% in fiscal 2006 to 16.1% as a result of expanded earnings and capital efficiency initiatives. DOE also improved, rising to 5.0% from 3.7%.

Astellas worked with determination to build a system for enhancing its competitive edge on a global scale after the merger, making fiscal 2007 a milestone year in the sense that the first stage of preparations for becoming a global category leader (GCL) have been completed. Thus, we have established competitive operating infrastructure globally for future growth.







* fiscal year ended March 31, 2008

Today's challenges

Recent developments

Positive factors

- Launch of new drugs contributing to sales growth
- Unique and specialized projects in our pipeline
- Making steady progress in global business

Negative factors

- Patent expiration in the US of Prograf® in April 2008 and Flomax® (Harnal®) in October 2009
- Downward pressure on medical costs:
  - Promotion of generic drugs
  - Implementation of National Health Insurance drug price cuts in Japan in April 2008

Realizing a further competitive edge to become a global category leader

Masafumi Nogimori
President & CEO

Our aims

At Astellas, we have made it clear in our business philosophy that our *raison d'être* is to contribute toward improving the health of people around the world through the provision of innovative and reliable ethical pharmaceutical products, and that our mission is to sustainably enhance our enterprise value.

Astellas aims to create valuable ethical pharmaceuticals to meet unmet medical needs and to continue offering added value to its customers.

Astellas has a record of notable discoveries, and possesses a unique pipeline, marketing capabilities that maximize product value, and a clear business strategy. We believe Astellas has the potential for sustained and stable growth in the future.

The fiscal year ended March 31, 2008 (fiscal 2007), which was the third year since the establishment of Astellas, became a pivotal year of solid growth, with year-on-year increases in revenues and profits. We also achieved ¥250.0 billion in operating income, which was our stated management goal at the time of the merger. This is primarily attributable to business expansion in the fields of global transplantation and urology, and to our maximization of the merger synergies.

Business performance for fiscal 2007

Our business performance for fiscal 2007 saw significant increases in revenues and profits, with ¥972.6 billion (US$9,726 million) in net sales, a 5.6% increase year-on-year, ¥275.9 billion (US$2,759 million) in operating income, a 44.8% increase, and ¥177.4 billion (US$1,774 million) in net income, a 35.2% increase.

Key to this major revenue growth was the steady expansion of global sales thanks to our mainstay products — the immunosuppressant Prograf® and Vesicare®, the overactive bladder (OAB) treatment. In Japan, the substantial increase in sales of Micardis®, the angiotensin II receptor antagonist, and the selective COX-2 inhibitor Celecox® (non-steroidal anti-inflammatory drug for rheumatoid arthritis and osteoarthrosis; launched in June 2007) and the oral quinolone antibiotic Geninax® (launched in October 2007) also contributed to net sales. Sales by region were as follows: ¥505.6 billion (US$5,056 million) in Japan, a 0.8% increase year-on-year; ¥194.5 billion (US$1,945 million) in North America, a 12.1% increase; ¥244.6 billion (US$2,446 million) in Europe, an 11.4% increase; and ¥27.8 billion (US$279 million) in Asia, an 8.3% increase.

The cost of sales decreased 1.7% to ¥279.3 billion. The cost-of-sales ratio was 28.7%, which is a 2.2 percentage point improvement. This was mainly due to changes in the product mix with growth in sales of Prograf® and Vesicare®.

SG&A excluding R&D expenses increased slightly to ¥282.9 billion (US$2,829 million) due to the increase in sales and promotional expenses in the US. However, the SG&A ratio excluding R&D expenses improved by 1.1 percentage points, to 29.1%.

R&D expenses decreased 19.9% to ¥134.5 billion (US$1,345 million), and the ratio of R&D expenses to sales was 13.8%. We licensed-in treatments for anemia from FibroGen, and booked ¥37.5 billion in upfront and milestone payments as R&D expenses in the previous fiscal year.

Astellas is actively pursuing sustained enhancement of enterprise value. To this end, we are improving capital efficiency by combining investments in the business with increases in dividends and the implementation of share buy-backs. In fiscal 2007, ROE improved significantly from 11.3% in fiscal 2006 to 16.1%, thanks to expanding profits and capital efficiency initiatives.

In order to realize our business philosophy, we create innovative new products and distribute them worldwide. It is thus truly important for us to enrich our pipeline. In fiscal 2007, there was solid pipeline expansion and developments. YM178, an OAB treatment expected to become a global product, entered Phase 3

Financial highlights

Three-year summary

	As of and for the year ended March 31,					
	¥ billion			US$ million	% Change	
	2008	2007	2006	2008	08/07	07/06
Net sales	¥ 972.6	¥ 920.6	¥ 879.4	$ 9,726	5.6	4.7
Cost of sales	279.3	284.1	273.0	2,794	(1.7)	4.1
Gross profit	693.2	636.6	606.4	6,932	8.9	5.0
SG&A expenses	417.3	446.0	413.3	4,173	(6.4)	7.9
R&D expenses	134.5	167.9	142.1	1,345	(19.9)	18.2
Operating income	275.9	190.5	193.0	2,759	44.8	(1.3)
Other income (expenses)	(7.1)	21.3	(16.0)	(71)	—	—
Income before income taxes and minority interests	268.8	211.8	177.1	2,688	26.9	19.6
Income taxes	89.2	78.6	71.7	892	13.5	9.6
Net income	177.4	131.3	103.7	1,774	35.2	26.7
Working capital	692.7	657.2	750.1	6,927	5.4	(12.4)
Total assets	1,439.2	1,470.7	1,584.5	14,392	(2.1)	(7.2)
Total liabilities	328.3	371.7	367.2	3,283	(11.7)	1.2
Total shareholders' equity	1,092.9	1,044.6	1,177.0	10,929	4.6	(11.3)
Net cash provided by operating activities	186.9	127.9	140.2	1,869	46.1	(8.7)
Earnings per share (¥, US$)	¥ 349.89	¥ 244.07	¥183.88	$ 3.5	43.4	32.7
Shareholders' equity per share (¥, US$)	2,228.34	2,135.34	2,179.44	22.28	4.4	(2.0)
Dividends per share (¥, US$)	110	80	70	1.1	37.5	14.3
ROE	16.1%	11.3%	8.8%	—	—	—
DOE*	5.0%	3.7%	3.3%	—	—	—

Notes: US dollars have been converted at the rate of ¥100 to US$1, the approximate exchange rate on March 31, 2008. US dollar amounts are included solely for convenience.

*DOE (dividend on equity) = (payout ratio) × ROE

clinical trials in the US and Europe, and YM150, an oral Factor Xa inhibitor, had completed Phase 2 clinical trials for venous thromboembolism (VTE) in Europe. There was other steady pipeline expansion and developments as well, from early stage products to late stage products. Several projects newly entered Phase 2 in the reporting fiscal year, centering on: ASP1941, an SGLT2 inhibitor for the treatment of type 2 diabetes; alefacept (ASP0485), an immunosuppressant for the indication of rejection of organ transplants; YM155 for non-Hodgkin's lymphoma; ASP9831 for non-alcoholic steatohepatitis, and others.

We recently obtained approval for the following products: the echinocandin antifungal injections Mycamine®, additional indication of candidemia and acute disseminated candidiasis in the US, the pharmacologic stress imaging agent Lexiscan® in the US, Advagraf® (a modified release formulation of Prograf®) and Mycamine® in Europe, and Geninax® in Japan.

By completing a reorganization of redundant functionalities in Europe and optimizing our workforce in Japan through an early retirement program, we have successfully laid the foundations for strengthening our competitive abilities, which we have been promoting since the merger.

Fiscal 2008

Astellas faces a difficult business environment, given the NHI price revision in Japan and the expiration of the US substance patent for Prograf® in April this year. However, we expect to expand sales of Vesicare® globally, and sales of Micardis®, as well as new products Celecox® and Geninax® in Japan. In the US, Lexiscan® was launched in June 2008 and is expected to strengthen our hospital franchise.

At the same time, to expand our business further, we will actively invest in R&D and marketing activities for our new products. In addition, we expect decreases in revenues and earnings due to the yen's appreciation against the dollar and the euro.

Consequently, we project a 1.1% decline in net sales to ¥962.0 billion, and an increase in R&D expenses of 19.7%, to ¥161.0 billion. Operating income is forecast at ¥232.0 billion, down 15.9%, and net income down 10.4% at ¥159.0 billion.

Medium-to-long term

The US patent for Flomax® (Harnal®) will expire in 2009 and Astellas will address this issue head-on, with the aim of growing over the medium-to-long term.

We hope to offset the effects of the patent expiration for Prograf® and Harnal® in the US with expanded sales of the global product Vesicare® and the release of new drugs in all regions. In Japan, we expect to increase sales of Celecox® and Geninax®, and we hope to reinforce our hospital franchise, from which to grow with new drugs such as Lexiscan® in the US. We hope to proceed by expanding sales of existing mainstay products in Europe and Asia.

The new drugs that we expect to release in the near future include: in Japan, Irribow®, the treatment for diarrhea-predominant irritable bowel syndrome in males and Graceptor® (a modified release formulation of Prograf®); RSD1235 for atrial fibrillation, which is currently under review in the US; and telavancin for complicated

skin and skin structure infections (cSSSI), which is currently under review in Europe and the US.

Astellas will also accelerate clinical development of its new drugs, which if successful will lead to even further growth over the medium-to-long term. Of the global products currently in the pipeline, we are aiming to bring YM178 to market in the field of urology. Astellas also hopes to swiftly proceed with the clinical development of YM150, which is expected to become a global product. We will endeavor to concentrate our resources to achieve success in our development efforts.

We also acquired antibody drug technology through the acquisition of Agensys in December 2007. By reinforcing Astellas' foundations in the field of antibody technology, we seek to accelerate the creation of new drug candidates for medical fields with many unmet needs, such as cancer, immunology and inflammation.

In our medium-term plan, we aim to achieve the following fiscal 2010 targets: net sales of ¥1,060 billion, operating income of ¥280 billion, ROE at 18%, and DOE at 8%.

Astellas devised its "Vision 2015" in fiscal 2006. This is a management vision that brings together the policies and strategies of the company we aim to become in 2015 by envisioning various scenarios that we will encounter along the way. In "Vision 2015," we make it clear that we will seek sustainable growth and maximization of enterprise value by building a business model called "global category leader (GCL)," in which we will provide high value-added drugs on a worldwide basis in highly specialized fields (categories). In other words, Astellas aims to continue to grow as a GCL by generating innovative drugs in fields where effective treatments currently do not exist and there are many unmet medical needs. Astellas already has experience in establishing a GCL position by in-house developed products such as Prograf®, Harnal®, and Vesicare® in the fields of transplantation and urology. We aim to achieve sustained growth by ensuring our GCL positions in these two fields and developing new categories where we can be a GCL in the future.

We look forward to the continued support and encouragement of our shareholders.

August 2008

Masafumi Nogimori

President & CEO


Changing tomorrow

Marketing

Transforming our global marketing structure

Astellas will strengthen its global sales and marketing capabilities in Japan, the US, Europe and Asia.
Currently, the world's pharmaceutical market breaks down to 43% in the US and 30% in Europe, with Japan coming third.
At Astellas, we believe it is necessary for us to strengthen our business on a global level.

Japan

The Japanese market is Astellas' home field: it is important for us as a source of profits. With our mainstay products and our promising new products, Astellas will continue striving to become number one in the Japanese market.

Keys to growth:

In the fiscal year ended March 31, 2008 (fiscal 2007), the ethical pharmaceutical market in Japan grew approximately 5.5% to ¥8.1 trillion on a NHI (National Health Insurance) price basis. Astellas currently holds the No. 2 position with its share of 7.3% in this market.

Astellas' domestic sales of ethical pharmaceuticals in fiscal 2007 reached ¥478.2 billion, which was an increase of 5.0% year-on-year. The key to this growth was the expansion of sales thanks to mainstay products and new products.

As for our mainstay products, the angiotensin II receptor antagonist Micardis® continues to see an increase in market share despite intensifying competition among the ARBs (angiotensin II receptor blockers), as its sales increased. Other mainstay products such as Vesicare®, the overactive bladder (OAB) treatment, the immunosuppressant Prograf®, and Lipitor®, the hypercholesterolemia treatment continued to record sales growth. Sales of Gaster®, the treatment for peptic ulcers and gastritis and Harnal®, the treatment of functional symptoms associated with benign prostatic hyperplasia remained steady amid stiff competition. Both the selective COX-2 inhibitor Celecox®, which was launched in June 2007, and the oral quinolone antibiotic Geninax®, which was launched in October, achieved smooth penetration in the market and helped increase net sales.

■ **Sales of major products**

(¥ billion)

	FY06	FY07
Rx sales in Japan	455.2	478.2
Lipitor®	94.7	97.7
Micardis®	50.3	62.6
Gaster®	62.2	60.9
Harnal®	38.5	37.5
Prograf®	19.0	24.6
Myslee®	19.4	21.5
Seroquel®	16.8	19.2
Cefzon®	14.7	14.5
Vesicare®	6.2	13.5
Celecox®	–	3.7
Geninax®	–	3.7

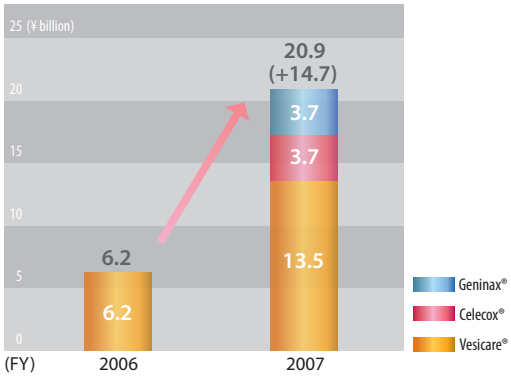
Future prospects :

As in other leading industrial nations, there is pressure in Japan to control drug expenditures.

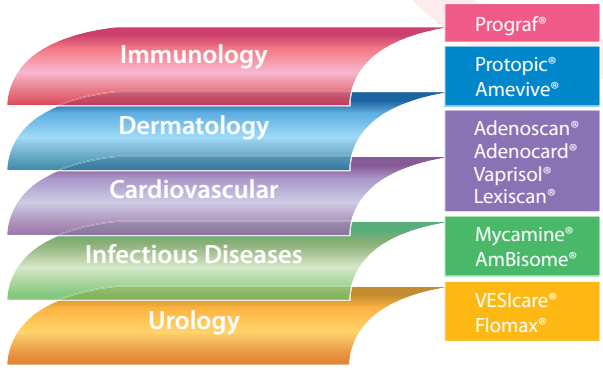
An NHI price revision was carried out in April 2008, with a price cut of 5.2% on average in the industry. The impact on Astellas was slightly more than 5% at NHI price revision rates. Also, the government has set a goal of increasing the volume share of generic products from 17% at present to 30% by 2012, and medical prescription forms have been changed accordingly.

In the medium term, we will primarily focus on expand-

Growth of new products



Astellas US product portfolio



ing sales of our mainstay products — Lipitor®, Micardis®, Prograf®, the hypnotic Myslee® and the schizophrenia treatment Seroquel®. As for new products, we believe Vesicare®, Celecox®, Geninax®, and Irribow®, the treatment for diarrhea-predominant irritable bowel syndrome in males will make significant contributions.

We also aim to maintain revenues with Gaster®, Harnal®, and Funguard®, the echinocandin antifungal injections, which are in-house-discovered products.

Astellas boasts one of the preeminent sales forces in the industry, with 2,400 medical representatives (MRs) who are highly regarded by physicians.

We believe that, in the medium- to long-term range, sales of the osteoporosis treatment YM529 and additional indications of celecoxib for lower back pain, etc. (currently under application for approval) will contribute to further sales expansion.

We will vie for the top market share in Japan, sustained by our plentiful product line and our superior marketing team in terms of both quality and quantity.

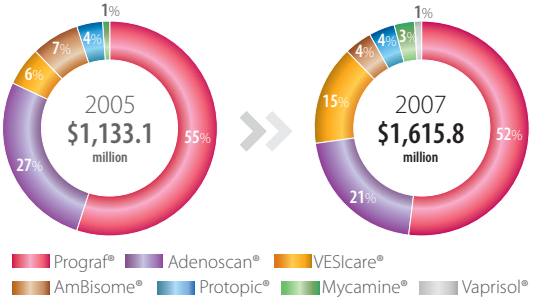
Keys to growth:

Astellas' sales in North America reached ¥194.5 billion in fiscal 2007, which is a 12.1% increase year-on-year. This was due to the favorable expansion of sales for the top-selling product Prograf® and VESIcare®, as well as sales expansion of Mycamine® (Japanese brand name: Funguard®) and other products.

In North America, the Prograf® business has established a strong presence in the field of transplantation. Prograf® is a leading drug in the transplantation market in the US, and its share in primary drugs for new patients reached 92.6% for liver transplants and 85.9% for kidney transplants (according to UNOS, April 2008). Prograf® sales in North America were ¥97.2 billion in fiscal 2007, for an increase of 10.4%.

VESIcare® is an engine of our growth in North America. In cooperation with GlaxoSmithKline, sales of VESIcare® are growing with the share of new prescriptions exceeding 15% per annum, and sales reaching ¥27.7 billion. In addition, VESIcare® has fully accumulated efficacy and safety evidence through the various clinical studies.

Sales trends in the US



North America

The North American market is the largest pharmaceutical market in the world. Astellas has a unique product lineup in this market, has built up an efficient marketing infrastructure, and will demonstrate its strength and differentiate itself from other companies.

Future prospects:

The substance patent of Prograf® expired on April 8, 2008. Regarding future business in North America, the nature of our operations will change from a focus on Prograf® to a unique product lineup through the multiple franchises.

First, in addition to our current products; the pharmacologic stress agent Adenoscan®, the vasopressin antagonist Vaprisol® and Mycamine®, we will strengthen our critical care franchises centered on hospitals by introducing new products, such as the pharmacologic stress imaging agent Lexiscan®. We are at the application stage for the antiarrhythmic agent RSD1235 and telavancin, the injectable antibacterial for the treatment of complicated skin and skin structure infections (cSSSI). Together with the release of these new drugs, we also plan to strengthen our marketing capabilities to more effectively target hospital-based physicians.

In the field of transplantation, Astellas will maintain its presence by fully utilizing the know-how and expertise it has accumulated through the development and marketing of Prograf®. We have filed for approval with the FDA for an additional formulation of FK506 MR (modified release).

The urology field is our fastest-growing franchise, with VESIcare® and Flomax® (the US brand name for Harnal®). For the medium-term, we will strengthen our operations in this field by bringing YM178 (an OAB treatment currently in the pipeline and in Phase 3 studies) and YM155 (prostate cancer) to market in North America.

Astellas has approximately 900 MRs in North America, but has reached sales of ¥194.5 billion, which is extremely efficient. With our competitive products and our high-quality, specialized marketing, we will strengthen our transplant and urology businesses and expand our sales in hospital market, to build a unique position in the North American market.

Astellas Pharma Canada is the only Japanese-owned pharmaceutical enterprise in Canada. For several years it has been steadily expanding its business, by growing sales of mainstay products and the contribution of new drugs. Sales of Prograf® and Vesicare® have been recording favorable trends, while new drugs such as Mycamine® and Advagraf®, the once-a-day modified release formulation of Prograf®, are also expected to begin contributing to sales. The company is expected to continue posting strong growth over the near term.

Europe

The European ethical pharmaceutical market showed steady growth in 2007. In addition to the five major EU countries, Astellas will also increase its presence in neighboring countries where there is significant growth.

Keys to growth:

In Europe, our sales reached ¥244.6 billion in fiscal 2007, which is an 11.4% increase over the previous year.

We enjoyed strong sales of our mainstay products in more than 20 countries in Europe, and South Africa where we have established our subsidiaries.

In particular, our sales are expanding in countries other than the five leading EU countries, and we are seeing steady expansion and growth of business in other countries such as those in Northern and Eastern Europe, as well as Russia.

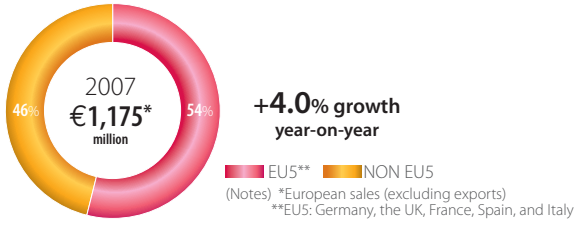
In Russia, our sales reached over ¥10 billion, thanks to the sales expansion of antibiotics, Prograf®, and Vesicare®.

Sales of Prograf® increased by 23.9% to ¥65.3 billion as its market share steadily expanded in Europe. It became the number one calcineurin inhibitor (CNI) in fiscal 2007. In June 2007, we launched Advagraf® in the UK and Germany, and it is now being marketed in more than 16 countries.

Vesicare® sales also increased by 50.3% to ¥18.5 billion year-on-year. Vesicare® has quickly expanded its market share based on strong clinical evidence, and is the number one or number two product in major markets.

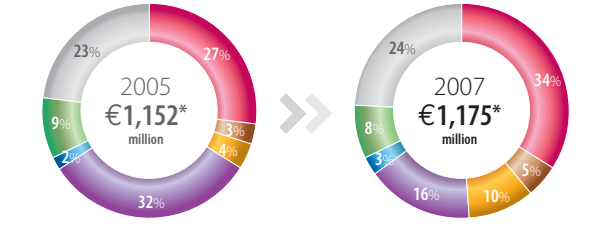
Sales of Harnal® (the EU brand name: Omnic®) declined after its patent expiration in February 2006. We worked to improve the product by means of an additional formulation (Omnic OCAS®).

Regional sales breakdown



Bulk sales to and royalty revenue from licensees related to Harnal® (the US brand name: Flomax®) increased by 2.7% to ¥46.7 billion due to favorable sales in the US.

Sales trends in Europe: Diversification of the product franchise (especially in urology)



(Note) *European sales (excluding exports)

As indicated in the above chart, in Europe, we are successfully diversifying our urology portfolio.

Future prospects:

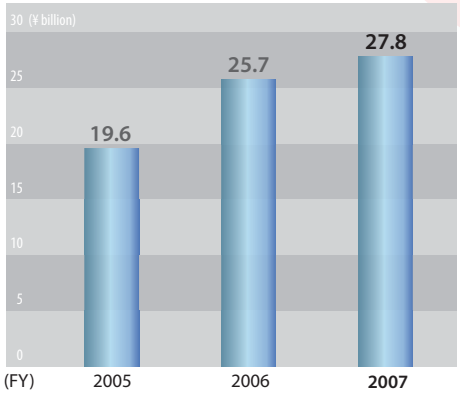
We will seek to increase sales in the field of transplantation with Prograf® and Advagraf®. In the field of urology, we will endeavor to continue growing with Vesicare®, and Eligard®, the treatment for advanced prostate cancer. Additionally, we will continue making efforts to build a new hospital franchise in regard to infectious diseases with the launch of Mycamine® in August 2008 in the UK, and telavancin (cSSSI), currently under application for approval.

We will also strengthen our business in Russia and Eastern Europe — where growth is significant — in addition to the primary markets in Europe, while endeavoring to expand our presence in developing countries such as Turkey.

Asia

Astellas' Asian sales network consists of seven distributors in China, Hong Kong, Taiwan, South Korea, Indonesia, Thailand, and the Philippines. In East Asia, we aim to enter the top 10 as an overseas ethical pharmaceutical company centering on transplantation and urology.

Sales trends in Asia



Keys to growth:

Pharmaceutical sales in Asia stood at ¥27.8 billion in fiscal 2007, which is an 8.3% increase year-on-year. Prograf® sales increased by 7.6% year-on-year to ¥11.0 billion. Harnal® sales increased by 8.4% to ¥8.2 billion with the release of oral controlled absorption system (OCAS) formulations. Additionally, Vesicare® and Mycamine® were released in Asia and are contributing to higher sales.

Future prospects:

Astellas aims to grow in the Asian market by concentrating resources in the fields of urology and transplantation. We will increase our staff, including medical representatives, and strengthen our sales force. In Asia, the fields of urology and transplantation are still developing, and there is plenty of room to expand with Prograf® and Harnal®. We aim to maximize sales of Prograf® and Harnal®. Astellas hopes to quickly penetrate the market with Vesicare® and Mycamine®, leveraging the sales experience it has cultivated through other products. Astellas also hopes to increase its business presence in China, given the country's growth potential in terms of population and economics. We are also exploring the Indian market, which is expected to see tremendous growth as well, and where we opened a representative office in fiscal 2007 and have begun market research. As stated above, Astellas aims to be the top Japanese pharmaceutical company and to become one of the top ten non-local pharmaceutical companies doing business in East Asian markets.

Development

Accelerating clinical trials, enriching our pipeline

Astellas currently has a unique pipeline filled with potentially high-value compounds. We will focus resources on the prioritized compounds in our pipeline and further accelerate development of these compounds in order to generate products with the high-value potential. We also recognize the need to further expand our pipeline to support growth over the medium and long term. To achieve this, we will actively license-in products from other companies, as well as investing resources efficiently in high-priority in-house products. In 2008 we licensed-in the BACE inhibitor program for Alzheimer's disease from CoMentis.

Current pipeline

We are making steady progress with our pipeline, and have obtained marketing approvals for a total of six products in Japan, the US, and Europe, including approvals for additional indications and new formulations, between April 2006 and April 2007. The main approved products were Advagraf® (FK506 MR), the modified release formulation of Prograf® in Europe, the pharmacologic stress imaging agent Lexiscan® in the US, and the oral quinolone antibiotic Geninax® for respiratory tract infections in Japan. In July 2008, we also obtained marketing approvals for two products in Japan, Graceptor® (FK506 MR) for organ rejection in transplant, and Irribow® for diarrhea-predominant irritable bowel syndrome in males.

We currently have 15 products filed in Japan, the US, and Europe (as of August 1, 2008). These include YM529, filed in Japan for osteoporosis; RSD1235, filed in the US for atrial fibrillation; and telavancin, filed in the US and Europe for complicated skin and skin structure infections (cSSSI) caused by gram-positive bacteria.

The pipeline compound at the most advanced stage of development is YM178 for overactive bladder (OAB), which started Phase 3 clinical trials in Europe and the US in April 2008. YM178 is a beta 3 receptor agonist and will be first-in-class in the global market as a beta 3 receptor agonist for the treatment of OAB. Since YM178 is in-house discovered, it is expected to be a global product following Vesicare®. YM178 has a different mechanism of action from the muscarine receptor antagonist Vesicare®. Once we have succeeded in developing YM178, we will be able to deliver a wide range of treatment options for this area. We place YM178 as a top-priority project in our pipeline, and plan to concentrate our resources on this project to ensure the compound is filed and approved quickly.

Another compound at a late development stage is YM150, which is being developed for the prevention of venous thromboembolism (VTE) after major orthopedic surgery, and for the prophylaxis of thromboembolic complication associated with atrial fibrillation (AF). YM150 is a Factor Xa inhibitor discovered in-house. The results of European Phase 2b trials on the prevention of VTE, released in late 2007, showed dose dependency of YM150 for prevention of VTE. To ensure the optimal benefit/risk product profile, we plan to start Phase 2b/3 trials for head-to-head comparison of twice-daily and once-daily dosing on prevention of VTE in Europe in the latter half of fiscal 2008. We are also conducting Phase 2 trials in the US and Japan/Asia on the prevention of VTE, and Phase 2 trials in Europe and Japan/Asia on the prophylaxis of thromboembolic complication associated with AF. Although there are many competitors in this field of medicine, we see YM150 as a global strategic product.

Other main compounds in Phase 2 of our pipelines include: YM543/ASP1941 for type 2 diabetes (Phase 2 clinical trials conducted in Japan, the US, and Europe), ASP 2151 for herpes zoster and genital herpes (Japan and the US), and alefacept (ASP0485) for organ rejection in transplant (the US and Europe).

Improving our global development capabilities

In April 2008, we established Astellas Pharma Global Development (APGD) in the US as our global development headquarters to strengthen our product development competitiveness. APGD is accountable for generating strategies and overall management of global development in Japan, the US, Europe, and Asia.

The president of the new company, Steven Ryder, M.D., F.A.C.P., the head of our global development function, was previously Senior Vice President and Group Therapeutic Area Development Head at Pfizer Global Research and Development. APGD will help improve the speed and efficiency of our development projects in each region of the world.

Leveraging resources globally

I am privileged to have been selected to lead the newly formed Astellas Pharma Global Development (APGD) organization. This new organization builds upon the development experience and talent of the many dedicated scientists and staff at the Astellas sites in Europe, North America and Japan. Having had the opportunity to visit and talk with people at a number of the key development sites, including Leiderdorp, Tokyo and Deerfield, I am very impressed by the dedication of Astellas staff to the mission of introducing important new medical products. This very clear focus and dedication provides Astellas an important competitive edge and a strong enabler. Challenges are immediately viewed as opportunities and solutions to problems are designed in collaboration and using all relevant talent. Important challenges that are already being addressed include the continued advancement towards a more integrated global development organization and focusing resource allocation on activities with the highest value. Efforts to address these issues include a review of global operations, systems, processes, skill sets and structure as well as enhanced efforts to review and prioritize project activities. Applying the right talent to the right projects with the right priority and with the right systems and process will be a constant focus of APGD. This very clear focus will allow APGD to be a strong contributor to the achievement of Vision 2015.

Steven Ryder, M.D., F.A.C.P.
President,
Astellas Pharma Global Development Inc.

Research

Focusing on strategic therapeutic areas and diseases

Research-focus therapeutic fields and drug-discovery technology

In 2006, we defined six strategic focus therapeutic fields as priority research areas in order to conduct prioritized and efficient allocation of our resources on drug candidates generated in-house. This could result in the realization of our vision of becoming a global category leader (GCL). The six strategic focus therapeutic fields are: urology, immunology/inflammation, infectious diseases (including viral diseases), CNS/pain, diabetes, and cancer.

We have already generated innovative new products in-house, such as the immunosuppressant Prograf®, Harnal®, the treatment of functional symptoms associated with benign prostatic hyperplasia, and Vesicare®, the overactive bladder treatment, through the application of our small-molecule drug discovery technology and fermentation technology. We have reinforced antibody drug technology thanks to the December 2007 acquisition of Agensys. Using these advanced technologies, we are concentrating our research resources on the diseases or therapeutic fields where there are still major unmet medical needs, and which require a highly specialized sales force.

Building a full-fledged global research network

We are actively building a full-fledged global research network to generate high value-added new drugs. We have eight research centers in Japan, the US, and Europe. We make extensive use of both internal and external resources for the generation of new drugs while collaborating with public institutions, universities, and research facilities in Japan and overseas to compete as a global pharmaceutical company in the discovery of new drugs.

We are reorganizing and consolidating our drug discovery research functions, and are currently constructing new research buildings at our facilities in Tsukuba, Japan, which are scheduled for completion in the summer of 2008. The new buildings will allow us to consolidate our five research laboratories responsible for drug discovery into one facility. We aim to increase and strengthen our capability to continuously discover new drugs.

At our overseas research facilities we are engaged in field-specific drug discovery research and metabolism studies. For example, the Astellas Research Institute of America (ARIA) in Illinois is engaged in transplant research, and Urogenix in North Carolina is engaged in research in the urology field. Through these research activities, we aim to strengthen and expand our drug discovery research base in each franchise area.

Artist's impression: New Buildings at Research Center in Tsukuba

Strengthening our therapeutic antibody discovery platforms

In our medium-term plan, we have declared that we will aggressively work on the field of therapeutic antibodies, and we have been working to strengthen our discovery technology platforms for therapeutic antibodies, mainly at our Molecular Medicine Research Laboratories. We are also pursuing alliances with outside parties to build up the antibody

drug business. Astellas acquired a non-exclusive license for Regeneron's VelocImmune® technology and access to a phage display library from MorphoSys, both in March 2007. We further reinforced our antibody research base through the establishment of the Advanced Biologics laboratory in the Molecular Medicine Research Laboratories in October 2007. With the Agensys acquisition in December 2007, we gained access to expertise and assets in fully human monoclonal antibody technologies, proprietary target molecules in the cancer field, and a clinical candidate antibody pipeline.

Acquisition of Agensys

Agensys has the strengths of advanced technology platforms and a pipeline in the cancer field. We are aiming at a rapid startup and acceleration of our antibody drug business by full use and integration of Agensys.

Agensys has a number of technology platforms.

Technology platforms

- 30 proprietary novel clinically relevant target antigens in 14 cancer types identified by gene expression monitoring of human tumor tissue samples
- More than 100 issued or allowed patents, and more than 300 pending patent applications (as of December 2007)
- Optimized immunization and hybridoma related technologies and know-how, which are easily applicable to VelocImmune® Mice
- Proprietary patient-derived tumor Xenograft models
- Generation of fully human antibodies using transgenic mice (XenoMice®)

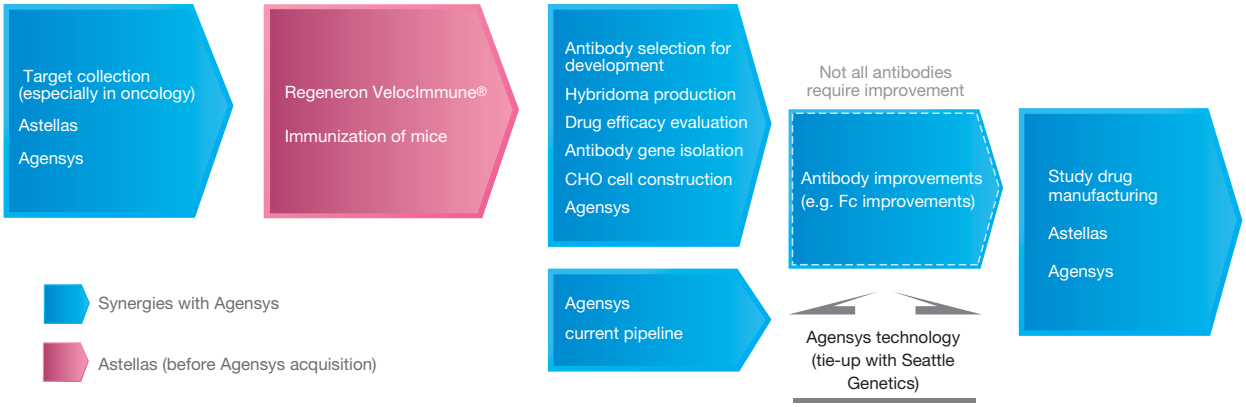
Agensys' pipeline includes about ten antibodies in the early-phase clinical stages and the preclinical stages, so we expect this acquisition to expand our cancer pipeline. Agensys also has GMP manufacturing facilities producing investigational antibodies for preclinical and early-stage clinical studies, so we expect to be able to rapidly push ahead with research and development.

We expect quantitative contributions to Astellas' antibody drug business including increasing the annual number of molecular targets for antibody generation, improving the probability of antibody generation, and shortening the time between the project start and the filing of an investigational new drug (IND) application.

Expected antibody technology and know-how synergies in the cancer field are shown in the flowchart below.

Synergies with Agensys

Technology synergies: Flowchart of therapeutic antibody technologies in oncology



Message from the management of Agensys

Donald B. Rice, Ph.D.
President

Six months into the integration of Agensys into the Astellas organization, I am very pleased with:

- our successful filing of 2 new IND, already accepted by the FDA, for antibody products targeting kidney and ovarian cancers.
- the continuous support from Astellas to maintain Agensys' momentum in moving forward multiple antibody programs, while keeping its efficient and flexible entrepreneurial culture.
- our rapid exploitation of the VelocImmune® technology which had been previously licensed by Astellas.

The Agensys team is excited to be part of the Astellas organization. Agensys expertise and assets in oncology research and development, including its portfolio of proprietary targets and pipeline of therapeutic antibodies, provide a strong foundation for Astellas Oncology franchise and positioned it to become a global leader in this area. With the support of Astellas management, the Agensys team continued to move forward its therapeutic antibody programs, providing Astellas with potential products in different cancer indications, including those of the prostate, pancreas, kidney, liver, bladder, and ovary. The interaction between the Agensys and the Astellas teams, indicated the complementarity in capabilities and expertise, and led to the establishment of collaborations that already have enhanced on-going programs and initiated new ones.

Aya Jakobovits, Ph.D.
Executive Vice President, R&D

Corporate profile

Agensys is a private biotechnology company located in Santa Monica, CA. It began operations in 1997 as UroGenesys, founded by oncologists at UCLA and Dr. Rice, joined by Dr. Jakobovits, an inventor of XenoMouse® at Abgenix, in 1999 as CSO. The company changed its corporate name to Agensys in 2001. There are approximately 100 employees. Agensys discovers proprietary targets using tumor tissues derived from patients and has already identified 30 proprietary targets in 14 cancer types. It has expanded its oncology research focus from urology to a broad range of cancers and also its business from target discovery to antibody product development, manufacturing and clinical trials. Agensys' pipeline includes therapeutic naked antibodies and antibody drug conjugates. It licenses-out targets and antibody products in early-stage clinical development, and is jointly developing them with partners, while retaining a unique pipeline for its own account.

People

Leveraging human resources to achieve a competitive advantage

Astellas recognizes that employees are the most important of all management resources. Our human resource policies are achievement-oriented, encouraging our employees to pursue speed, specialization, and transformation. To realize a strong competitive edge, we concentrate on human resource development through various programs with the aim of becoming a truly global category leader.

North America

A researcher at Astellas Research Institute of America

A member of the development staff, Astellas Pharma US

A member of the manufacturing staff at the Meppel Plant, Astellas Pharma Europe

Europe

Marketing employees, Astellas Pharma Europe

A medical representative, Astellas Pharma

Japan

Research staff at Miyukigaoka Research Center, Astellas Pharma

Asia

A medical representative (right), Astellas Pharma (Thailand)


Together tomorrow

Transplantation

Since its launch in Japan in June 1993, the immunosuppressant Prograf® has made a significant contribution to reducing the organ rejection rate in transplant patients and improving transplant outcome.

Prograf® is currently the global leader among immunosuppressants used after organ transplant surgery and is now available in over 80 countries worldwide. The drug has established Astellas as a major global player in the transplant field.

Prograf® sales have risen dramatically since its launch, and in the fiscal year ended March 31, 2008 (fiscal 2007) global sales rose 15.8% over the previous term to ¥203 billion.

In the US, the largest transplant market, Prograf® sales accounted for almost half of its global sales in fiscal 2007 with only some 45 medical representatives (MRs) responsible for promoting the drug. Prograf® has now captured an extremely high share of the US calcineurin inhibitor (CNI) market for new transplant patients, being used in over 90% of liver transplants, over 80% of kidney transplants, and over 60% of heart transplants.

In Europe, Prograf® was launched in the UK in 1994, is now available in almost 30 countries, and sales are growing.

In Japan, as well as the steady growth from transplant indications, sales growth has been supported by additional indications for autoimmune diseases, including rheumatoid arthritis, lupus nephritis, and myasthenia gravis.

Sales are also growing in Asia, particularly in China and South Korea.

As well as promoting the product to transplant surgeons, we are providing broad-ranging support covering all aspects of transplant medication. We provide educational activities for transplant coordinators and physicians responsible for maintenance of post-transplant patients, and patient education programs.

There have been reports that patients' non-adherence to the immunosuppressant regimen is closely related to the loss of graft function in transplant patients in the stable phase. In addition to Prograf®, formulated for twice-daily dosing, we are developing a modified release formulation of Prograf® (FK506 MR) that enables once-daily dosing as another treatment option for improved compliance. We launched this new modified release formulation as Advagraf® in June 2007 in Germany and the UK. Today this new formulation is available in more than 16 countries. And we also obtained approval under the brand name of Graceptor® in Japan in July 2008. In the US, we have filed FK506 MR for approval.

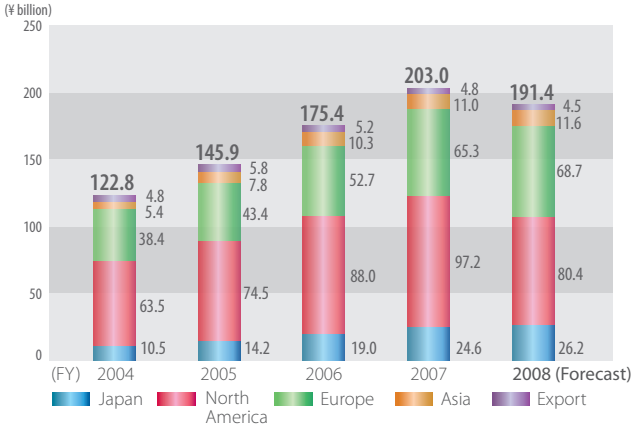
The US substance patent of Prograf® expired in April 2008. In other regions, the substance patent is scheduled to expire in the main European countries in 2009 and in Japan in 2010. Moving forward, we aim to continue our strong commitment to supporting the transplant field through drug discovery research, development, and marketing.

We are expanding our development pipeline in the transplant field. We are conducting Phase 2 trials in Europe and the US on ASP0485 (alefacept) as the adjunctive therapy for immunosuppression following kidney transplants, and we are also conducting Phase 1 trials on ASP015K. We licensed-in a CD40 antagonist antibody from Kirin Pharma in January 2007.

We have positioned transplantation as one of our priority research fields, and are focusing on the discovery of innovative new drugs.

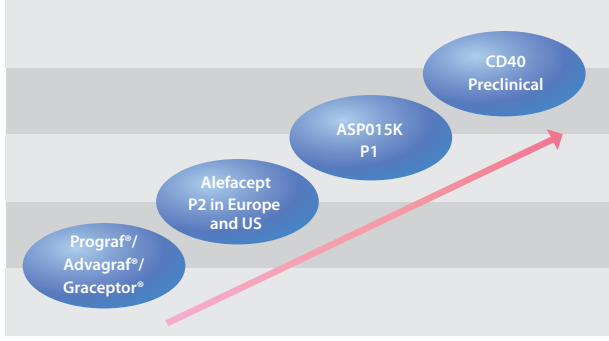
Prograf®

Sales trends



Transplantation

Strengthening our franchise




Together tomorrow

Urology

Urology is another of our global franchises. Harnal®, for the treatment of functional symptoms associated with benign prostatic hyperplasia (BPH), was our first foray into the urology field, and we have now strengthened our position with Vesicare®, an overactive bladder (OAB) treatment .

Harnal® is an alpha-1 blocker that is highly selective for smooth muscle in the prostate and urethra. It improves functional symptoms associated with BPH while exerting a minimal effect on blood pressure. Harnal® was first launched in Japan in 1993 and is now available in over 90 countries around the world. It is now the global leader in the treatment of BPH.

The substance patent has already expired in all the regions except for the US. As a result, sales of Harnal® are trending down. In June 2006, we launched the orally disintegrating tablets (Harnal® D Tablet) in Japan and Asia. We have also launched a new oral controlled absorption system (OCAS) formulation (Omnic OCAS®/Harnal OCAS®) in Europe and Asia.

In the US, we have licensed-out Harnal® to Boehringer Ingelheim, and our US affiliate is co-promoting the product. The substance patent is valid until 2009 in the US, and Harnal® has grown into a blockbuster product with sales in excess of US$1.5 billion under the brand name of Flomax®.

Sales of Harnal® are continuing to grow in Asia as well, due to a large potential market, despite the substance patent expiration.

Global Harnal® sales in fiscal 2007, including bulk sales to and royalty revenues from licensees, fell 3.6% from the previous term to ¥122.4 billion.

Vesicare®, our second global product in the urology field, was launched in Europe in 2004, the US in 2005, and Japan in 2006. The drug has rapidly penetrated the market due to its dosing flexibility and its good safety and efficacy profile against symptoms associated with OAB. Sales of Vesicare® have grown significantly, reaching ¥60.1 billion in fiscal 2007, up 65.8% from the previous term. We expect Vesicare® to be the largest driver of sales growth of our urology franchise in our current medium-term plan.

In Japan, Vesicare® already has a substantial market share in fiscal 2007, despite being only the second year after its launch.

In Europe and the US, the market share of Vesicare® is constantly growing and Vesicare® is now the number one or number two product in each market. In the highly competitive US market, we are co-promoting VESIcare® with GlaxoSmithKline and are targeting a 20% share of total prescriptions by fiscal 2010.

In Asia, we are launching Vesicare® in more countries and expect this to contribute to earnings.

The OAB market is characterized by a large number of potential sufferers. Many people are reluctant to seek medical treatment for such conditions, and some do not even realize they are suffering from a medical condition. Because of this, we are working to increase awareness regarding OAB and treatment options, as well as publicizing the effectiveness of Vesicare® in helping enhance patients' quality of life. We also aim to grow sales further by accumulating evidence of its efficacy such as against urinary urgency, which is a central symptom of OAB.

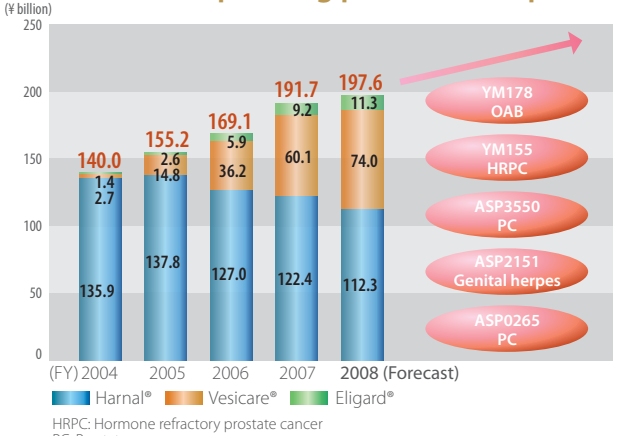
Besides these two global products, we are also marketing Eligard®, a treatment for advanced prostate cancer in Europe. As well as the 1-month and 3-month formulations, we are now rolling out a 6-month formulation. Fiscal 2007 sales rose 56.8% over the previous term to ¥9.2 billion, increasing our presence in the urology field in Europe.

We are actively developing new products in urology to expand our franchise. We are currently conducting Phase 3 trials in Europe and the US, and Phase 2 trials in Japan of YM178, a beta 3 receptor agonist for the treatment of OAB. We are also conducting the clinical development of ASP2151 for genital herpes and the anticancer YM155 for hormone refractory prostate cancer.

Additionally, we are stepping up our drug discovery efforts in urology as one of our priority research fields.

Urology

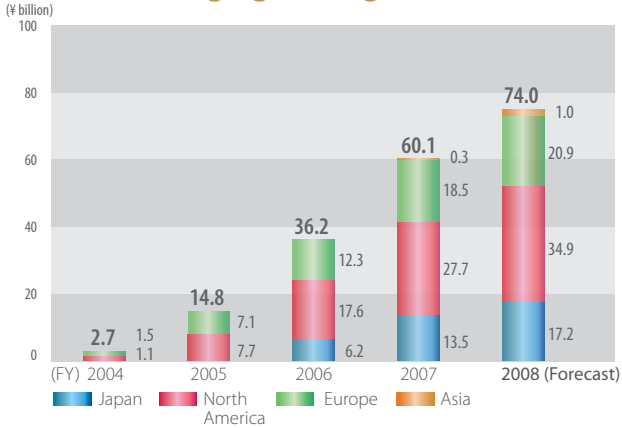
Our expanding product lineup



HRPC: Hormone refractory prostate cancer
PC: Prostate cancer

Vesicare®

Sales surging in the global market



Major products

(FY2007 sales: ¥ billion)

Lipitor®

Sales

97.7

+3.2%

We have grown the market share of the hypercholesterolemia treatment Lipitor® since its Japanese launch in 2000. Lipitor® is now the leading statin, accounting for approximately 40% of this market segment.

In the highly competitive market, our co-promotional efforts with Pfizer Japan have focused on the importance of reducing LDL cholesterol levels to the target values, and Lipitor®'s excellent safety and efficacy profile supported by a broad range of evidence obtained from clinical experience worldwide.

Micardis®

Sales

62.6

+24.4%

The long-acting angiotensin II receptor blocker (ARB) Micardis® was launched in Japan in 2002 for the treatment of hypertension. ARBs are now the fastest-growing antihypertensive in Japan, and the market as a whole is maintaining double-digit annual growth.

Due to its sustained action over 24 hours, Micardis® provides greater control in the early mornings, when rising blood pressure can often pose a higher risk of cardiovascular events. The drug is also expected to offer advantages for renally impaired patients because it is almost completely excreted into the bile. We are building up evidence to support this product, including the ONTARGET trial released in 2008, the largest ever clinical study on ARBs to date.

We are co-promoting Micardis® with Nippon Boehringer Ingelheim.

Myslee®

Sales

21.5

+11.1%

Myslee® was launched in Japan for the treatment of insomnia in December 2000. The drug is a hypnotic with a rapid onset of action and provides a sleep pattern close to natural sleep. Promoted using the slogan "Good Sleep, Good Life," Myslee® sales are growing, and the drug is the leader in the Japanese market for insomnia medications.

We are co-promoting Myslee® with sanofi-aventis.

Seroquel®

Sales

19.2

+14.2%

Seroquel® is an atypical antipsychotic that was launched in 2001 for the treatment of schizophrenia. Sales of Seroquel® have grown steadily in double digits for the last four years. The launch of atypical antipsychotics in Japan has prompted a substantial market shift away from the conventional typical antipsychotics, such that atypical antipsychotic sales have grown substantially and now account for approximately 70% of the total.

We have employed CNS (central nervous system) MRs who cover mental hospitals and mental clinics to improve both the quality and quantity of our promotional activities to specialist physicians. We are growing our CNS franchise in Japan through our key products Seroquel®, Myslee®, and the antidepressant Luvox®.

Gaster®

Sales

60.9

-2.2%

The H_2 blocker Gaster® is a leading therapeutic on the Japanese market for the treatment of peptic ulcers and gastritis. Gaster® is already off patent, but sales still exceed ¥60 billion even after more than 20 years on the market. Its safety and efficacy profile is supported by clinical experience over many years and clinical data such as the FIRE and FORCE studies on Japanese patients. Using our advanced formulation technologies, we have also increased Gaster®'s product value with the orally disintegrating tablet Gaster® D, which provides improved convenience in administration.

(FY2007 sales: ¥ billion)

Cefzon®

Sales
14.5
-1.2%

The oral cephalosporin antibiotic Cefzon® was launched in Japan in 1991, and is now considered a standard drug in this field because of its broad spectrum for both gram-positive and gram-negative bacteria, and its wide-ranging indications. The fine granule or oral suspension formulation is highly acclaimed for its good flavor, which enables pediatric patients to take the drug easily.

Geninax®

Sales
3.7
New product

The oral quinolone antibiotic Geninax® shows strong activity against respiratory tract infection pathogens and otorhinolaryngological infection pathogens, including the multi-drug resistant *S. pneumoniae*. As a respiratory quinolone with once-daily dosing, Geninax® has rapidly penetrated the Japanese market since its launch in October 2007.

We are co-promoting Geninax® with Taisho Toyama Pharmaceutical.

Funguard®/ Mycamine®

Sales
17.8
+8.0%

We launched the candin type antifungal agent Funguard® in Japan in 2002, and have since grown its share of the market thanks to its efficacy and safety profile. Funguard® is now the market leader, with a share of almost 50% in the injectable antifungal agent market. The product is branded as Mycamine® for global markets, and was launched in the US in 2005. While price competition is intensifying in the US market, we are steadily growing sales of Mycamine® supported by an additional indication of candidemia obtained in January 2008 and co-promotional efforts with Roche.

As well as the launch in Canada and several Asian countries, we have also launched the product in Europe, starting with the UK in August 2008. We are now in a position to support the treatment of fungal infections on a global basis.

Celecox®

Sales
3.7
New product

The anti-inflammatory agent Celecox® was the first selective COX-2 inhibitor on the Japanese market, and it has steadily penetrated the market since its launch in June 2007. Today, as Celecox® is indicated for rheumatoid arthritis or osteoarthritis, we are promoting the drug to rheumatology or orthopedic specialists. We are currently developing the drug for additional indications including lower back pain and acute pain.

We are co-promoting Celecox® with Pfizer Japan.

Adenoscan®

Sales
37.6
+1.4%

Adenoscan® is a pharmacologic stress agent in radionuclide MPI in patients who are unable to undergo adequate exercise stress. Currently the drug is the market leader in the US. We also launched Lexiscan® in the US in June 2008, and are working to strengthen our franchise for adjuncts to MPI studies through our portfolio of both Adenoscan® and Lexiscan®.

Pipeline (selected)

Global development

Code No.	Therapeutic target	Phase I	Phase II	Phase III	Filed	
FK506 MR	Suppression of organ rejection in organ transplant (modified release)					US
telavancin	Complicated skin and skin structure infections (cSSSI)					US, Europe
	Hospital-acquired pneumonia (HAP)					US, Europe
	MRSA infections					Japan
YM178	Urinary frequency, urinary incontinence or urgency associated with overactive bladder					US, Europe
						Japan
YM443	Functional dyspepsia					Japan
						US
YM150	Prevention of venous thromboembolism (VTE) after major orthopedic surgery					Europe, US, Japan/Asia
	Prophylaxis of thromboembolic complications associated with atrial fibrillation (AF)					Europe, Japan/Asia
YM060	Irritable bowel syndrome (IBS)					Europe
YM155	Hormone refractory prostate cancer, Non-Hodgkin's lymphoma					US, Europe
						Japan
ASP2151	Herpes zoster					Japan
	Genital herpes					US
ASP0485	Prophylaxis of kidney transplant rejection					US, Europe
ASP1941	Type 2 diabetes					Japan, US

The below selections focus on new molecular entities (NMEs). For the full pipeline list, please see the management's discussion and analysis, pages 43-44.

Code No.	Therapeutic target	Phase I	Phase II	Phase III	Filed	
ASP9831	Non-alcoholic steatohepatitis					Europe
YM311 (FG-2216)/ ASP1517 (FG-4592)	Renal anemia					Europe
						Japan

Local development: Japan (NMEs only)

Code No.	Therapeutic target	Phase I	Phase II	Phase III	Filed
YM529	Osteoporosis (once daily)				
	Osteoporosis (intermittent administration)				
ASP8825 (XP13512)	Restless legs syndrome, Painful diabetic neuropathy				
ASP1585 (AMG223)	Hyperphosphatemia				
ASP3550	Prostate cancer				

Local development: US (NMEs only)

Code No.	Therapeutic target	Phase I	Phase II	Phase III	Filed
RSD1235	Antiarrhythmic agent				

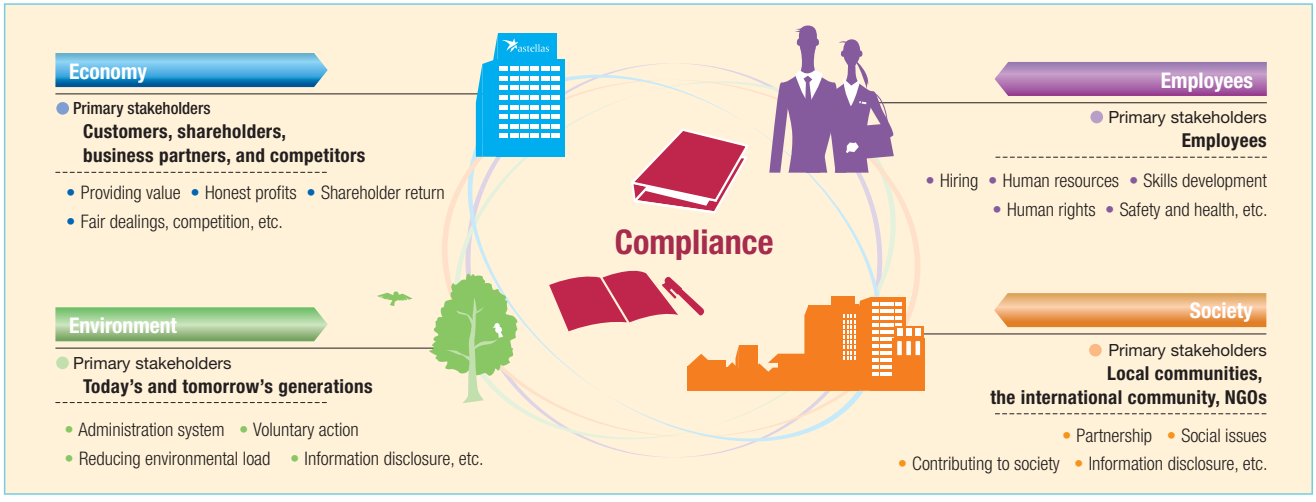
(As of August 1, 2008)

Corporate social responsibility

Astellas thinks of CSR-based management as the way business is conducted. It means that all business activity is checked from the CSR perspective. Because of this, we positioned the Charter of Corporate Conduct, which is also our CSR policy, as our standard for judgment. Astellas always checks its business activities from a CSR perspective. We wish not only to benefit patients and provide socially useful products and services, but also to utilize our particular strengths and unique qualities in helping to solve social issues.

The five fields of CSR-based management

We look at five factors (employees, environment, economy, society, and compliance) as the fields of CSR-based management. Without compliance, we could not demonstrate our integrity, and CSR-based management would be dubious at best. Accordingly, we positioned compliance as the very foundation of CSR-based management. The other four fields are inseparably tied to compliance as they are practiced.



Our contribution to society

Support for "Save the Children"

Through its European Foundation, Astellas provided support to "Save the Children," an international nongovernmental organization (NGO), for a two-year period ended in December 2007. The aid was used to fund a measles eradication project for children in post-war Liberia. The project included the nurturing of medical staff, the import and completion of customs procedures for medical vehicles for dispensing inoculations and vaccinations for measles,

Our donation to "Save the Children"

the purchase of motorcycles and helmets, and provision of driving instruction. By the project's end, more than 36,000 children had been vaccinated. Another project, conducted through the Holland-based Liliane Foundation, provides medical equipment and opportunities for medical treatment to children in Kenya suffering from epilepsy.

Support for hospital fund-raising event

The Markham Stouffville Hospital Legacy 5K Run/Walk is held every year to benefit the Markham Stouffville Hospital in Ontario, Canada. Our support of C$2,500 (Silver Sponsor) for 2008 was allocated to equipment for the Maternal Child Unit at the hospital as well as the "Dr. Bear" program. This program will assist children who are having surgery at the hospital to help ease the trauma.

This year, the event had over 3,000 participants and raised C$160,000. To date, the 11-year total is C$1.2 million.

This is Astellas' second year of participation in this event, and we will continue to support this community event in the future.

Participants in the Markham Stouffville Hospital Legacy 5K Run/Walk

Our environmental initiatives

Fiscal 2007* environmental and safety audits

To ascertain the status of Astellas' overall environmental and safety activities, the executive officer in charge of CSR acts as chief auditor and heads an audit team, which conducts a companywide audit of environmental and safety activities.

In fiscal 2007, on-site environmental and safety audits were conducted at seven domestic production and research facilities, and two domestic offices. We identified four minor incidents of non-conformance and 40 items involving environmental and safety matters that needed improvement. The individual facilities involved have devised countermeasures to remedy the situation.

Overseas, we conducted on-site environmental and safety audits for our Norman Plant, located in Oklahoma, and identified three items showing room for improvement.

*fiscal year ended March 31, 2008

On-site audit underway at Norman Plant
Our Norman Plant strictly controls the use of chemical substances, and conducts tornado emergency evacuation drills to enhance workplace safety and hygiene.

Corporate governance

Board of Directors

In line with its management strategy of maximizing enterprise value, Astellas has created a corporate governance system aimed at maintaining a high degree of transparency and putting a stronger focus than hitherto on social accountability.

Masafumi Nogimori　　Takao Saruta, MD, Ph. D.

Basic stance on corporate governance

Astellas employs a corporate executive system to achieve a clear separation between the strategic decision-making and operational supervision function of management, performed by the Company's directors, and the execution of day-to-day operational decisions, carried out by the corporate executives.

The Board of Directors now consists of seven members, of whom four are outside directors. These outside directors have a wealth of experience and expertise in the fields of business, medicine, and law, bringing a broad perspective to their duties as directors. The Board of Auditors, consisting of four statutory auditors, of whom two are outside auditors, is charged with the duty of auditing the performance of duties by the directors.

The Board of Directors has the Nomination Committee and the Compensation Committee as advisory councils in order to further improve transparency and objectivity in the process of the deliberation on the nomination and removal of members of the Board, Corporate Auditors and Corporate Executives, and compensation-related issues with regard to the Board members and Corporate Executives.

Toichi Takenaka, Ph. D. Takako Ebata Makoto Matsuo Yasuo Ishii Takashi Yamane, Ph. D.

Overview of our corporate governance

The Astellas Group as a whole is rooted in a sound and ethical corporate culture. We have established an internal controls system to guarantee the integrity of our business activities. The Group is working to ensure the efficiency of directors in the performance of their duties through the creation of appropriate internal controls, risk management and compliance systems.

To realize appropriate risk management, CSR-based management and information disclosure, the functions are overseen by cross-divisional committees, i.e. the Risk Management Committee, the CSR Committee, and the Investor Relations Committee.

Our disclosure policy is available at:
(http://www.astellas.com/global/about/disclosure/index.html)

Profile of Directors

Representative Director and Chairman

Toichi Takenaka, Ph. D.

Apr. 1964	Joined Yamanouchi Pharmaceutical Co., Ltd.
June 1993	Director of the Board of the Company
June 1997	Managing Director of the Company
June 1999	Senior Managing Director of the Company
Apr. 2000	President and Representative Director of the Company
June 2006	Co-Chairman and Representative Director of the Company
June 2008	Chairman and Representative Director of the Company (present post)
(Representative of other corporation)	
President and Representative Director of Rational Drug Design Laboratories	

Representative Director, President and Chief Executive Officer

Masafumi Nogimori

Apr. 1970	Joined Fujisawa Pharmaceutical Co., Ltd.
June 1997	Member of the Board of Fujisawa
July 1998	President of Fujisawa GmbH
June 2000	Resigned as Member of the Board of Fujisawa
	Corporate Vice President of Fujisawa
Apr. 2001	Corporate Vice President, Associate Executive Director of Ethical Pharmaceuticals and Director of Pharmaceutical Planning Division of Fujisawa
June 2001	Corporate Senior Vice President and Director of Global Corporate Strategies Planning of Fujisawa
June 2003	Member of the Board of Fujisawa
June 2004	Corporate Executive Vice President and Member of the Board of Fujisawa
Apr. 2005	Executive Vice President and Representative Director of the Company
June 2006	President and Representative Director of the Company (present post)

Representative Director, Executive Vice President and Chief Sales & Marketing Officer

Yasuo Ishii

Apr. 1970	Joined Yamanouchi Pharmaceutical Co., Ltd.
Aug. 1994	Director of Marketing Planning Department of Sales & Marketing Division of the Company
Aug. 1996	Director of Corporate Planning Department of the Company
Aug. 1997	Deputy Director of Asia Business Division of the Company
Jan. 1998	Director of International Division of the Company
June 2000	Director of the Board, Director of Ethical Products Marketing Department of Sales & Marketing Division of the Company
Jan. 2001	Director of the Board of the Company and Chairman of Yamanouchi Europe B.V.
Mar. 2003	Director of the Board of the Company, Chairman of Yamanouchi U.K. Limited, and Chairman of Yamanouchi Europe B.V.
June 2003	Managing Director of the Board of the Company
June 2004	Senior Corporate Executive of the Company
Apr. 2005	Senior Corporate Executive of the Company and Chairman & CEO of Astellas Pharma Europe Ltd.
Apr. 2008	Senior Corporate Executive of the Company
June 2008	Executive Vice President and Representative Director of the Company (present post)

Directors

Makoto Matsuo*

Apr. 1975	Admitted to Bar (Dai-ichi Tokyo Bar Association) The law firm of Ozaki & Momo-o
Aug. 1978	Weil, Gotshal & Manges LLP in New York, the U.S.
Mar. 1979	Admitted to Bar in New York, the U.S.
Sep. 1980	The law firm of Ozaki & Momo-o
Apr. 1989	Established the law firm of Momo-o, Matsuo & Namba
	Partner of the law firm of Momo-o, Matsuo & Namba (present post)
June 2003	Corporate Auditor of the Company
June 2004	Director of the Board of Company (present post)
Apr. 2005	Part-time Associate Professor for "World Business Law," Hitotsubashi University School of Law (present post)

Takashi Yamane, Ph. D.*

Nov. 1974	Joined Sanwa & Co. (currently Deloite Touche Tohmatsu)
May 1977	Admitted as Certified Public Accountant
Apr. 1994	Associate Professor, Graduate School of Business Administration, Keio University
Sep. 1998	Visiting Researcher, Stanford University, U.S.A.
Apr. 2001	Professor, Graduate School of Business Administration, Keio University (present post)
June 2005	Director of the Board of the Company (present post)

Takako Ebata*

Apr. 1982	Joined Fujitsu Limited
July 1992	Joined McKinsey & Company, Inc., Japan
Feb. 1998	Joined Amgen Limited
Dec. 2000	Corporate Officer, Business Development, Amgen Limited
Mar. 2003	Executive Director, Corporate Officer, CFO, Marketing, Amgen Limited
June 2005	Project Associate Professor, Academic Planning & Coordination Office, The University of Tokyo
June 2006	Director of the Board of Company (present post)
Apr. 2007	Project Associate Professor, Public Relations Division, The University of Tokyo

Takao Saruta, MD, Ph. D.*

Apr. 1969	Assistant, School of Medicine, (internal medicine), Keio University
Apr. 1973	Instructor, School of Medicine, (internal medicine), Keio University
Apr. 1986	Professor, Department of Internal Medicine, School of Medicine, Keio University
Oct. 1995	Dean of School of Medicine, Keio University
July 2001	Trustee, Keio University
Apr. 2005	Honorary Professor, Keio University (present post)
Apr. 2006	Special advisor, Tokyo Saiseikai Central Hospital (present post)
June 2007	Director of the Board of the Company (present post)

**Outside Directors*

Corporate Auditors

Osamu Nagai
Shigeo Aoyagi
Hideo Yamada, Ph. D.*
Kiyomi Saito*

**Outside Corporate Auditors*

Senior Corporate Executives

Hirofumi Onosaka
Hitoshi Ohta
Iwaki Miyazaki
Katsuro Yamada
Yoshiro Miyokawa
Yoshihiko Hatanaka

Corporate Executives

Tadao Hasegawa
Masaru Imahori
Makoto Nishimura, Ph. D.
Michirou Ikeda
Rinta Ibuki, Ph. D.
Masaharu Asano, Ph. D.
Fujio Kitamura
Masao Yoshida
Shinichi Tsukamoto, Ph. D.
Seitaro Mutoh, Ph. D.
Seigo Kashii
Hidetoshi Shuto
Masaki Doi, Ph. D.
Kohei Nomoto
Yasumasa Masuda
Hirofumi Seki
Shinichiro Katayanagi

(As of June 24, 2008)

Financial section

Year ended March 31, 2008

Contents

Key financial data

	(¥ billion)			(US$ million)
Years ended March 31	2008	2007	2006	2008
Net sales	**¥972.6**	¥920.6	¥879.4	**$9,726**
Cost of sales	**279.3**	284.1	273.0	**2,794**
Gross profit	**693.2**	636.6	606.4	**6,932**
SG&A expenses	**417.3**	446.0	413.3	**4,173**
R&D expenses	**134.5**	167.9	142.1	**1,345**
Operating income	**275.9**	190.5	193.0	**2,759**
Other income (expenses)	**(7.1)**	21.3	(16.0)	**(71)**
Income before income taxes and minority interests	**268.8**	211.8	177.1	**2,688**
Income taxes	**89.2**	78.6	71.7	**892**
Net income	**177.4**	131.3	103.7	**1,774**

Note: The translation of yen amounts into US dollar amounts in this section is included solely for convenience at the rate of ¥100 = US$1.00, the approximate exchange rate on March 31, 2008.

Astellas posts record-high revenues and earnings for the year ended March 31, 2008 (fiscal 2007)

Business environment

Japan

The ethical pharmaceutical market grew at 5.5% in fiscal 2007, to ¥8.1 trillion, of which Astellas' sales accounted for approximately 7.3%.

The government has been taking a variety of steps to cut drug costs. With the aim of raising the market share of generic drugs from just under 20% at present to around 30% on a volume basis by fiscal 2012, the authorities are creating a system that will enable medical staff and patients to prescribe and take generic drugs without any worries. In April 2008, the drug prescription format was changed to require physicians to append their signature in cases where they refuse to approve the change of a patient's prescription from an original drug to a generic one.

Additionally, in April 2008, NHI (National Health Insurance) drug prices were lowered by an average of 5.2% for the whole ethical pharmaceutical industry.

North America

In the US market, the growth rate is slowing down due to a decrease in the number of new product launches compared with previous years, and the prolonged periods required for the acquisition of new drug approval.

Europe

Despite measures by European governments to curtail medical expenses, the ethical pharmaceutical market showed steady growth in 2007.

Astellas' operations

Astellas' raison d'être is to "contribute toward improving the health of people around the world through the provision of innovative and reliable pharmaceutical products."

The Company is a research-driven pharmaceuticals provider with a global R&D presence. Ethical pharmaceutical sales account for nearly all of the Company's sales on a consolidated basis. The Company is engaged in R&D, manufacturing, distribution and marketing, and import/export operations.

Business overview

Statements of income

Astellas performed favorably in fiscal 2007 despite the difficult operating environment.

On a consolidated basis, net sales rose 5.6% year-on-year, to ¥972.6 billion (US$9,726 million) thanks to strong growth in global sales of key products and contributions from new products launched in Japan. Operating income jumped 44.8% to ¥275.9 billion (US$2,759 million) as the gross margin on net sales improved and R&D expenses dropped sharply because of one-time R&D expenses of ¥37.5 billion incurred in the previous year. Net income increased 35.2% to ¥177.4 billion (US$1,774 million), thanks to robust operating profit growth and an improvement in the effective tax rate.

Foreign exchange impact

Foreign exchange rates (average)	FY2006	FY2007
US$1	¥117	**¥114**
€1	¥150	**¥162**

Foreign exchange rates affected net sales and operating income as indicated below.

Foreign exchange impact for FY2007	Net sales	Operating income
US$	¥ (4.7) billion	¥ 1.1 billion
€	¥17.4 billion	¥10.2 billion
Consolidated	¥12.8 billion	¥11.4 billion

Net sales

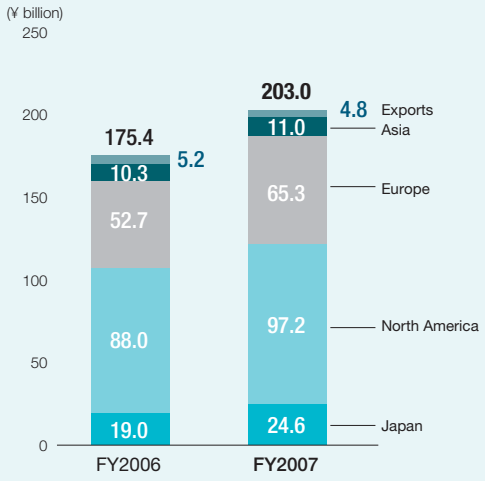
On a global basis, sales of the immunosuppressant Prograf® and Vesicare®, the overactive bladder (OAB) treatment expanded in fiscal 2007. Sales also increased due to contributions from sales of angiotensin II receptor antagonist Micardis® in Japan, the selective COX-2 inhibitor Celecox® (launched in June 2007), and the oral quinolone antibiotic Geninax® (launched in October 2007).

Sales by mainstay product

(¥ billion)

Product name	FY2006	FY2007
Global products		
Prograf®	175.4	**203.0**
Harnal®	127.0	**122.4**
Vesicare®	36.2	**60.1**
Funguard®/Mycamine®	16.5	**17.8**
Protopic®	14.7	**16.4**
Japan		
Lipitor®	94.7	**97.7**
Micardis®	50.3	**62.6**
Gaster®	62.2	**60.9**
Myslee®	19.4	**21.5**
Seroquel®	16.8	**19.2**
Celecox®	—	**3.7**
Geninax®	—	**3.7**
North America		
Adenoscan®	37.1	**37.6**
AmBisome®	8.8	**7.6**
Europe		
Eligard®	5.9	**9.2**

Prograf®



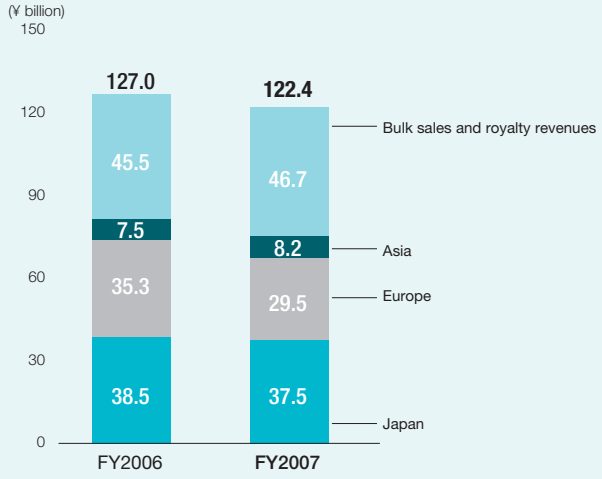
In Japan, sales of Prograf® jumped 29.2% year-on-year to ¥24.6 billion. The strong growth is attributable to solid expansion of sales for transplant indication and the additional indications for rheumatoid arthritis (RA) and lupus nephritis. Sales for RA indication accounted for approximately 25% of Prograf® sales in Japan, while lupus nephritis-related sales amounted to several hundred million yen.

In North America, sales of Prograf® rose 10.4% year-on-year to ¥97.2 billion (up 13.1% year-on-year to US$850 million). The US calcineurin inhibitor (CNI) market grew approximately 5% on a total prescription basis. According to data from UNOS (the United Network for Organ Sharing), Prograf®'s share of the base drug (CNI) market for new transplant patients is approximately 90% for liver transplant recipients, 85% for kidney transplant recipients, and 64% for heart transplant recipients.

In Europe, sales of Prograf® climbed 23.9% year-on-year to ¥65.3 billion (up 15.1% year-on-year to €404 million). Prograf®'s share of the CNI market stands at approximately 54% (March 2008). Advagraf®, the modified release formulation of Prograf®, reached market in the UK and Germany in June 2007. At present, Advagraf® is marketed in more than 16 countries in Europe.

In Asia, sales were particularly strong in China and Korea.

Harnal®



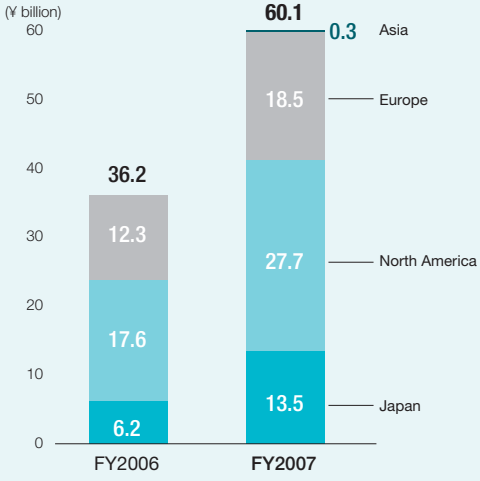
In Japan, sales of Harnal®, the treatment of functional symptoms associated with benign prostatic hyperplasia (BPH) declined 2.6% year-on-year to ¥37.5 billion. Harnal®'s substance patent expired in February 2005. Despite intensifying competition, active marketing efforts and our expertise in the urology field helped maintain its sales on a volume basis. Harnal®'s share of the Japanese BPH market reached 56% in fiscal 2007.

In Europe, sales of Harnal®, which is marketed under the name Omnic®, fell 16.3% to ¥29.5 billion (down 22.2% to €182 million). Patent expirations in February 2006 caused sales to drop in Germany, the UK, and other key European markets. However, sales remained steady in Spain and Russia. In addition, Omnic OCAS® (oral controlled absorption system, additional formulation of Omnic®) grew steadily.

Sales of Harnal® are expanding steadily in Asia.

Bulk sales to and royalty revenues from our licensee Boehringer Ingelheim Pharmaceuticals (BIPI) grew 2.7% to ¥46.7 billion. Sales of Flomax® (brand name in the US of Harnal® marketed by BIPI) jumped US$1,545 million, up 32% year-on-year in the US, however, the negative impact of the US dollar's appreciation against the yen resulted in a slight increase in our bulk sales and royalty revenues. Astellas' co-promotion of Flomax® with BIPI in the US market is progressing favorably.

Vesicare®



Global sales of Vesicare® are expanding steadily thanks to its considerable product characteristics and a wealth of evidence.

Vesicare® reached market in Japan in June 2006. Sales have expanded steadily since then, surging 117.6% year-on-year to ¥13.5 billion in fiscal 2007. Vesicare® has achieved a 35.7% market share, becoming the No. 1 drug in its category in the second year after its launch. The latent market for OAB treatments is significant, as is the potential for market expansion. Astellas is working to further develop the market for both Vesicare® and Harnal® by strengthening its promotion to urologists and raising public awareness of these diseases.

VESIcare® was launched in the US market in January 2005. In fiscal 2007, the drug's third year on the market, sales jumped 57.1% to ¥27.7 billion (up 60.8% to US$242 million). VESIcare®'s US market share is expanding steadily

thanks to an effective co-promotion effort with US partner GlaxoSmithKline (GSK). VESIcare®'s share of total prescriptions has reached 15%.

Vesicare® is marketed in more than 20 countries throughout Europe, and the market share is constantly growing. Vesicare® is now the No. 1 or No. 2 product in each market. In fiscal 2007, sales of Vesicare® jumped 50.3% to ¥18.5 billion (up 39.7% to €114 million). In Europe, the OAB market is expanding steadily, and is expected to continue growing hereafter.

In Asia, Vesicare® is marketed in eight countries.

Funguard®/Mycamine®

(¥ billion)

	FY2006	FY2007
Japan	12.8	**12.8**
North America	3.5	**4.7**
Asia	0.0	**0.2**
Total	16.5	**17.8**

Sales of Funguard® echinocandin antifungal injections were almost flat in Japan, amounting to ¥12.8 billion in fiscal 2007. Sales grew at a slower pace with the increase in the number of hospitals applying the DPC (diagnosis procedure combination) system and intensifying competition. Nevertheless, Funguard®'s market share held firm at the year-earlier level of approximately 49%.

In North America, sales climbed 32.3% to ¥4.7 billion (up 35.5% to US$41 million). While price competition is intensifying, volume sales of Mycamine® (another brand name of Funguard®) are rising steadily. In January 2008, Mycamine® received approval for the additional indication of candidemia in the US, and sales are expected to continue rising hereafter.

Mycamine® is marketed in six countries in Asia, where sales are also expanding steadily.

Mycamine® received approval in Europe in April 2008, and was launched in the UK in August.

Protopic®

(¥ billion)

	FY2006	FY2007
Japan	2.6	**2.7**
North America	7.1	**8.0**
Europe	4.5	**5.2**
Asia	0.3	**0.4**
Total	14.7	**16.4**

In North America, prescription of the atopic dermatitis treatment Protopic® declined after the revision of its label several years ago. However, the share of Protopic® in total prescriptions by dermatologists has been steadily increasing, and reached 52.5% due to strengthened detailing to specialists.

In Europe, sales are gradually recovering in Spain and France.

Lipitor®

(¥ billion)

	FY2006	FY2007
Japan	94.7	**97.7**

Sales of Lipitor®, the treatment for hypercholesterolemia, increased 3.2% to ¥97.7 billion. In Japan, the statin market grew 6.4% to ¥277.7 billion (NHI drug price base). The share of Lipitor® in the Japanese statin market decreased by approximately 1 percentage point to 39.4%. Despite severe competition Astellas is strengthening its co-promotion efforts with Pfizer and taking advantage of extensive efficacy evidence to maximize value for Lipitor®. Astellas is also working to raise patient awareness of the importance of reducing LDL cholesterol levels to the target values.

Micardis®

(¥ billion)

	FY2006	FY2007
Japan	50.3	**62.6**

In fiscal 2007, Japan's angiotensin II receptor blocker (ARB) market grew 14.7% to ¥491.8 billion. The market share of Micardis® grew 1.1 percentage points to 14.2%, making it the No. 3 player in this market. Sales of Micardis® surged 24.4% to ¥62.6 billion thanks to its superior features. As such, the drug is registering steady growth in the burgeoning ARB market.

Gaster®

(¥ billion)

	FY2006	FY2007
Japan	62.2	**60.9**

Sales of the treatment for peptic ulcers and gastritis Gaster® decreased by 2.2% to ¥60.9 billion. The Japan patent on Gaster® has already expired. Nevertheless, for the last several years annual volume has been declining by about 2% per year. In fiscal 2007 the share of Gaster® in the Japanese H_2 receptor antagonists and PPI market shrank 2.3 percentage points to 24.0%, moving it into the No. 2 slot in this market.

Myslee®

(¥ billion)

	FY2006	FY2007
Japan	19.4	**21.5**

Sales of the hypnotic Myslee® increased 11.1% to ¥21.5 billion. In fiscal 2007, Japan's market for hypnotics grew 4.0% to ¥72.6 billion. Myslee® holds the No. 1 slot in this market, with a share of 33.1%, up 2.3 percentage points. Japan's hypnotics market is expanding yearly, and the latent market potential is significant, as demonstrated by a study commissioned by the Ministry of Health, Labor, and Welfare in 2000, which estimates that one in four or five individuals suffers from some kind of sleep disorder. Astellas deploys medical representatives focusing on central nervous system (CNS) field to increase both the quality and quantity of its promotional activities in the CNS field.

Seroquel®

(¥ billion)

	FY2006	FY2007
Japan	16.8	**19.2**

Sales of the schizophrenia treatment Seroquel® expanded 14.2% to ¥19.2 billion. In fiscal 2007, Japan's market for antipsychotic drugs grew 10% to approximately ¥130.0 billion. Seroquel® ranks third in this market with a 16.4% share, up 0.6 percentage point. With the launch of atypical antipsychotics, the Japanese market for antipsychotics is shifting away from typical antipsychotics, which is driving market expansion. Astellas' CNS medical representatives continue working to boost prescriptions of Seroquel®.

Celecox®

(¥ billion)

	FY2006	FY2007
Japan	—	**3.7**

Celecox®, launched in June 2007, is a selective COX-2 inhibitor indicated for rheumatoid arthritis and osteoarthritis. At present, it is prescribed primarily by specialists in these diseases. Going forward, Astellas plans to strengthen its co-promotion efforts with Pfizer and encourage appropriate product use.

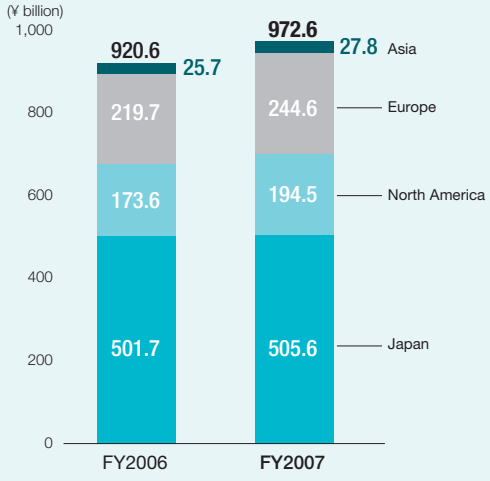
Geninax®

(¥ billion)

	FY2006	FY2007
Japan	—	**3.7**

Geninax® sales, which commenced in October 2007, are growing steadily, achieving a market share of approximately 9% just six months after launch. Astellas plans to continue promoting appropriate product use through co-promotion with Taisho Toyama Pharmaceutical.

Sales by geographical areas



Japan

Sales in Japan rose 0.8% to ¥505.6 billion.

Astellas' domestic ethical pharmaceutical sales rose 5.0% to ¥478.2 billion, thanks to the contribution of an increase in sales of such mainstay products as Prograf®, Vesicare® and Micardis® as well as new products including Celecox® and Geninax®. However, export sales declined by ¥5.1 billion due to the expiration of the oral cephalosporin antibiotic Cefzon®'s US patent. In addition, changes in the booking of sales of Cefzon® raw materials to an outsourcing manufacturer resulted in a decline of ¥6.3 billion. Other sales declined ¥7.3 billion with the divestiture of non-pharmaceutical businesses.

North America

Sales in North America grew 12.1% to ¥194.5 billion despite the continued appreciation of the yen against the US dollar.

On a US dollar basis, sales in this region jumped 14.8% to US$1,702 million, thanks to a sharp increase in sales of Prograf® and VESIcare®.

In addition, Protopic®, Mycamine®, and Vaprisol® (for the treatment hyponatremia) contributed to a rise in overall sales.

Europe

Sales in Europe jumped 11.4% to ¥244.6 billion. On a euro basis, sales in this region increased 3.5% to €1,514 million.

Sales of Prograf® and Vesicare® jumped sharply, while rises were also seen in bulk sales to and royalty revenues from licensees related to Flomax®, and in sales of Protopic® and Eligard®, the treatment for advanced prostate cancer.

Asia

In Asia, sales of Prograf® and Harnal® were strong. New products including Vesicare® and Mycamine® also helped boost sales.

Overseas sales

(¥ billion)

	FY2006	FY2007
North America	223.2	**247.1**
Europe	182.8	**195.6**
Asia	31.2	**34.4**
Other	12.9	**12.4**
Total	450.1	**489.6**
Overseas sales ratio	48.9%	**50.3%**

Overseas sales include the sales attributed by the locations of customers.

In North America, sales of Prograf® and VESIcare® trended strongly, and both bulk sales to and royalty revenues from licensees related to Flomax® (Harnal®) in the US also increased.

In Europe, sales of Prograf®, Vesicare®, and Eligard® rose, while sales of Harnal® (Omnic®) declined.

Sales of Prograf® and Harnal® expanded in Asia.

Cost of sales

(¥ billion)

	FY2006	FY2007
Net sales	920.6	**972.6**
Cost of sales	284.1	**279.3**
Cost of sales ratio	30.9%	**28.7%**

Cost of sales declined 1.7% to ¥279.3 billion (US$2,794 million), improving the cost of sales ratio by 2.2 percentage points. Of this, changes in product composition resulting from strong sales of in-house products such as Prograf® and Vesicare® accounted for 1.2 percentage points. The other 1-point improvement came from reductions in the cost of manufacturing and the impact of foreign exchange fluctuations on elimination of unrealized gains.

Selling, general and administrative expenses including R&D expenses

(¥ billion)

	FY2006	FY2007
Net sales	920.6	**972.6**
SG&A expenses	446.0	**417.3**
SG&A ratio	48.5%	**42.9%**
R&D expenses	167.9	**134.5**
R&D ratio	18.2%	**13.8%**

SG&A expenses declined 6.4% year-on-year, to ¥417.3 billion. The SG&A ratio decreased by 5.6 percentage points to 42.9%.

The following is a breakdown of SG&A expenses.

Personnel expenses, which account for approximately 28.8% of SG&A expenses, increased ¥3.1 billion to ¥120.2 billion. An early retirement program implemented in Japan reduced the number of employees, paring personnel expenses by ¥4.1 billion. The combined increase in Europe and the US was ¥6.7 billion. In North America, in conjunction with its launch of new hospital products, Astellas increased the number of medical representatives for hospitals, from 120 to 240. In Europe, functional reorganization within regions resulted in a decline in the number of employees. As operating income reached the benchmark of ¥250 billion, we made a provision for special employee incentive bonuses.

Advertising and sales promotional expenses, which account for 19.9% of SG&A expenses, increased ¥5.6 billion to ¥83.1 billion. In Japan, approximately ¥1.4 billion of this amount was spent to raise awareness of high cholesterol symptoms and strengthening the corporate brand. Expenditures rose ¥4.2 billion in Europe and the US. Foreign exchange rates were also a factor. Other factors contributing to the rise included an increase in co-promotion payments to GSK in conjunction with the increase of VESIcare® sales in the US.

R&D expenses decreased by ¥33.5 billion to ¥134.5 billion (US$1,345 million). In fiscal 2006, Astellas had acquired the rights related to the HIF-PH inhibitor program on renal anemia from FibroGen. In conjunction with this acquisition, Astellas booked ¥37.5 billion in one-time R&D expenses that included upfront payments and milestone payments. The ordinary expenses for R&D, however, increased.

Operating income

(¥ billion)

	FY2006	FY2007
Net sales	920.6	**972.6**
Operating income	190.5	**275.9**
Operating margin	20.7%	**28.4%**

Operating income rose sharply by ¥44.8% to ¥275.9 billion (US$2,759 million).

The operating margin jumped by 7.7 percentage points to 28.4% in fiscal 2007, with an improvement in the gross margin and a decline in the ratio of R&D expenses to net sales.

Other income (expenses)

Interest and dividend income improved ¥3.2 billion to ¥15.0 billion.

Expenses for integration and closure of business bases in fiscal 2007 amounted to ¥3.3 billion as a result of functional reorganization undertaken in Europe during the term.

Astellas also booked ¥13.0 billion in special retirement benefits in fiscal 2007 in conjunction with an early retirement program implemented in Japan. This included payments to 436 employees taking early retirement and the transfer of expenses for 164 employees to group companies.

Losses on impairment of fixed assets amounted to ¥9.3 billion, which mainly included write-offs associated with the closure of company housing and dormitories in Japan.

Foreign exchange losses amounted to ¥14.9 billion. As the US dollar declined against the euro, Astellas incurred foreign exchange losses on dollar deposits held by European subsidiaries settling their accounts in euros. Foreign exchange losses totaled ¥3.6 billion for the previous year.

Foreign exchange trends

(March 31; ¥)

	2006	2007	2008
US$	117	118	**100**
€	143	157	**158**

Fujisawa Sanofi-Aventis, which is a joint venture company owned 49% by Astellas, booked gains on the transfer of product rights to sanofi-aventis, boosting equity in earnings of affiliates by ¥6.8 billion to ¥8.0 billion.

As a result of the above, income before income taxes and minority interests rose 26.9% to ¥268.8 billion (US$2,688 million).

Income before income taxes and minority interests, Net income

Income taxes rose 13.5% to ¥89.2 billion (US$892 million). The effective tax rate improved 3.9 percentage points to 33.2%. The improvement of tax rates reflected an improvement of 1.6 percentage points in the different tax rates applied to income of foreign subsidiaries due to the improvement of earnings at our Irish subsidiary, and 1 percentage point of equity earnings of affiliates.

As a result, income before minority interests increased 34.8% to ¥179.6 billion (US$1,796 million).

Net income rose 35.2% to ¥177.4 billion (US$1,774 million).

Number of employees

As of March 31, 2008, Astellas' workforce totaled 7,453 employees (down 450 from March 31, 2007) in Japan; 2,084 (up 284) in North America; 3,177 (down 130) in Europe; and 952 (up 50) in Asia.

In Japan, the reduction was realized through the implementation of an early retirement program. In North America, the increase was primarily due to the addition of hospital medical representatives and the Agensys acquisition. In Europe, the functional reorganization resulted in the reduction of the number of employees.

Acquisition of stock of Agensys

Astellas decided to actively engage in the field of antibodies in our medium-term business plan. In March 2007, we licensed-in the VelocImmune® technology for monoclonal antibody from Regeneron Pharmaceuticals and a phage

display antibody technology from MorphoSys.

On December 18, 2007 Astellas acquired a 100% equity stake in the biotech company Agensys. The entire purchase price amount of ¥38,596 million (US$386 million) was paid in cash. In addition, Astellas will pay up to a maximum of US$150 million if certain predefined milestones are achieved.

The purpose of this acquisition is to speed up the Company's antibody drug creation process and thereby strengthen its research capabilities in the cancer field.

Company acquired: Agensys	
Main business indicators:	
Employees	100 (approx.)
Total assets	US$81 million
Total liabilities	US$4 million
Acquisition price	US$386 million
Milestone payments	US$150 million

Agensys has already discovered 30 novel marker antigens from 14 cancer types by identifying candidate genes through a gene expression analysis method that uses human cancer tissues. Agensys has the facilities to manufacture early clinical drug samples. It also has extensive experience in therapeutic antibody development, for example using a human antibody-producing mouse (XenoMouse®) licensed-in from Abgenix (currently Amgen), and obtaining antibodies using a hybridoma method, even from antigens where antibody production is usually difficult. Today, Agensys has a number of candidate compounds at the preclinical and clinical stages.

For further details, please see "No. 18 of Notes to Consolidated Financial Statements."

Assets, and liabilities & net assets

Principal changes in the Company's balance sheets during fiscal 2007 are as follows.

Assets

Total assets as of March 31, 2008 stood at ¥1,439.2 billion, representing a decrease of ¥31.5 billion from March 31, 2007.

Cash and cash equivalents rose by ¥38.0 billion to ¥460.5 billion and short-term investments decreased by ¥15.3 billion to ¥108.2 billion. Other current assets decreased by ¥11.6 billion to ¥11.4 billion. This change reflects the fund management policy of the Company.

Notes and accounts receivable declined by approximately ¥10.0 billion to ¥238.4 billion.

Property, plant and equipment stood at ¥179.9 billion, down by ¥14.7 billion from March 31, 2007, which is mainly attributable to the impairment.

Investments and other assets declined by ¥28.2 billion year-on-year to ¥282.0 billion, and recognition of goodwill of ¥29.3 billion accompanying the stock of Agensys.

Liabilities

Total liabilities stood at ¥328.3 billion, for a year-on-year decrease of ¥43.4 billion.

Current liabilities decreased by ¥24.3 billion to ¥284.5 billion. Accrued expenses decreased by ¥8.4 billion and accrued income taxes decreased by ¥6.3 billion.

Long-term liabilities decreased by ¥19.1 billion to ¥43.8 billion. This was principally due to the transference of current portion of long-term accounts payable.

Net assets

Total net assets stood at ¥1,110.9 billion, for a rise of ¥11.9 billion from March 31, 2007.

Net income of ¥177.4 billion was recorded, but outflows included the payment of dividends on retained earnings in the amount of ¥45.9 billion and the purchase of treasury stocks (16.3 million shares) on the stock market in the amount of ¥81.9 billion.

In June of 2007 the Company cancelled 45 million shares in treasury at a cost of ¥219.5 billion.

Per share data

(¥)

	FY2006	FY2007
Net income		
Basic	244.07	**349.89**
Diluted	243.99	**349.71**
Cash dividends	80.00	**110.00**
Net assets	2,135.34	**2,228.34**

Number of shares issued

	March 31, 2007	March 31, 2008
Total number of shares		
Issued	563,964,635	**518,964,635**
Shares in treasury	49,593,400	**20,881,100**

Increase in treasury shares during FY2007

(thousand of shares)

Start of term (April 1, 2007)	**49,593**
Increase	**16,327**
Decrease	**45,039**
End of term (March 31, 2008)	**20,881**

Shares bought back

Aug. 29 – Sep. 10, 2007	
Number of shares:	**8,300 thousand**
Acquisition cost:	**¥43.1 billion**
Dec. 3, 2007 – Jan. 18, 2008	
Number of shares:	**8,000 thousand**
Acquisition cost:	**¥38.7 billion**

Cancellation of treasury shares

(thousand of shares)

June 26, 2007	
Number of shares cancelled	**45,000**

ROE and DOE

We are actively working to ensure continuous growth in the enterprise value of Astellas and, through that, the realization of an improved shareholder return. In line with this policy, we prioritize investments in business aimed at achieving growth over the medium-to-long term, while increasing dividend payments whenever possible on the basis of growth in earnings on a consolidated basis. In addition, we take a flexible stance toward the purchase of the Company's own shares as part of our efforts to realize more efficient utilization of capital and a further increase in shareholder return.

ROE for fiscal 2007 stood at 16.1%, a substantial improvement of 4.8 percentage points from the previous year. Net income rose 35.2% to ¥177.4 billion. At the same time, in line with the abovementioned policy of improving capital efficiency, owners' equity increased by ¥11.9 billion to ¥1,110.9 billion.

DOE (dividend on equity), which represents ROE multiplied by the dividend payout ratio, improved by 1.3 percentage points to 5.0%.

Cash flows

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥186.9 billion, an increase of ¥59.0 billion over the previous year.

Income before income taxes and minority interests came to ¥268.8 billion, for an increase of ¥57.0 billion over the previous term.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥8.4 billion, compared with net cash provided of ¥72.4 billion for the previous term.

Cash outflow for the acquisition of Agensys amounted to ¥40.4 billion.

Cash inflow from the sale of property, plant and equipment amounted to ¥17.9 billion, an increase of ¥10.6 billion over the previous term.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥131.4 billion, down by ¥132.1 billion from the figure for outflow in the previous term.

Outflow resulting from the purchase of treasury stocks amounted to ¥81.9 billion, for a decrease of ¥138.1 billion compared with the previous term.

The payment of dividends caused an outflow of ¥45.9 billion, for an increase of ¥1.8 billion over the previous term.

Cash and cash equivalents as of March 31, 2008 stood at ¥460.5 billion, for a year-on-year increase of ¥38.0 billion.

Pipeline status

In Japan, Geninax® was approved in July 2007 and we launched the product in October 2007. The fast-acting postprandial hypoglycemic agent Starsis® was approved in November 2007 for the additional indication of combination therapy with a biguanide. YM617 was filed for approval in June 2007 for the additional indication of lower urinary tract syndrome in male patients.

Overseas, Advagraf® was approved in Europe in April 2007 for suppression of organ rejection in organ transplant, and we are promoting the drug across the region starting with the June 2007 launches in the UK and Germany. The antibiotic telavancin was filed for approval in April 2007 in Europe for the indication of complicated skin and skin structure infections (cSSSI). In the US, Mycamine® was approved in January 2008 for the additional indications of candidemia, acute disseminated candidiasis, and candida peritonitis and abscesses. In April 2008, Lexiscan® was approved in the US as a pharmacologic stress imaging agent. In Europe, Mycamine® was approved in April 2008 for the treatment of invasive candidiasis and other conditions. Astellas is now in a position to market Mycamine®/Funguard® in the main markets worldwide, covering Japan, the US, Asia, and Europe.

We are also making steady progress in Japan and overseas on many other projects, including YM178 for urinary frequency, and urinary incontinence or urgency associated with OAB; and the antithrombotic YM150.

With regard to the modified release formulation of the immunosuppressant FK506, for which application for approval has been filed in the US, we have received approvable letters for the second time from the Food and Drug Administration (FDA) for kidney transplantation application (March 2008) and liver transplantation application (April 2008).

In March 2008, the FDA concluded that clinical trials could be resumed on YM311 (FG-2216)/ASP1517 (FG-4592) in response to the complete clinical hold response submitted to the FDA in February 2008.

(For our complete pipeline, see the next page.)

Strengthening our business foundations through product in-licensing

As well as in-house drug discovery efforts, we are also working to license-in products from other firms in a bid to expand our development pipeline. These efforts have resulted in a licensing agreement signed in April 2008 with CoMentis on the exclusive rights worldwide to jointly research, develop, and commercialize beta-secretase inhibitors, including CTS-21166, which has potential as a treatment for Alzheimer's disease.

Products under clinical development (as of August 1, 2008)

Global development

Generic name	Code No.	Classification	Therapeutic target	Area / Phase	Dosage form	Origin	Remarks
tacrolimus	FK506	Immunosuppressant	Suppression of organ rejection in organ transplant (modified release)	US Filed (Dec. 2005) *	Oral	In-house	New formulation
			Use of FK506 and MMF as an adjunct therapy for the prophylaxis of organ rejection in kidney transplantation	US Filed (Feb. 2006) **	Oral	In-house	New indication
			Suppression of organ rejection in organ transplant (granules)	Europe Filed (Nov. 2007)	Oral	In-house	New formulation
			Atopic dermatitis (Prophylaxis of relapse)	Europe Filed (Jan. 2008)	Ointment	In-house	New indication
			Ulcerative colitis	Japan Filed (June 2008)	Oral	In-house	New indication
			Myasthenia gravis (all)	Japan Phase-III	Oral	In-house	New indication
tamsulosin	YM617	Alpha-1 receptor antagonist	Lower urinary tract syndrome in male patients	Japan Filed (June 2007)	Oral	In-house	New indication
			Pediatric neurogenic bladder	US Phase-III	Oral	In-house	New indication
telavancin		Lipoglycopeptide antibiotic	Complicated skin and skin structure infections (cSSSI)	US Filed (Dec. 2006) ***	Injection	Theravance	
				Europe Filed (April 2007)	Injection	Theravance	
			Hospital-acquired pneumonia (HAP)	US Phase-III Europe Phase-III	Injection	Theravance	
			MRSA infections	Japan Phase-I	Injection	Theravance	
	YM178	Beta 3 receptor agonist	Urinary frequency, urinary incontinence or urgency associated with overactive bladder	US Phase-III Europe Phase-III Japan Phase-II	Oral	In-house	
	YM150	Factor Xa inhibitor	Prevention of venous thromboembolism (VTE) after major orthopedic surgery	Europe Phase-II US Phase-II Japan/Asia Phase-II	Oral	In-house	
			Prophylaxis of thromboembolic complications associated with atrial fibrillation (AF)	Europe Phase-II Japan/Asia Phase-II			
	YM443	Acetylcholine esterase inhibitor	Functional dyspepsia	Japan Phase-III US Phase-II	Oral	Zeria	
ramosetron	YM060	5-HT_3 receptor antagonist	Irritable bowel syndrome (IBS)	Europe Phase-II	Oral	In-house	
	YM155	Survivin suppressant	Hormone refractory prostate cancer, Non-small cell lung cancer, Metastatic melanoma, Non-Hodgkin's lymphoma	US Phase-II Europe Phase-II Japan Phase-I	Injection	In-house	
	ASP2151	Helicase-primase inhibitor	Herpes zoster, Genital herpes	Japan Phase-II US Phase-II	Oral	In-house	
alefacept	ASP0485	Immunosuppressant	Prophylaxis of kidney transplant rejection	US Phase-II Europe Phase-II	Injection	In-house	
	YM543	SGLT2 inhibitor	Type 2 diabetes	Europe Phase-II	Oral	Kotobuki (co-development)	
	ASP1941	SGLT2 inhibitor	Type 2 diabetes	Japan Phase-II US Phase-II	Oral	Kotobuki (co-development)	
	ASP9831	PDE4 inhibitor	Non-alcoholic steatohepatitis	Europe Phase-II	Oral	In-house	
	YM311 (FG-2216)	HIF stabilizer	Renal anemia	Europe Phase-II Japan Phase-I	Oral	FibroGen	
	ASP1517 (FG-4592)	HIF stabilizer	Renal anemia	Europe Phase-II	Oral	FibroGen	
solifenacin/ tamsulosin		Co-administration of solifenacin and tamsulosin	Lower urinary tract syndrome associated with benign prostatic hyperplasia (BPH)	Europe Phase-II	Oral	In-house	

(Notes) * FK506 (modified release): Received an action letter from the FDA in January 2007; "Approvable" for liver and kidney and "not approvable" for heart transplant. Received second action letters from the FDA; "Approvable" for kidney and Liver in March and April 2008, respectively.

** FK506: Received an approvable letter from the FDA in March 2007

*** telavancin: Received an approvable letter from the FDA in October 2007

Local development: Japan

Generic name	Code No.	Classification	Therapeutic target	Area / Phase	Dosage form	Origin	Remarks
telmisartan/ hydrochlorothiazide	BIBR277HCT	Combination drug of angiotensin II receptor blocker / diuretic	Hypertension	Japan Filed (April 2006)	Oral	Boehringer Ingelheim	Combination drug
telmisartan	YM086 (BIBR277)	Angiotensin II receptor blocker	Type 2 diabetic nephropathy	Japan Filed (June 2006)	Oral	Boehringer Ingelheim	New indication
minodronate	YM529	Bisphosphonate	Osteoporosis (once daily)	Japan Filed (July 2006)	Oral	In house (co-development with Ono)	
			Osteoporosis (intermittent administration)	Japan Phase-I			
nateglinide	YM026	Rapid onset insulin secretion enhancer	Type 2 diabetes (concomitant treatment with insulin sensitizers)	Japan Filed (Nov.2006)	Oral	Ajinomoto	New indication
celecoxib	YM177	Cyclooxygenase-II inhibitor	Low back pain, Shoulder periarthritis, Cervico-omo-brachial syndrome and Tenosynovitis	Japan Filed (Feb. 2007)	Oral	Pfizer	New indication
			Acute pain	Japan Phase-III			
zolpidem	FK199B	Omega-1 receptor agonist	Insomnia (modified release)	Japan Phase-III	Oral	sanofi-aventis	New formulation
beraprost sodium	YM533	Prostacyclin receptor stimulator	Chronic renal failure (primary/nephrosclerosis)	Japan Phase-II	Oral	Toray	New indication New formulation
	ASP8825 (XP13512)	Prodrug of gabapentin	Restless legs syndrome, Painful diabetic neuropathy	Japan Phase-II	Oral	XenoPort	
	ASP1585 (AMG223)	Non-absorbed, polymer-based phosphate binder	Hyperphosphatemia	Japan Phase-II	Oral	Ilypsa/Amgen	
degarelix	ASP3550	GnRH receptor antagonist	Prostate cancer	Japan Phase-II	Injection	Ferring	

Local development: US

Generic name	Code No.	Classification	Therapeutic target	Area / Phase	Dosage form	Origin	Remarks
vernakalant	RSD1235	Atrial fibrillation (AF)	Antiarrhythmic agent	US Filed (Dec. 2006)	Injection	Cardiome	
conivaptan	YM087	V1a/V2 receptor antagonist	Hyponatremia (Pre-mix bag formulation)	US Filed (Mar. 2008)	Injection	In-house	New formulation

Phase-I

Code No.	Therapeutic target	Dosage form	Origin
ASP0265	Prostate cancer, Endometriosis	Oral	In-house
ASK8007	Rheumatoid arthritis	Injection	IBL Kaketsuken (co-development)
ASP2535	Alzheimer's disease Schizophrenia	Oral	In-house
ASP2314	Schizophrenia	Oral	NeuroSearch
ASP2905	Alzheimer's disease Schizophrenia	Oral	In-house
ASP015K	Suppression of organ rejection in organ transplant	Oral	In-house
AGS-16M18	Cancer	Injection	In-house (Agensys)
AGS-8M4	Cancer	Injection	In-house (Agensys)

Principal risks that may affect Astellas' business results and financial conditions include:

Impact of pharmaceuticals regulations

Astellas' core business, the pharmaceutical business, is subject to various regulations in each country where Astellas operates. Medical cost containment measures in developed countries, such as the NHI drug price reduction in Japan could have negative impacts on revenues and earnings. More stringent regulations governing clinical development, production and distribution of pharmaceuticals could also affect our business results.

Product risk

Astellas' business results could be adversely affected if it cannot appropriately maintain and protect patents on its leading products such as Prograf®, if any significant litigation is initiated, or if our products cause any unexpected adverse effects.

In addition, technology is rapidly advancing and Astellas faces intensifying global competition. If highly competitive peer products are launched by competitors, Astellas business results could also be adversely affected.

Inherent uncertainties in pharmaceutical R&D

In general, the probability of discovering a promising compound through drug discovery research is not high. Further, it takes a large amount of investments and a great deal of time to successfully launch a new product after discovery of a new compound. However, it may be necessary to discontinue clinical development if the effectiveness of a drug is not proven as initially expected, or if safety issues arise. In addition, pharmaceuticals are subject to legal restrictions in each country, so that authorization from local regulatory authorities is a prerequisite for a product launch in each country. It is difficult to accurately foresee if and when approvals for new products can be obtained.

Astellas' research and development activities are subject to these inherent risks.

Foreign exchange rate fluctuations

As the operations of Astellas are carried out in many countries and exchange rate fluctuations can affect the business results and financial conditions of Astellas.

The risks stated above do not represent all risks to which the business operations of Astellas are subject. There are various other additional risks including, i) being made subject to a lawsuit during the process of business , ii) delay/suspension of production due to disaster, or iii) the partial dependence of business results on in-licensed products.

Astellas Pharma Inc. and Subsidiaries

Consolidated Balance Sheets

March 31, 2008 and 2007

	Millions of yen		Millions of U.S. dollars (Note 5)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and cash equivalents	**¥ 460,486**	¥ 422,513	**$ 4,605**
Short-term investments (Note 16)	**108,187**	123,440	**1,082**
Notes and accounts receivable	**238,370**	248,370	**2,384**
Allowance for doubtful receivables	**(648)**	(563)	**(6)**
	237,722	247,807	**2,378**
Inventories (Note 6)	**91,445**	90,979	**914**
Deferred tax assets (Note 9)	**68,000**	58,181	**680**
Other current assets	**11,437**	23,064	**114**
Total current assets	**977,277**	965,984	**9,773**
Property, plant and equipment, at cost:			
Land	**31,297**	35,637	**313**
Buildings	**219,325**	226,631	**2,193**
Machinery and equipment	**224,022**	232,005	**2,240**
Other	**847**	1,032	**9**
Construction in progress	**25,524**	16,744	**255**
Accumulated depreciation	**(321,132)**	(317,493)	**(3,211)**
Property, plant and equipment, net	**179,883**	194,556	**1,799**
Investments and other assets:			
Investment securities (Note 16)	**157,315**	207,375	**1,573**
Investments in and advances to affiliates	**458**	3,320	**5**
Goodwill	**29,319**	—	**293**
Other intangible assets	**38,671**	41,511	**387**
Deferred tax assets (Note 9)	**39,734**	37,179	**397**
Other assets	**16,495**	20,776	**165**
Total investments and other assets	**281,992**	310,161	**2,820**
Total assets	**¥1,439,152**	¥1,470,701	**$14,392**

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Millions of U.S. dollars (Note 5)
	2008	2007	2008
Current liabilities:			
Short-term bank loans (Note 7)	**¥ —**	¥ 1,671	**$ —**
Notes and accounts payable:			
Trade	**166,105**	170,898	**1,661**
Construction	**11,380**	10,949	**114**
Accrued expenses	**61,499**	69,864	**615**
Accrued income taxes (Note 9)	**38,047**	44,352	**380**
Deferred tax liabilities (Note 9)	**35**	—	**0**
Other current liabilities	**7,464**	11,099	**75**
Total current liabilities	**284,530**	308,833	**2,845**
Long-term liabilities:			
Accrued retirement benefits for employees (Note 10)	**17,492**	18,480	**175**
Accrued retirement benefits for directors	**41**	35	**0**
Deferred tax liabilities (Note 9)	**258**	584	**3**
Other long-term liabilities	**25,968**	43,774	**260**
Total long-term liabilities	**43,759**	62,873	**438**
Net assets (Note 8)**:**			
Shareholders' equity:			
Common stock, without par value:			
Authorized: 2,000,000,000 shares;			
Issued: 518,964,635 shares in 2008 and 563,964,635 shares in 2007	**103,001**	103,001	**1,030**
Capital surplus	**176,822**	176,822	**1,768**
Retained earnings	**917,206**	1,006,648	**9,172**
Treasury stock, at cost:			
20,881,100 shares in 2008 and 49,593,400 shares in 2007	**(104,123)**	(241,920)	**(1,041)**
Total shareholders' equity	**1,092,906**	1,044,551	**10,929**
Valuation, translation adjustments and others			
Unrealized holding gain on securities	**27,853**	38,086	**279**
Translation adjustments	**(10,861)**	15,723	**(109)**
Total valuation, translation adjustments and others	**16,992**	53,809	**170**
Stock subscription rights	**637**	284	**6**
Minority interests	**328**	351	**4**
Total net assets	**1,110,863**	1,098,995	**11,109**
Contingent liabilities (Note 13)			
Total liabilities and net assets	**¥1,439,152**	¥1,470,701	**$14,392**

Astellas Pharma Inc. and Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Millions of U.S. dollars (Note 5)
	2008	2007	2006	2008
Net sales	**¥972,586**	¥920,624	¥879,362	**$9,726**
Cost of sales	**279,342**	284,063	272,997	**2,794**
Gross profit	**693,244**	636,561	606,365	**6,932**
Selling, general and administrative expenses (Note 11)	**417,340**	446,047	413,345	**4,173**
Operating income	**275,904**	190,514	193,020	**2,759**
Other income (expenses):				
Interest and dividend income	**15,026**	11,796	8,296	**150**
Interest expense	**(53)**	(343)	(1,381)	**(1)**
Expenses for integration and closure of business bases	**(3,308)**	(17,660)	—	**(33)**
Special retirement benefits	**(12,979)**	(1,224)	—	**(130)**
Loss on impairment of fixed assets	**(9,331)**	(6,072)	(8,699)	**(93)**
Expenses for business integration	**—**	—	(21,294)	**—**
Exchange (loss) gain	**(14,869)**	(3,595)	3,902	**(148)**
Equity in earnings of affiliates	**7,994**	1,164	547	**80**
Gain on sales of investment securities	**138**	12,259	3,021	**1**
Gain on sales of subsidiaries' shares	**—**	21,242	—	**—**
Other, net	**10,256**	3,684	(342)	**103**
	(7,126)	21,251	(15,950)	**(71)**
Income before income taxes and minority interests	**268,778**	211,765	177,070	**2,688**
Income taxes (Note 9)**:**				
Current	**93,999**	97,259	72,161	**940**
Deferred	**(4,812)**	(18,676)	(433)	**(48)**
	89,187	78,583	71,728	**892**
Income before minority interests	**179,591**	133,182	105,342	**1,796**
Minority interests	**(2,153)**	(1,896)	(1,683)	**(22)**
Net income (Note 14)	**¥177,438**	¥131,286	¥103,659	**$1,774**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Millions of U.S. dollars (Note 5)
	2008	2007	2006	2008
Operating activities				
Income before income taxes and minority interests	**¥268,778**	¥211,765	¥177,070	**$2,688**
Depreciation and amortization	**36,946**	33,971	37,636	**369**
Loss on impairment of fixed assets	**9,331**	6,072	8,699	**93**
Gain on sales of investment securities	**(138)**	(12,259)	(3,021)	**(1)**
Gain on sales of subsidiaries' shares	**—**	(21,242)	—	**—**
Notes and accounts receivable	**4,524**	(4,996)	6,532	**45**
Inventories	**(5,262)**	3,541	(4,736)	**(53)**
Notes and accounts payable	**(20,745)**	14,840	(4,824)	**(207)**
Accrued expenses	**(7,046)**	12,407	(10,510)	**(71)**
Accrued retirement benefits for employees	**(835)**	(23,099)	5,259	**(8)**
Other	**(26,082)**	(11,141)	(20,662)	**(260)**
Subtotal	**259,471**	209,859	191,443	**2,595**
Interest and dividends received	**25,756**	10,682	8,733	**257**
Interest paid	**(50)**	(318)	(1,351)	**(1)**
Income taxes paid	**(98,247)**	(92,293)	(58,674)	**(982)**
Net cash provided by operating activities	**186,930**	127,930	140,151	**1,869**
Investing activities				
Purchases of property, plant and equipment	**(27,314)**	(24,660)	(21,454)	**(273)**
Proceeds from sales of property, plant and equipment	**17,923**	7,349	8,889	**179**
Acquisition of subsidiaries' shares	**(40,407)**	—	—	**(404)**
Proceeds from sales of subsidiaries' shares	**—**	33,417	—	**—**
Decrease (increase) in short-term investments	**64,360**	65,021	(13,602)	**644**
Increase in investment securities	**(12,660)**	(5,770)	(60,767)	**(127)**
Increase in other assets	**(12,974)**	(16,078)	(2,845)	**(130)**
Other	**2,656**	13,152	2,118	**27**
Net cash (used in) provided by investing activities	**(8,416)**	72,431	(87,661)	**(84)**
Financing activities				
Purchases of treasury stock	**(81,914)**	(220,046)	(46,400)	**(819)**
Cash dividends	**(45,878)**	(44,066)	(22,181)	**(459)**
Payment upon merger	**—**	—	(3,695)	**—**
Other	**(3,630)**	591	(4,493)	**(36)**
Net cash used in financing activities	**(131,422)**	(263,521)	(76,769)	**(1,314)**
Effects of exchange rate changes on cash and cash equivalents	**(8,037)**	12,926	7,406	**(80)**
Increase (decrease) in cash and cash equivalents	**39,055**	(50,234)	(16,873)	**391**
Increase in cash and cash equivalents due to merger	**—**	—	39,325	**—**
(Decrease) increase in cash and cash equivalents due to decrease or increase in subsidiaries	**(1,082)**	(676)	27,403	**(11)**
Increase in cash and cash equivalents due to merger of subsidiaries	**—**	—	90	**—**
Cash and cash equivalents at beginning of year	**422,513**	473,423	423,478	**4,225**
Cash and cash equivalents at end of year	**¥460,486**	¥422,513	¥473,423	**$4,605**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

	Millions of yen					
	Shareholders' equity					
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2005	361,954,215	¥100,491	¥114,415	¥640,517	¥(114,038)	¥ 741,385
Conversion of convertible bonds	2,521,473	2,495	2,495			4,990
Cash dividends paid				(22,181)		(22,181)
Bonuses to directors and corporate auditors				(50)		(50)
Net income				103,659		103,659
Purchase of treasury stock					(46,435)	(46,435)
Disposal of treasury stock				(50,949)	98,490	47,541
Cancellation of treasury stock				(1,354)		(1,354)
Increase due to merger	209,473,788		59,897	266,035		325,932
Increase due to change in scope of consolidation				27,372		27,372
Increase due to merger of subsidiaries				66		66
Payment upon merger				(3,695)		(3,695)
Decrease due to change in scope of consolidation				(203)		(203)
Net change in items other than shareholders' equity						
Total movements during the year		2,495	62,392	318,700	52,055	435,642
Balance as of March 31, 2006	573,949,476	102,986	176,807	959,217	(61,983)	1,177,027
Conversion of convertible bonds	15,159	15	15			30
Cash dividends paid				(44,066)		(44,066)
Bonuses to directors and corporate auditors				(94)		(94)
Net income				131,286		131,286
Purchase of treasury stock					(220,046)	(220,046)
Disposal of treasury stock				(118)	477	359
Cancellation of treasury stock	(10,000,000)			(39,632)	39,632	
Other				55		55
Net change in items other than shareholders' equity						
Total movements during the year		15	15	47,431	(179,937)	(132,476)
Balance as of March 31, 2007	563,964,635	103,001	176,822	1,006,648	(241,920)	1,044,551
Cash dividends paid				**(45,878)**		**(45,878)**
Net income				**177,438**		**177,438**
Purchase of treasury stock					**(81,914)**	**(81,914)**
Disposal of treasury stock				**(53)**	**197**	**144**
Cancellation of treasury stock	**(45,000,000)**			**(219,514)**	**219,514**	
Other				**(1,435)**		**(1,435)**
Net change in items other than shareholders' equity						
Total movements during the year				**89,442**	**137,797**	**48,355**
Balance as of March 31, 2008	**518,964,635**	**¥103,001**	**¥176,822**	**¥917,206**	**¥(104,123)**	**¥1,092,906**

	Millions of U.S. dollars (Note 5)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	$1,030	$1,768	$10,066	$(2,419)	$10,445
Cash dividends paid			**(459)**		**(459)**
Net income			**1,774**		**1,774**
Purchase of treasury stock				**(819)**	**(819)**
Disposal of treasury stock			**(1)**	**2**	**1**
Cancellation of treasury stock			**(2,195)**	**2,195**	
Other			**(13)**		**(13)**
Net change in items other than shareholders' equity					
Total movements during the year			**(894)**	**1,378**	**484**
Balance as of March 31, 2008	**$1,030**	**$1,768**	**$ 9,172**	**$(1,041)**	**$10,929**

See accompanying notes to consolidated financial statements.

Millions of yen					
Valuation, translation adjustments and others					
Unrealized holding gain on securities	Translation adjustments	Total valuation, translation adjustments and others	Stock subscription rights	Minority interests	Total net assets
¥11,600	¥(11,091)	¥ 509		¥1,578	¥ 743,472
					4,990
					(22,181)
					(50)
					103,659
					(46,435)
					47,541
					(1,354)
13,920	(8,171)	5,749		130	331,811
					27,372
					66
					(3,695)
					(203)
18,732	14,880	33,612		(1,264)	32,348
32,652	6,709	39,361		(1,134)	473,869
44,252	(4,382)	39,870		444	1,217,341
					30
					(44,066)
					(94)
					131,286
					(220,046)
					359
					55
(6,166)	20,105	13,939	¥284	(93)	14,130
(6,166)	20,105	13,939	284	(93)	(118,346)
38,086	15,723	53,809	284	351	1,098,995
					(45,878)
					177,438
					(81,914)
					144
					(1,435)
(10,233)	**(26,584)**	**(36,817)**	**353**	**(23)**	**(36,487)**
(10,233)	**(26,584)**	**(36,817)**	**353**	**(23)**	**11,868**
¥27,853	**¥(10,861)**	**¥16,992**	**¥637**	**¥ 328**	**¥1,110,863**

Millions of U.S. dollars (Note 5)					
Valuation, translation adjustments and others					
Unrealized holding gain on securities	Translation adjustments	Total valuation, translation adjustments and others	Stock subscription rights	Minority interests	Total net assets
$381	$157	$538	$3	$4	$10,990
					(459)
					1,774
					(819)
					1
					(13)
(102)	**(266)**	**(368)**	**3**	**0**	**(365)**
(102)	**(266)**	**(368)**	**3**	**0**	**119**
$279	**$(109)**	**$170**	**$6**	**$4**	**$11,109**

Notes to Consolidated Financial Statements

March 31, 2008

1. Basis of Presentation

Astellas Pharma Inc. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with International Financial Reporting Standards or accounting principles generally accepted in the United States. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries. Companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation.

All subsidiaries close their books of account at March 31 for financial reporting purposes. Until the year ended March 31, 2006, Astellas Pharma China, Inc. had been consolidated based on the financial statements as of December 31. Astellas Pharma China, Inc. has changed its fiscal year end to March 31 during this fiscal year and accordingly its operating results and cash flows for 15 months ended March 31, 2007 were included in the consolidated financial statements.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over periods not exceeding 20 years on a straight-line basis except that when the excess is immaterial, it is fully charged to income in the year of acquisition. Such amortization is included in selling, general and administrative expenses.

(b) Foreign currency translation

Revenue and expense accounts of the foreign subsidiaries are translated using the average exchange rate during the year and, except for the components of net assets excluding minority interests, the balance sheet accounts are translated into yen at the exchange rates in effect at the balance sheet date. The components of net assets excluding minority interests are translated at their historical exchange rates. Differences arising from the translation are presented as translation adjustments and minority interests in the accompanying consolidated financial statements.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(d) Inventories

Until the year ended March 31, 2007, inventories of the Company and its domestic subsidiaries are mainly stated at cost by the average method.

Effective April 1, 2007, inventories of the Company and its domestic subsidiaries are stated principally at the lower of cost or market, cost being determined by the average method. However, inventories of the foreign subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.

(e) Depreciation and amortization

Depreciation of property, plant and equipment is calculated principally by the declining-balance method at rates based on the estimated useful lives of the respective assets. However, depreciation of property, plant and equipment of the foreign subsidiaries is calculated principally by the straight-line method. The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	2 to 60 years
Machinery, equipment and vehicles	4 to 15 years

Intangible assets are amortized by the straight-line method over their estimated useful lives.

(f) Leases

Noncancelable leases of the Company and its domestic subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, leases of the foreign sub-

sidiaries are generally classified and accounted for as either finance or operating leases.

(g) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into held-to-maturity or other securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average method.

(h) Research and development expenses

Research and development expenses are charged to income as incurred.

(i) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(j) Retirement benefits

Accrued retirement benefits for employees and prepaid pension cost are recorded mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost.

Actuarial gain and loss are being amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees. Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of service of the employees.

Effective October 1, 2006, the retirement benefit plans of the former Yamanouchi Pharmaceutical Co., Ltd. and those of the former Fujisawa Pharmaceutical Co., Ltd. have been integrated into a newly established retirement benefit plans. Actuarial gain and loss recognized before the integration for the former Fujisawa's plans are being amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the period which is shorter than the average remaining years of service of the employees (10 years), and prior service cost recognized before the integration for the former Fujisawa's plans is being amortized as incurred by the straight-line method over the period which is shorter than the average remaining years of service of the employees (10 years).

In addition, directors of certain domestic subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for retirement benefits for these directors has been made at an estimated amount.

(k) Derivative financial instruments

The Company has entered into various derivatives transactions in order to manage certain risks arising mainly from adverse fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

3. Merger with Fujisawa Pharmaceutical Co., Ltd.

The Company merged with Fujisawa Pharmaceutical Co., Ltd. ("Fujisawa") effective April 1, 2005. This merger was accounted for by the pooling-of-interest method and the operating results of Fujisawa after April 1, 2005 were included in the Company's consolidated financial statements. The assets acquired and liabilities assumed upon the merger are summarized as follows:

	Millions of yen
Current assets	¥208,829
Non-current assets	282,675
Total assets	¥491,505
Current liabilities	¥ 95,067
Non-current liabilities	7,252
Total liabilities	¥102,320

The consolidated financial information of Fujisawa for the year ended March 31, 2005 is summarized as follows:

	Millions of yen
Net sales	¥414,959
Net income	25,815

4. Accounting Changes

(a) Effective April 1, 2007 the Company and its domestic subsidiaries implemented early adoption of a new accounting standard for measurement of inventories, which requires all the inventories to be stated at the lower of cost or market. The effect of this change was to decrease gross profit by ¥99 million ($1 million) and to increase operating income and income before income taxes and minority interests by ¥493 million ($5 million) and ¥939 million ($9 million), respectively, for the year ended March 31, 2008 compared to the corresponding amounts which would have been recognized under the previous method.

(b) Effective April 1, 2007, the Company and its domestic subsidiaries changed the depreciation rate and the salvage value of property, plant and equipment mainly based on the amendment of Corporate Tax Law of Japan and the change in the Company's investment strategy. The effect of these changes was to decrease gross profit by ¥449 million ($4 million) and to decrease operating income and income before income taxes and minority interests by ¥1,477 million ($15 million) for the year ended March 31, 2008.

(c) Effective the year ended March 31, 2007, the Company adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and the consolidated statements of shareholders' equity for the years ended March 31, 2006 and 2005 have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

(d) Effective April 1, 2006, the Company adopted a new accounting standard for share-based payment and implementation guidance. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥284 million ($2 million) for the year ended March 31, 2007.

(e) Effective April 1, 2006, the Company adopted a new accounting standard for bonus for directors. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥101 million ($1 million) for the year ended March 31, 2007.

(f) Effective April 1, 2005, the Company and its domestic subsidiaries adopted a new accounting standard for the impairment of fixed assets. The Group bases its grouping for assessing such impairment losses on its business segments. However, the Group determines whether an asset is impaired on an individual asset basis when the asset is deemed idle or if it is scheduled to be disposed of. The effect of this adoption was to decrease income before income taxes and minority interests by ¥8,699 million for the year ended March 31, 2006.

5. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥100 = U.S.$1.00, the approximate rate of exchange on March 31, 2008. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

6. Inventories

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Millions of U.S. dollars
	2008	2007	2008
Merchandise and finished goods	**¥65,516**	¥46,697	**$655**
Work in process	**12,360**	16,422	**123**
Raw materials and supplies	**13,569**	27,860	**136**
	¥91,445	¥90,979	**$914**

7. Short-Term Bank Loans and Long-Term Debt

The Company had no short-term bank loans at March 31, 2008.

Short-term bank loans consisted mainly of secured loans bearing interest at rate of 5.84% per annum as of March 31, 2007.

The Company had no long-term debt outstanding at March 31, 2008 and 2007.

8. Net Assets

The new Company Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

(1) Information regarding changes in net assets for the year ended March 31, 2008 is as follows:
a. Treasury stock

(Thousands of shares)

Types of share	Number of shares at March 31, 2007	Increase	Decrease	Number of shares at March 31, 2008
Treasury stock:				
Common stock (Notes 1 and 2)	49,593	16,327	45,039	20,881

(Thousands of shares)

Notes: 1. Details of the increase are as follows:
Increase due to purchase of the stocks 16,300
Increase due to purchase of the stocks of less than standard unit 27
2. Details of the decrease are as follows:
Decrease due to cancellation 45,000
Decrease due to sale of the stocks of less than standard unit 2
Decrease due to exercise of stock subscription rights 36

b. Stock subscription rights
In August 2007, the Company issued 74,000 units of stock subscription rights, for which ¥258 million ($2 million) was recorded as a component of net assets as of March 31, 2008. The stock subscription rights included those which were not vested as of March 31, 2008.

(2) Stock option
The Company has implemented a stock option plan under which stock subscription rights were granted to directors, corporate officers and employees of the Company.

The following table summarizes the Company's stock option plan:

		Stock subscription rights granted on July 1, 2003 as a stock option plan	Stock subscription rights granted on July 1, 2004 as a stock option plan	Stock subscription rights granted on August 31, 2005 as a stock option plan	Stock subscription rights granted on February 13, 2007 as a stock option plan	Stock subscription rights granted on August 10, 2007 as a stock option plan
Individuals covered by the Plan	Directors of the Company	18	4	6	4	4
	Corporate officers of the Company	—	16	26	27	26
	Employees of the Company	37	36	—	—	—
	Total	55	56	32	31	30
Type and number of shares to be issued upon the exercise of the stock subscription rights	Common stock	141,000	147,000	104,800	75,700	74,000
Vesting period		no	no	From July 1, 2005 to June 23, 2006	From July 1, 2006 to June 26, 2007	From July 1, 2007 to June 25, 2008
Exercise period		From July 1, 2005 to June 27, 2013	From July 1, 2006 to June 24, 2014	From September 1, 2005 to June 24, 2025	From February 14, 2007 to June 27, 2026	From August 11, 2007 to June 26, 2027

Conditions for the exercise of stock subscription rights as follows:

1) For stock options granted in 2003 and 2004, there are no vesting conditions.
2) For stock options granted in 2005 and 2007, persons granted stock options must meet certain targets.

The following table summarizes the movements of stock subscriptions rights:

	Stock subscription rights granted on July 1, 2003 as a stock option plan	Stock subscription rights granted on July 1, 2004 as a stock option plan	Stock subscription rights granted on August 31, 2005 as a stock option plan	Stock subscription rights granted on February 13, 2007 as a stock option plan	Stock subscription rights granted on August 10, 2007 as a stock option plan
Stock subscription rights which have not been vested					
Outstanding as of March 31, 2007	—	—	—	18,925	—
Granted	—	—	—	—	74,000
Forfeited	—	—	—	—	—
Vested	—	—	—	18,925	55,500
Outstanding as of March 31, 2008	**—**	**—**	**—**	**—**	**18,500**
Stock subscription rights which have been vested					
Outstanding as of March 31, 2007	40,400	97,700	102,100	56,775	—
Vested	—	—	—	18,925	55,500
Exercised	12,700	24,100	—	—	—
Forfeited	—	—	—	—	—
Outstanding as of March 31, 2008	**27,700**	**73,600**	**102,100**	**75,700**	**55,500**
Exercise price (Yen)	3,209	3,690	1	1	1
Weighted average exercise price (Yen)	5,300	4,886	—	—	—
Weighted average fair value per stock at the granted date (Yen)	—	—	—	5,009	4,639
Exercise price (U.S. dollars)	32.09	36.90	0.01	0.01	0.01
Weighted average exercise price (U.S. dollars)	53.00	48.86	—	—	—
Weighted average fair value per stock at the granted date (U.S. dollars)	—	—	—	50.09	46.39

Stock option expense included in selling, general and administrative expenses for the year ended March 31, 2008 amounted to ¥352 million ($4 million). The fair value of options granted is estimated using the binominal model with the following weighted average assumptions.

	Stock subscription rights granted on August 10, 2007 as a stock option plan
Expected volatility	28.49%
Expected holding period	4 years
Expected dividend	80 yen
Risk-free rate	2.16%

9. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rate of approximately 41% for 2008, 2007 and 2006. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 differ from the statutory tax rate for the following reasons:

	2008	2007	2006
Statutory tax rate	**41.0%**	41.0%	41.0%
Effect of:			
Tax deductions for research and development expenses	**(3.3)**	(5.1)	(3.9)
Different tax rates applied to income of foreign subsidiaries	**(4.0)**	(2.4)	(1.3)
Expenses not deductible for income tax purposes	**1.8**	2.1	2.7
Change in valuation allowance	**(0.5)**	0.8	0.9
Equity in earnings of affiliates	**(1.2)**	(0.2)	(0.1)
Other, net	**(0.6)**	0.9	1.2
Effective tax rates	**33.2%**	37.1%	40.5%

The significant components of the deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Millions of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Loss on devaluation of investment securities	**¥ 3,820**	¥ 3,924	**$ 38**
Accrued retirement benefits	**6,660**	7,777	**67**
Depreciation and amortization	**37,296**	39,527	**373**
Loss on impairment of fixed assets	**6,704**	5,572	**67**
Accrued expenses	**26,432**	20,059	**264**
Inventories	**23,641**	22,889	**236**
Accrued enterprise and other taxes	**3,348**	3,111	**33**
Other	**43,159**	37,557	**432**
Gross deferred tax assets	**151,060**	140,416	**1,510**
Valuation allowance	**(13,424)**	(16,181)	**(134)**
Total deferred tax assets	**137,636**	124,235	**1,376**
Deferred tax liabilities:			
Unrealized holding gain on securities	**18,661**	25,716	**187**
Depreciation and amortization	**1,144**	1,082	**11**
Other	**10,390**	2,661	**104**
Total deferred tax liabilities	**30,195**	29,459	**302**
Net deferred tax assets	**¥107,441**	¥ 94,776	**$1,074**

10. Retirement Benefit Plans

Until October 1, 2006, the Company and its domestic subsidiaries had defined benefit plans, i.e., tax-qualified plans, welfare pension fund plan, tax-qualified plans (closed type) and lump-sum payment plans. Effective October 1, 2006, a welfare pension fund plan and a lump-sum payment plan were newly established to integrate the former Yamanouchi's and Fujisawa's retirement benefit plans. In addition, a portion of the benefit obligations under the new plans was transferred to a newly established defined contribution plan. In this connection, the pension plan assets of ¥8,791 million are being transferred to the defined contribution plan over 8 years commencing from the year ended March 31, 2007.

In addition, certain employees may be entitled to additional special retirement benefits upon early termination of employment based on the conditions under which termination occurs. Such benefits are not subject to the actuarial calculation required by the accounting standard for retirement benefits.

Certain foreign subsidiaries have defined benefit plans and defined contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2008 and 2007 for the Company's and the subsidiaries' defined benefit plans:

	Millions of yen		Millions of U.S. dollars
	2008	2007	2008
Retirement benefit obligation	**¥(150,721)**	¥(158,627)	**$(1,507)**
Plan assets at fair value	**130,883**	144,430	**1,309**
Unfunded retirement benefit obligation	**(19,838)**	(14,197)	**(198)**
Unrecognized actuarial loss	**13,694**	8,287	**137**
Unrecognized prior service cost	**(10,042)**	(10,642)	**(101)**
Net retirement benefit obligation	**(16,186)**	(16,552)	**(162)**
Prepaid pension cost	**1,306**	1,928	**13**
Accrued retirement benefits	**¥ (17,492)**	¥ (18,480)	**$ (175)**

The components of retirement benefit expenses for the years ended March 31, 2008, 2007 and 2006 are outlined as follows:

	Millions of yen			Millions of U.S. dollars
	2008	2007	2006	2008
Service cost	**¥ 5,690**	¥ 6,218	¥ 8,569	**$ 57**
Interest cost	**4,323**	4,249	4,141	**43**
Expected return on plan assets	**(3,768)**	(3,359)	(2,826)	**(38)**
Amortization of actuarial loss	**1,681**	2,234	3,195	**17**
Amortization of prior service cost	**(880)**	(215)	(554)	**(9)**
Other	**16,571**	10,951	4,188	**166**
Total	**¥23,617**	¥20,078	¥16,713	**$236**

The assumptions used in accounting for the above plans were as follows:

	2008	2007
Discount rates	**2.0% – 10.0%**	2.0% – 10.0%
Expected rates of return on plan assets	**2.0% – 8.0%**	2.0% – 8.0%

11. Research and Development Expenses

Research and development expenses, all of which were included in selling, general and administrative expenses for the years ended March 31, 2008, 2007, and 2006, totaled ¥134,464 million ($1,345 million), ¥167,946 million and ¥142,076 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of leased assets as of March 31, 2008 and 2007, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		
March 31, 2008	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥2,204**	**¥529**	**¥1,675**

	Millions of U.S. dollars		
March 31, 2008	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**$22**	**$5**	**$17**

	Millions of yen		
March 31, 2007	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥2,420	¥1,882	¥537

Lease payments relating to finance leases accounted for as operating leases amounted to ¥423 million ($4 million), ¥793 million and ¥1,074 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2008, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 on noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Millions of U.S. dollars	
Year ending March 31,	Finance leases	Operating leases	Finance leases	Operating leases
2009	¥ 559	¥10	$ 6	$0
2010 and thereafter	1,116	14	11	0
Total	¥1,675	¥24	$17	$0

13. Contingent Liabilities

Contingent liabilities of the Company and its subsidiaries at March 31, 2008 were as follows:

	Millions of yen	Millions of U.S. dollars
Contingent liabilities as guarantors of indebtedness of the Company's employees and affiliates	**¥3,644**	**$36**
Other contingent liabilities relating to a debt assumption contract	**120**	**1**
Other	**128**	**1**

The Company is involved in various lawsuits from time to time during the normal course of business. The Company's management believes the lawsuits currently involved by the Company would not have material adverse impacts on the Company's financial condition or operating results.

14. Amounts per Share

	Yen			U.S. dollars
	2008	2007	2006	**2008**
Net income:				
Basic	**¥ 349.89**	¥ 244.07	¥ 183.88	**$ 3.50**
Diluted	**349.71**	243.99	183.56	**3.50**
Cash dividends	**110.00**	80.00	70.00	**1.10**
Net assets	**2,228.34**	2,135.34	2,179.44	**22.28**

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds and the exercise of stock subscription rights.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

Net assets per share are computed based on the net assets excluding stock subscription rights and minority interests and the number of common stock outstanding at the year end.

15. Supplementary Cash Flow Information

The company had no convertible bonds as of march 31, 2008 and 2007.

The conversion of convertible bonds for the years ended March 31, 2007, and 2006 amounted to ¥30 million and ¥4,990 million, respectively.

Agensys, Inc. was newly consolidated as a result of the acquisition of 100% of its stock during the year ended March 31, 2008. The following is a summary of the assets acquired and liabilities assumed:

	Millions of yen	Millions of U.S. dollars
Current assets	**¥ 3,305**	**$ 33**
Property, plant and equipment	**4,781**	**47**
Goodwill	**30,862**	**309**
Current liabilities	**(345)**	**(3)**
Long-term liabilities	**(7)**	**(0)**
Acquisition cost of stock of Agensys, Inc.	**¥38,596**	**$386**
Cash and cash equivalents of Agensys, Inc.	**(3,171)**	**(32)**
Effect of exchange rate fluctuation	**4,982**	**50**
Net cash used in the acquisition	**¥40,407**	**$404**

Zepharma Inc. was sold during the year ended March 31, 2007. The following is a summary of its assets and liabilities:

	Millions of yen
Current assets	¥18,234
Long-term assets	3,975
Total assets	¥22,209
Current liabilities	¥ 6,600
Long-term liabilities	807
Total liabilities	¥ 7,407

16. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2008 and 2007 is summarized as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Millions of U.S. dollars		
	2008			2008		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	**¥1,201**	**¥1,202**	**¥ 1**	**$12**	**$12**	**$ 0**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥1,201**	**¥1,202**	**¥ 1**	**$12**	**$12**	**$ 0**

	Millions of yen		
	2007		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose carrying value exceeds their fair value:			
Government bonds	¥1,801	¥1,792	¥ (9)
Corporate bonds	—	—	—
Other	—	—	—
Total	¥1,801	¥1,792	¥ (9)

Marketable other securities

	Millions of yen			Millions of U.S. dollars			Millions of yen		
	2008			2008			2007		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Stock	**¥ 22,273**	**¥ 70,385**	**¥48,112**	**$ 223**	**$ 704**	**$481**	¥ 29,056	¥ 91,448	¥62,392
Debt securities	**55,150**	**55,351**	**201**	**551**	**553**	**2**	21,561	21,638	77
Other	**1,302**	**2,174**	**872**	**13**	**22**	**9**	8,416	10,531	2,115
Subtotal	**78,725**	**127,910**	**49,185**	**787**	**1,279**	**492**	59,033	123,617	64,584
Securities whose acquisition cost exceeds their carrying value:									
Stock	**9,596**	**8,485**	**(1,111)**	**96**	**85**	**(11)**	1,373	1,309	(64)
Debt securities	**102,474**	**101,016**	**(1,458)**	**1,025**	**1,010**	**(15)**	169,904	169,228	(676)
Other	**976**	**856**	**(120)**	**10**	**9**	**(1)**	1,976	1,900	(76)
Subtotal	**113,046**	**110,357**	**(2,689)**	**1,131**	**1,104**	**(27)**	173,253	172,437	(816)
Total	**¥191,771**	**¥238,267**	**¥46,496**	**$1,918**	**$2,383**	**$465**	¥232,286	¥296,054	¥63,768

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

	Millions of Yen			Millions of U.S. dollars
	2008	2007	2006	2008
Proceeds from sales	**¥25,996**	¥50,571	¥42,367	**$260**
Gain on sales	**123**	12,506	3,201	**1**
Loss on sales	**4**	159	132	**0**

The redemption schedule for securities with maturities classified as other securities and held-to-maturity debt securities as of March 31, 2008 is summarized as follows:

	Millions of yen			Millions of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ 69,177	¥13,542	¥3,887	$ 692	$135	$39
Corporate bonds	23,021	47,510	—	230	475	—
Others	192,805	422	—	1,928	4	—
Total	¥285,003	¥61,474	¥3,887	$2,850	$614	$39

Securities without determinable market value

Other securities

	Millions of yen		Millions of U.S. dollars
	2008	2007	2008
Non marketable stocks	¥ 4,534	¥ 3,030	$ 45
Senior investment securities	5,000	5,000	50
Commercial paper	192,797	183,120	1,928
Money management fund	8,579	2,198	86

17. Derivative Transactions

The Company utilizes derivatives primarily for the purpose of hedging its exposure to adverse fluctuation in foreign currency exchange rates and interest rates, but does not enter into such transactions for speculative or trading purposes.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivative transactions, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings. The notional amounts of the derivatives do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivatives.

The notional amounts and the estimated fair value of derivatives outstanding as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen			Millions of U.S. dollars		
	2008			2008		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sell:						
Euro	¥2,355	¥2,362	¥(7)	$24	$24	$(0)
Buy:						
U.S. dollars	298	299	1	3	3	0
Total	¥2,653	¥2,661	¥(6)	$27	$27	$(0)

		Millions of yen		
		2007		
		Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts				
Sell:				
U.S. dollars		¥1,394	¥1,412	¥(18)
Currency option				
Sell:				
Call				
Euro	Contract amount	1,567		
	Option premium	12	9	3
Buy:				
Put				
Euro	Contract amount	783		
	Option premium	13	9	(4)
	Total	¥3,744	¥1,430	¥(19)

18. Acquisition of stock of Agensys, Inc.

On December 18, 2007, Astellas acquired 100% of stock of Agensys, Inc., a biotechnology company specializing in therapeutic antibody research and development in cancer. The acquisition was to reinforce and to accelerate its antibody research and development in cancer, which is one of the important areas for therapeutic research.

All of purchase price of ¥38,596 million ($386 million) was paid by cash. In addition, Astellas will pay up to a maximum of $150 million if certain predefined milestones are achieved. The acquisition has been accounted for as a purchase business combination. Under the purchase method of accounting, the assets acquired and liabilities assumed from Agensys, Inc. were recorded at their respective fair values as of the date of acquisition. Those fair values are summarized as follows:

	Millions of yen	Millions of U.S. dollars
Current assets	**¥3,305**	**$33**
Long-term assets	**4,781**	**47**
Total assets	**¥8,086**	**$80**
Current liabilities	**¥ 345**	**$ 3**
Long-term liabilities	**7**	**0**
Total liabilities	**¥ 352**	**$ 3**

The excess of cost over underlying net assets at fair value at the date of acquisition was recognized as goodwill in the amount of ¥30,862 ($309 million) and has been amortized over a period of five years on a straight-line basis. In addition, contingent payments of $150 million will also be recognized as goodwill upon payments.

The consolidated statement of income for the year ended March 31, 2008 includes the results of operations of Agensys, Inc. from the date of acquisition. Had the business combination had completed at the beginning of the year, the effect for the year ended March 31, 2008 on sales would have been immaterial, however, operating income, and income before income taxes and minority interests would have been decreased by approximately ¥7,899 million ($79 million) for the year ended March 31, 2008.

19. Segment Information

Business segments

The Company's businesses are segmented into "Pharmaceutical" and "Other" based on their similarity in terms of distribution methods, the nature and type of products sold, and manufacturing methods. As net sales, operating income and total assets in the "Pharmaceutical" segment constituted more than 90% of the consolidated totals, the disclosure of business segment information has been omitted.

Geographical areas

Geographical areas, which include the results of the operation attributed by the locations of the Company and the subsidiaries, for the ended March 31, 2008, 2007 and 2006 are summarized as follows:

	Millions of yen						
Year ended March 31, 2008	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	**¥ 505,596**	**¥194,506**	**¥244,643**	**¥27,841**	**¥ 972,586**	**¥ —**	**¥ 972,586**
Intergroup sales and transfers	**111,792**	**64,497**	**58,048**	**10**	**234,347**	**(234,347)**	**—**
Total sales	**617,388**	**259,003**	**302,691**	**27,851**	**1,206,933**	**(234,347)**	**972,586**
Operating expenses	**441,348**	**202,672**	**261,657**	**25,098**	**930,775**	**(234,093)**	**696,682**
Operating income	**¥ 176,040**	**¥ 56,331**	**¥ 41,034**	**¥ 2,753**	**¥ 276,158**	**¥ (254)**	**¥ 275,904**
Total assets	**¥1,034,390**	**¥148,591**	**¥278,727**	**¥18,221**	**¥1,479,929**	**¥ (40,777)**	**¥1,439,152**

	Millions of U.S. dollars						
Year ended March 31, 2008	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	**$ 5,056**	**$1,945**	**$2,446**	**$279**	**$ 9,726**	**$ —**	**$ 9,726**
Intergroup sales and transfers	**1,118**	**645**	**580**	**0**	**2,343**	**(2,343)**	**—**
Total sales	**6,174**	**2,590**	**3,026**	**279**	**12,069**	**(2,343)**	**9,726**
Operating expenses	**4,413**	**2,027**	**2,616**	**251**	**9,307**	**(2,340)**	**6,967**
Operating income	**$ 1,761**	**$ 563**	**$ 410**	**$ 28**	**$ 2,762**	**$ (3)**	**$ 2,759**
Total assets	**$10,344**	**$1,486**	**$2,787**	**$182**	**$14,799**	**$ (407)**	**$14,392**

	Millions of yen						
Year ended March 31, 2007	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥ 501,664	¥173,559	¥219,697	¥25,704	¥ 920,624	¥ —	¥ 920,624
Intergroup sales and transfers	100,542	53,729	40,159	2	194,432	(194,432)	—
Total sales	602,206	227,288	259,856	25,706	1,115,056	(194,432)	920,624
Operating expenses	485,564	175,718	236,072	21,955	919,309	(189,199)	730,110
Operating income	¥ 116,642	¥ 51,570	¥ 23,784	¥ 3,751	¥ 195,747	¥ (5,233)	¥ 190,514
Total assets	¥1,053,068	¥175,397	¥266,521	¥21,880	¥1,516,866	¥ (46,165)	¥1,470,701

	Millions of yen						
Year ended March 31, 2006	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥ 511,145	¥145,341	¥203,232	¥19,644	¥ 879,362	¥ —	¥ 879,362
Intergroup sales and transfers	94,966	39,582	29,727	26	164,301	(164,301)	—
Total sales	606,111	184,923	232,959	19,670	1,043,663	(164,301)	879,362
Operating expenses	467,939	152,206	214,571	15,836	850,552	(164,210)	686,342
Operating income	¥ 138,172	¥ 32,717	¥ 18,388	¥ 3,834	¥ 193,111	¥ (91)	¥ 193,020
Total assets	¥1,247,860	¥138,426	¥222,818	¥19,074	¥1,628,178	¥ (43,655)	¥1,584,523

Overseas sales

Overseas sales, which include the sales attributed by the locations of customers, for the ended March 31, 2008, 2007 and 2006 are summarized as follows:

	Millions of yen				
Year ended March 31, 2008	North America	Europe	Asia	Other	Total
Overseas sales	**¥247,129**	**¥195,636**	**¥34,399**	**¥12,407**	**¥489,571**
Consolidated net sales					**972,586**

	Millions of U.S. dollars				
Year ended March 31, 2008	North America	Europe	Asia	Other	Total
Overseas sales	**$2,471**	**$1,957**	**$344**	**$124**	**$4,896**
Consolidated net sales					**9,726**
Overseas sales as a percentage of consolidated net sales	**25.4%**	**20.1%**	**3.5%**	**1.3%**	**50.3%**

	Millions of yen				
Year ended March 31, 2007	North America	Europe	Asia	Other	Total
Overseas sales	¥223,226	¥182,753	¥31,158	¥12,925	¥450,062
Consolidated net sales					920,624
Overseas sales as a percentage of consolidated net sales	24.2%	19.9%	3.4%	1.4%	48.9%

	Millions of yen				
Year ended March 31, 2006	North America	Europe	Asia	Other	Total
Overseas sales	¥191,985	¥172,230	¥25,688	¥8,366	¥398,269
Consolidated net sales					879,362
Overseas sales as a percentage of consolidated net sales	21.8%	19.6%	2.9%	1.0%	45.3%

20. Loss on Impairment of Fixed Assets

The Group bases its grouping for assessing impairment losses on its business segments. However, the Group determines whether an asset is impaired on an individual asset basis when the asset is deemed idle or if it is scheduled to be disposed of. Loss on impairment of fixed assets, which was recognized by reducing the book value of such assets to their respective realized value, for the years ended March 31, 2008, 2007 and 2006 amounted to ¥9,331 million ($93 million), ¥17,453 million and ¥8,699 million, respectively. Loss on impairment of fixed assets for the year ended March 31, 2008 mainly consists of losses on land in the aggregate amount of ¥3,389 million and on buildings in the aggregate amount of ¥3,248 million. Loss on impairment of fixes assets for the year ended March 31, 2007 mainly consists of closure of business bases.

21. Subsequent Events

(a) Conclusion of licensing agreement with CoMentis, Inc. to collaborate on the research, development and commercialization of beta-secretase inhibitors

On April 25, 2008, the Company entered into a licensing agreement with CoMentis, Inc. of the U.S. to collaborate on the research, development and commercialization of beta-secretase inhibitors including CTS-21166 which is being developed as a disease-modifying treatment for Alzheimer's disease. Under the agreement, the Company paid an upfront fee of $80 million to CoMentis, Inc. and purchased shares newly issued by CoMentis, Inc. for $20 million upon signing of the agreement. The Company will further pay up to $660 million in development milestones and may also pay performance-based commercialization milestones. In addition, the Company will pay development milestones for next-generation beta-secretase inhibitors discovered under the terms of the research collaboration. An upfront fee of ¥8,076 million ($80 million) and a part of development milestones will be recorded as research and development expenses in selling, general and administrative expenses for the fiscal year ending March 31, 2009.

(b) Acquisition of treasury stock

Pursuant to Article 156 and Article 165, Paragraph 3, of the Corporation Law of Japan, on May 13, 2008, the Board of Directors of the Company approved a resolution to acquire shares of the Company's own common stock in order to enhance the rate of return to its shareholders as well as to utilize its capital effectively. As a result, the Company is authorized to acquire up to 9.1 million shares of its common stock as treasury stock (representing 1.82% of the number of shares of common stock currently in issue), up to a maximum acquisition cost of ¥40,000 million ($400 million), during the period from May 15, 2008 to June 20, 2008. Pursuant to this resolution, the Company has already acquired 9,085,500 shares of its common stock for ¥40,000 million ($400 million).

(c) The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 24, 2008:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥60 = $0.60 per share)	**¥29,885**	**$298**
Bonuses to directors and corporate auditors	**181**	**2**
	¥30,066	**$300**

Report of Independent Auditors

The Board of Directors
Astellas Pharma Inc.

We have audited the accompanying consolidated balance sheets of Astellas Pharma Inc. (the "Company") and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2008, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astellas Pharma Inc. and subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008 in conformity with accounting principles generally accepted in Japan.

Supplementary Information

(1) As described in Note 4 (f), effective April 1, 2005, the Company and its domestic subsidiaries adopted a new accounting standard for the impairment of fixed assets.

(2) As described in Note 21 (b), pursuant to the resolution approved by the Board of Directors on May 13, 2008, the Company acquired its shares of common stock.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 5.

Ernst & Young ShinNihon

June 24, 2008

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Astellas Pharma Hong Kong Co., Ltd.
Suite 708-709, 7/F, Prudential Tower, The Gateway, Harbour City, Kowloon, Hong Kong
TEL: +852-2377-9801

Astellas Pharma Taiwan, Inc.
5/F, No.10, Sec 3, Min-Sheng E. Rd., Taipei 104 Taiwan, R.O.C.
TEL: +886-2-2507-5799

Astellas Pharma Korea, Inc.
41-2 Chungdam-Dong Kangnam-Ku, Seoul, 135-766 Korea
TEL: +82-2-3448-0504

Astellas Pharma Philippines, Inc.
23/F, Salcedo Towers 169 H.V. del Costa Street Salcedo Village 1227 Makati City, Philippines
TEL: +63-2-845-1558

Astellas Pharma (Thailand) Co., Ltd.
10/F, Wave Place, 55 Wireless Road, Lumpini, Patumwan, Bangkok 10330, Thailand
TEL: +66-2-655-4050

P.T. Astellas Pharma Indonesia
Wisma Kyoei Prince Building 11/F, Jl. Jend. Sudirman Kav. 3, Jakarta 10220, Indonesia
TEL: +62-21-572-4344

Japan

Manufacturing subsidiaries
Astellas Tokai Co., Ltd.
Astellas Toyama Co., Ltd.
Astellas Pharma Chemicals Co., Ltd.

Astellas Pharma Inc.

Head office
2-3-11, Nihonbashi-Honcho, Chuo-ku, Tokyo 103-8411, Japan
TEL: +81-3-3244-3000
http://www.astellas.com

Common stock
Authorized: 2,000,000,000
Issued: 518,964,635 (including 20,881,100 treasury stock)

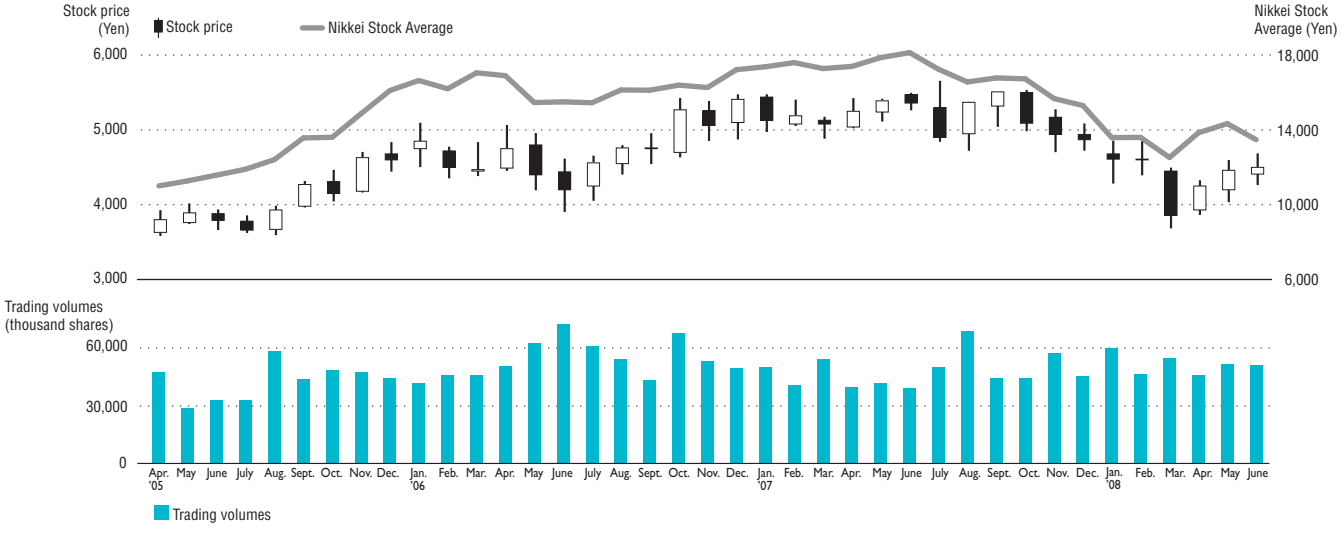
Number of shareholders: 45,820

Stock exchange listing
Tokyo (Ticker Code: 4503), Osaka

Independent auditors
Ernst & Young ShinNihon LLC
Osaka Kokusai Bldg., 2-3-13, Azuchi-machi,
Chuo-ku, Osaka-shi, Osaka 541-0052, Japan

Transfer agent for common stock in Japan
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Stock prices and trading volumes on the Tokyo Stock Exchange
(highest/lowest in the month; yen)

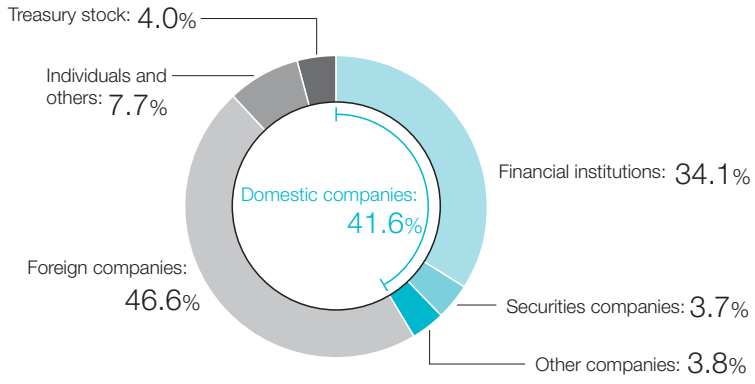


Major shareholders

Name	Shares owned (Thousand shares)	Percentage of total common shares outstanding
Japan Trustee Services Bank, Ltd. (trust account)	26,605	5.12
Nippon Life Insurance Company	25,587	4.93
The Master Trust Bank of Japan, Ltd. (trust account)	25,362	4.88
The Chase Manhattan Bank, NA London, SL Omnibus account	19,386	3.73
State Street Bank and Trust Company	18,302	3.52
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,720	2.64
State Street Bank and Trust Company 505103	13,191	2.54
Nomura Securities, Co., Ltd.	10,267	1.97
Rabobank Nederland Tokyo Branch	7,297	1.40
Mellon Bank N.A. as agent for its client Mellon Omnibus U.S. Pension	7,232	1.39

Note: The Company owned 20,881,100 shares of treasury stock as of March 31, 2008, but they are not included in the principal shareholders stated above.

Breakdown of shareholders



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