



February 24, 2004

## **Yamanouchi and Fujisawa Enter into A Basic Agreement to Merge on April 1, 2005**

Yamanouchi Pharmaceutical Co., Ltd. (Headquartered in Tokyo, Japan; President and CEO: Toichi Takenaka, Ph.D.; hereinafter referred to as "Yamanouchi") and Fujisawa Pharmaceutical Co., Ltd (Headquartered in Osaka, Japan; President and CEO: Hatsuo Aoki, Ph.D.; hereinafter referred to as "Fujisawa") today announced that they have reached a basic agreement to merge on April 1, 2005 and the Board of Directors of the both companies made resolutions at their respective meetings today to this effect..

As explained below, the newly combined company (hereinafter referred to as the "Combined Company") will gain a highly competitive edge in the global pharmaceutical market and will aim at developing into a global mega player, which will be able to cover both primary care physicians (PCP) and specialty markets in the U.S.

- (1) The Combined Company will rank 17th in the global pharmaceutical market with sales of approximately 800 billion yen. With an established business platform in major pharmaceutical markets including Japan, the United States and Europe, the Combined Company will seek further growth.
- (2) The Combined Company will secure the No.1 market share in the Japanese pharmaceutical market. The Combined Company will have 2,400 medical representatives (MRs), the largest among domestic pharmaceutical companies, and develop an even stronger sales and marketing infrastructure.
- (3) In the United States, the Combined Company will be able to provide broad coverage for both PCP and specialty markets, by leveraging the existing infrastructures to accelerate expansion of the US business.
- (4) The Combined Company will have an annual R&D budget of more than 140 billion yen, the level required to be competitive in the global market, as well as solid research and development capabilities, and new product pipelines.
- (5) As a preliminary mid-term financial goal (subject to change), the Combined Company will aim at achieving above 1 trillion yen for pharmaceutical sales, and around 25 % as an operating margin.

The key highlights of the merger are as follows:

1. Background and objectives of the merger

With the growing pressure to control medical expenses in major developed countries, intensifying global competition for the development of new drugs and rising R&D spending, the business environment surrounding the pharmaceutical industry has become increasingly challenging. Competition in the domestic market has intensified as well, characterized by the further implementation of medication cost control policies, such as drug price cuts, and market penetration by global pharmaceutical companies. Under these circumstances, in order to compete globally and achieve sustainable growth, it is necessary to spend on R&D to create innovative new drugs, as well as to develop a global platform to recover efficiently the ever-increasing investment costs.

Based on such common understanding by Yamanouchi and Fujisawa, the companies have been considering a merger to enhance their core business platform, the ethical pharmaceutical business and to succeed in the global arena where competition is ever-intensifying. Today, Yamanouchi and Fujisawa reached an agreement on the basic terms of their merger.

The Combined Company aims to achieve economies of scale through the integration of the R&D, and sales and marketing capabilities of the both companies, as well as to improve further its profitability through the establishment of more efficient operational structures. The Combined Company will stand as a completely new entity, which is neither Yamanouchi nor Fujisawa, and will strive to contribute to health of the people around the world as a global pharmaceutical company with excellent R&D, and sales and marketing capabilities of its own.

2. Outline of the merger

(1) Schedule

Board meetings for approval of Basic Agreement	February 24, 2004
Signing of Basic Agreement	February 24, 2004
Board meetings for approval of Merger Agreement	May, 2004 (schedule)
Signing of Merger Agreement	May, 2004 (schedule)
Shareholders meetings for approval of Merger Agreement	late-June, 2004 (schedule)
Effective Date of Merger	April 1, 2005 (schedule)

The above schedule is subject to change based upon discussions between the two companies, should any significant issues arise as the transaction proceeds.

(2) Merger structure

The merger will be effected as a Japanese statutory merger transaction whereby Yamanouchi

will be the surviving entity.

(3) Merger ratio

Company	Yamanouchi	Fujisawa
Merger Ratio	1	0.71

1. Allocation of shares

One Fujisawa share will be exchanged for 0.71 Yamanouchi shares.

2. Basis of evaluation of merger ratio

Based on the results of valuation analyses conducted by financial advisors appointed by the respective companies, the two companies had extensive negotiations and came to an agreement on the above Merger Ratio. Both Yamanouchi and Fujisawa have received fairness opinions on the Merger Ratio from a financial point of view from their respective financial advisors: Morgan Stanley Japan Limited for Yamanouchi and Lehman Brothers Japan Inc. for Fujisawa.

It should be noted that should any changes in material aspects related to various assumptions for the calculations of the agreed merger ratio occur, the Merger Ratio is subject to change following further discussions between the two companies.

3. Number of newly issued shares (anticipated)

Common stock 234 million shares

(4) Cash payment upon merger

No cash payment is planned to shareholders of Yamanouchi and Fujisawa under this merger except for the case payment upon merger in place of Fujisawa's dividend.

(5) Anticipated benefits from the merger

1. Enhancement of R&D capabilities

- An increased R&D budget will allow the Combined Company to have broader options exercisable strategically in both research and development, thereby strengthening its capability of creating new drugs.
- The new product pipelines of Yamanouchi and Fujisawa complement each other globally.
- The quality of drug discovery research for new products will improve by combining the technologies and the areas of strengths of the both companies.

2. Enhancement of domestic sales and marketing capabilities

- There is little therapeutic area overlap among the main products of the two companies, resulting in a complementary relationship.

- The Combined Company will boast the top market share in the domestic pharmaceutical market. The Combined Company also intends to leverage its largest sales force among domestic pharmaceutical companies to develop a stronger sales and marketing infrastructure.

### 3. Enhancement of global operations

- Operations in the United States will have enhanced product pipelines, including “YM905 (Vesicare®)” (urinary incontinence treatment), “micafungin” (injectable antifungal) and “YM087” (hyponatremia treatment). In addition, by leveraging the existing infrastructures, the Combined Company will be able to provide broad coverage for both PCP and specialty markets, accelerating expansion of the US business.
- Operations in Europe and Asia will have enhanced product pipelines and will have one of the most established presences among Japanese pharmaceutical companies in these regions. There is also room to improve efficiency of the operations in these regions through the integration of various business functions held by the both companies.

### 4. Enhancement of profitability

- Through reduction of duplicated investments and costs as well as optimizing its organization and personnel to actualize its vision/strategy, the Combined Company will pursue sales and cost synergies to enhance profitability further.

Preliminary mid-term financial goal for the Combined Company, subject to change, is as follows:

Pharmaceutical Sales:	above 1 trillion yen
Operating Margin:	around 25%

- Cash flow of the Combined Company will provide the opportunity to make aggressive investments in R&D and to acquire products.

### (6) Merger preparatory committee

In order to proceed with the merger smoothly and promptly, the both companies will jointly establish a merger preparatory committee led by the Presidents of the both companies.

### 3. Company profiles

(1) Company name	Yamanouchi	Fujisawa																				
(2) Business	Manufacturing, marketing and import/export of pharmaceuticals, quasi-drugs, foods, medical devices, etc.	Manufacturing, marketing and import/export of pharmaceuticals, medical supplies and system, and home care business, etc.																				
(3) Date of establishment	April, 1923	December, 1930																				
(4) Address	3-11, Nihonbashi-Honcho 2-chome, Chuo-ku, Tokyo	3-4-7 Doshomachi, Chuo-ku, Osaka																				
(5) Representative	Toichi Takenaka, Ph.D. (President and CEO)	Hatsuo Aoki, Ph.D. (President and CEO)																				
(6) Capital	99,760 million yen (as of Sept. 30, 2003)	38,589 million yen (as of Sept. 2003)																				
(7) Total shares outstanding	361,216,470 shares (as of Sept. 30, 2003)	330,185,210 shares (as of Sept. 30, 2003)																				
(8) Shareholders' equity	702,539 million yen (as of Sept. 30, 2003, consolidated basis)	353,342 million yen (as of Sept. 30, 2003, consolidated basis)																				
(9) Total assets	890,525 million yen (as of Sept. 30, 2003, consolidated basis)	508,354 million yen (as of Sept. 30, 2003, consolidated basis)																				
(10) Fiscal year end	March 31	March 31																				
(11) Employees	8,957 (as of Sept. 30, 2003, consolidated basis)	8,059 (as of Sept. 30, 2003, consolidated basis)																				
(12) Major customers and suppliers	Kuraya Sanseido, Suzuken, Azwell and others	Kuraya Sanseido, Suzuken, Azwell and others																				
(13) Major shareholders (%)	<table border="0"> <tr> <td>Master Trust Bank of Japan</td> <td>8.13%</td> </tr> <tr> <td>Japan Trustee Services Bank</td> <td>7.03%</td> </tr> <tr> <td>Nippon Life Insurance</td> <td>4.45%</td> </tr> <tr> <td>The Chase Manhattan Bank, NA London</td> <td>4.31%</td> </tr> <tr> <td>State Street Bank and Trust Company</td> <td>3.36%</td> </tr> </table> (as of Sept. 30, 2003)	Master Trust Bank of Japan	8.13%	Japan Trustee Services Bank	7.03%	Nippon Life Insurance	4.45%	The Chase Manhattan Bank, NA London	4.31%	State Street Bank and Trust Company	3.36%	<table border="0"> <tr> <td>Master Trust Bank of Japan</td> <td>11.01%</td> </tr> <tr> <td>Japan Trustee Services Bank</td> <td>8.45%</td> </tr> <tr> <td>Nippon Life Insurance</td> <td>7.07%</td> </tr> <tr> <td>The Chase Manhattan Bank, NA London</td> <td>5.53%</td> </tr> <tr> <td>Trust &amp; Customary Services Bank</td> <td>4.64%</td> </tr> </table> (as of Sept. 30, 2003)	Master Trust Bank of Japan	11.01%	Japan Trustee Services Bank	8.45%	Nippon Life Insurance	7.07%	The Chase Manhattan Bank, NA London	5.53%	Trust & Customary Services Bank	4.64%
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(14) Main banks	Sumitomo Mitsui Banking Corporation UFJ Bank Bank of Tokyo Mitsubishi	UFJ Bank Bank of Tokyo Mitsubishi Mizuho Corporate Bank																				
(15) Relationship	No capital, personnel or trading relationship with the other party	No capital, personnel or trading relationship with the other party																				

(16) Results for the recent three fiscal years and forecast for the current year (JPY in millions)								
	Yamanouchi				Fujisawa			
Fiscal Year	March, '01	March, '02	March, '03	March, '04(F)	March, '01	March, '02	March, '03	March, '04(F)
Net Sales	457,913	481,327	506,602	520,000	297,516	341,356	382,079	396,000
Operating Income	97,843	94,291	105,697	106,000	33,605	46,852	62,143	55,000
Recurring Income	106,229	100,021	103,769	106,000	35,727	48,644	61,503	57,000
Net Income	40,340	55,160	59,858	62,000	20,528	26,150	28,635	31,000
Earnings per share (yen)	111.80	154.73	177.43	187.26	63.62	80.07	86.62	94.02
Dividend per share (yen)	25.00	25.00	28.00	31.00	12.00	16.00	18.00	18.00
Shareholders' equity per share (yen)	1,876.54	1,952.47	2,054.17		863.12	962.94	1,016.83	

#### 4. Description of the Combined Company

(1) Company name: to be determined

(2) Business description

Manufacturing, marketing and import/export of pharmaceuticals, quasi-drugs, foods and medical supplies and systems, and home care business, etc.

(3) Headquarters: Tokyo, Japan

(4) Management (Planned):

Hatsuo Aoki, Ph.D.: Representative Director and Chairman  
(President and C.E.O. Fujisawa)

Toichi Takenaka, Ph.D.: Representative Director, President and Chief Executive Officer  
(President and C.E.O. Yamanouchi)

The board of directors will be comprised of 8 members (2 external) including the 2 representative directors above and the corporate auditors comprised of 4 members (2 external).

In addition, the Combined Company plans to adopt a corporate officer system.

Candidates for the member of the board other than the representative directors (excluding the external directors) are as follows.

- Toshinari Tamura, Ph.D.: Member of the Board and Executive Deputy President  
(Senior Managing Director, Yamanouchi)
- Masafumi Nogimori: Member of the Board and Executive Deputy President  
(Member of the Board and Corporate Senior Vice President, Fujisawa)
- Koichi Sejima: Member of the Board  
(Member of the Board and Chief Administrative Officer, Fujisawa)
- Kunihide Ichikawa: Member of the Board  
(Senior Managing Director, Yamanouchi)

(5) Capital: to be decided

(6) Total Assets: to be decided

(7) Fiscal year end: March 31

(8) Business prospects after the merger

Financial performance post transaction and organizational structure, among other items, will be announced as they become available after further discussion within the merger preparatory committee.

*Cautionary Statement*

*This material includes forward-looking statements based on assumptions and beliefs in light of the information currently available to the management of Yamanouchi and Fujisawa and subject to significant risks and uncertainties.*

*Actual financial results may differ materially depending on a number of factors including adverse economic conditions, currency exchange rate fluctuations, adverse legislative and regulatory developments, delays in new product launches, pricing and product initiatives of competitors, the inability of the both companies to market existing and new products effectively, interruptions in production, infringements of intellectual property rights of the both companies and the adverse outcome of material litigation.*

**CONTACT:**

Corporate Communications Dept

Yamanouchi Pharmaceutical Co., Ltd.

3-11, Nihonbashi-Honcho 2-chome, Chuo-ku, Tokyo 103-8411, Japan

TEL: +81-3-3244-3201

FAX: +81-3-5201-7473

Corporate Communications

Fujisawa Pharmaceutical Co., Ltd.

4-7, Doshomachi 3-chome, Chuo-ku, Osaka 541-8514, Japan

TEL: +81-6-6206-7857

FAX: +81-6-6206-5016

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