

Financial Section

Year ended March 31, 2005

Key Financial Data

	¥ billion			(US\$ million)
	Pro forma	Yamanouchi	Fujisawa	Pro forma
Net sales	¥862.0	¥447.0	¥414.9	\$8,056
Cost of sales	279.3	141.1	138.1	2,610
Gross profit	582.6	305.8	276.8	5,445
SG&A expenses	390.4	196.9	193.4	3,649
(R&D expenses)	127.6	58.8	68.7	1,192
Operating income	192.2	108.8	83.3	1,796
Other income (expenses)	(76.9)	(38.2)	38.7	(719)
Income before income taxes and minority interests	115.2	70.6	44.6	1,077
Income taxes	54.3	35.6	18.7	508
Net income	59.5	33.7	25.8	556

* Pro forma figures are simple additions of the figures for Yamanouchi and Fujisawa.

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The translation of yen amounts into U.S. dollar amounts in this section is included solely for convenience at the rate of ¥107=US\$1.00, the approximate exchange rate on March 31, 2005.

Management's Discussion & Analysis (Former Yamanouchi)

■ Overview

Along with restrictive measures against increasing medical expenses, mainly in the leading industrial nations, global competition has intensified, both in R&D and sales of new drugs. In Japan, the government cut the NHI drug prices by 4.2% on average in April 2004 in an effort to curb national medical expenditure.

In this environment, although sales growth continued for major products in the ethical pharmaceuticals business, net sales on a consolidated basis decreased 12.5% to ¥447.0 billion (US\$4,178 million). This was due to the divestiture during the fiscal year of the Company's nutritional and personal care products business as well as its food and roses business ("consumer products businesses").

In Japan, extra products were shipped at the end of March 2005 ahead of a temporary shutdown of the ordering and delivery systems in preparation for the merger with Fujisawa in April 2005. This had the effect of increasing sales by about ¥9.3 billion (US\$86 million) in the fiscal year under review.

With respect to earnings, operating income rose 7.9% year-on-year, to ¥108.8 billion (US\$1,017 million). This was attributable to a reduction in selling, general and administrative (SG&A) expenses arising from the divestiture of the consumer products businesses and a decline in R&D spending. The year-end extra shipment also contributed to increases in operating income (about ¥5.9 billion (US\$55 million)). Net income fell 43.9% to ¥33.7 billion (US\$315 million), mainly due to business integration expenses associated with the merger with Fujisawa.

Average exchange rates (¥)

Year ended March 31	2005	2004
Yen-dollar	¥108	¥113
Yen-euro	135	133

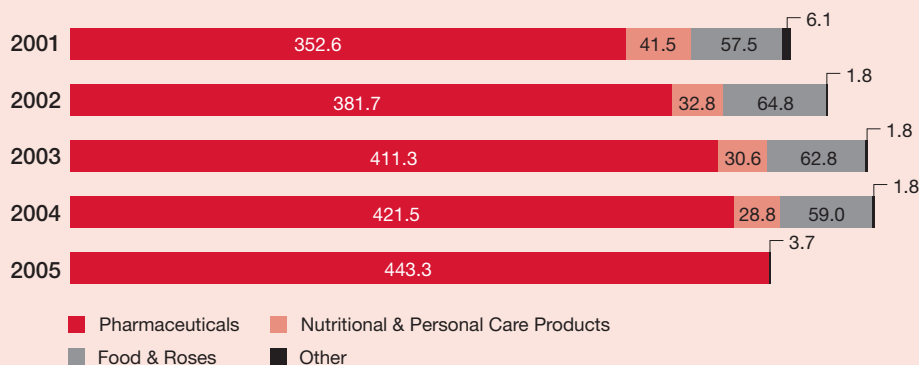
During the term under review, the yen averaged ¥108 against the U.S. dollar and ¥135 against the euro, thus depreciating against the dollar year-on-year, while appreciating against the euro. The effect of exchange rate fluctuations on earnings for the year was to increase operating income by ¥0.3 billion. There was virtually no impact on sales.

Yamanouchi

■ Net Sales

■ Sales by business segment

Net sales breakdown (¥ billion)



Note: Year ended March 31

Sales by business segment

Year ended March 31	¥ billion		US\$ million
	2005	2004	2005
Pharmaceuticals.....	¥443.3	¥421.5	\$4,143
Nutritional & personal care products	—	28.8	
Food & roses	—	59.0	
Other	3.7	1.8	34
Consolidated	¥447.0	511.2	\$4,178

Note: Sales in the consumer products businesses are not included as the Company divested these businesses during the fiscal year under review.

Pharmaceuticals

In pharmaceuticals, continued growth in sales of Yamanouchi's leading products lifted total sales in this category by ¥21.7 billion to ¥443.3 billion (US\$4,143 million), despite negative factors such as NHI price cuts in Japan and the elimination of sales of the non-ionic contrast medium Optiray® and the oral anti-hyperglycemic Euglucon®, which were transferred to other companies in the previous period.

Harnal®, a treatment for the functional symptoms of BPH (brand names in Europe and U.S. are Omnic® and Flomax®, respectively) has strengthened its position as a top-selling product in many countries. Consolidated sales of Harnal® came to ¥135.9 billion (US\$1,270 million), up ¥13.6 billion from the previous term on the back of an increase of ¥6.3 billion in European sales, which rose to ¥44.8 billion (US\$418 million), and a ¥2.2 billion increase in revenue from sales of Harnal® bulk to and royalties from licensees, which amounted to ¥37.2 billion (US\$347 million). In the U.S., Yamanouchi concluded a co-promotional agreement on Flomax® with Boehringer Ingelheim Pharmaceuticals Inc. in August 2004, and has been actively promoting this product since October 2004. In Europe, the Company launched the additional formulation Omnic-OCAS®, which uses its proprietary oral controlled absorption system (OCAS), in the Netherlands in January 2005. The Company is now rolling out the OCAS formulation in other countries. In Japan, the Company launched new

formulation Harnal D® (an orally disintegrating tablet) in June 2005. The Company is working to maximize the value of this product through rapid market penetration of the new formulation.

Hypercholesterolemia treatment Lipitor® became the top seller in the statin market for the first time in Japan with sales of ¥85.5 billion (US\$799 million), a market share of over 35% and an increase of ¥7.9 billion. Sales of Lipitor® have grown steadily due to factors including its high success rate in lowering cholesterol levels to clinical target values, a broad range of clinical data obtained from experience in overseas markets, and co-promotion with Pfizer Japan Inc.

A superior product profile helped Micardis® – a long-acting angiotensin-II receptor antagonist – achieve rapid penetration in a fiercely competitive market. Due to its sustained action, Micardis® is especially useful as an antihypertensive in offering greater control in the morning, when rising blood pressure can often pose a higher risk of ischemic events. It also offers considerable advantages for patients with renal dysfunction, since it is eliminated virtually 100% via biliary excretion. Sales jumped from ¥17.5 billion to ¥26.1 billion (US\$243 million).

Sales of Gaster® for prescription for the treatment of peptic ulcers and gastritis declined ¥3.7 billion to ¥77.2 billion (US\$721 million). In the Japanese market, amid NHI price cuts and intensifying competition, sales of Gaster® were essentially at the previous-year level on a volume basis thanks to growth in Gaster® D, an orally disintegrating tablet. In Japan, sales of Gaster® D now account for some 65% of the total sales of prescription oral type Gaster® products.

Further, sales of Vesicare®, newly launched in FY2004 in Europe and the U.S., amounted to ¥2.7 billion (US\$25 million), making a valuable contribution to the overall sales increase. In Europe, following the Dutch launch in August 2004, the Company is now rolling out this product in Germany, France, the U.K., and other countries. In the U.S., the Company launched the product in January 2005 and is working to achieve rapid market penetration through co-promotion with the U.S. subsidiary of GlaxoSmithKline.

Yamanouchi's OTC drugs business was spun off as Zepharmia Inc., a company jointly established with Fujisawa in October 2004.

Up to the end of the reporting period, Zepharmia Inc. was an equity-method affiliate, and therefore sales of OTC drugs it generated in the six months from October 2004 are not reflected in the consolidated sales figures for the fiscal year under review. Sales of OTC business for the first half of the fiscal year under review amounted to ¥4.9 billion (US\$45 million).

Major product sales included ¥3.0 billion (US\$28 million) for Gaster 10®, the switch OTC formulation of Gaster®, ¥2.2 billion (US\$20 million) for Makiron® first-aid antiseptics, and ¥1.9 billion (US\$17 million) for Cakonal® cold remedies. Of these amounts, sales between April and September included in consolidated

Sales of pharmaceuticals

Year ended March 31	¥ billion		US\$ million
	2005	2004	2005
Harnal®.....	¥135.9	¥122.3	\$1,270
Lipitor®	85.5	77.6	799
Gaster® (excluding OTC).....	77.2	80.9	721
Micardis®	26.1	8.6	243
Frاندol®	13.4	13.7	125
Perdipine®/Perdipine® LA	13.1	13.9	122
Hypoca®.....	4.3	3.8	40
Dorner®	9.3	10.0	86
Vesicare®.....	2.7	—	25

Yamanouchi

figures amounted to ¥1.2 billion (US\$11 million), ¥1.4 billion (US\$13 million) and ¥0.6 billion (US\$5 million), respectively.

Other

This segment comprises our real estate business and revenues from the manufacture of consumer products (which will be ceased by the end of 2006) under consignment agreements after the divestiture of the consumer products businesses.

■ Sales by geographical area

(Excluding consumer products businesses)

Year ended March 31	¥ billion		US\$ million	¥ billion		US\$ million
	2005	2004	2005	2005	2004	2005
Japan	¥310.3	¥323.8	\$2,900	¥310.3	¥313.8	\$ 2,900
North America.....	8.7	79.2	81	8.7	1.3	81
Europe.....	120.4	106.0	1,125	120.4	106.0	1,125
Asia (excluding Japan)	7.4	2.0	69	7.4	2.0	69
Consolidated.....	¥447.0	¥511.2	\$4,178	¥447.0	¥423.3	\$4,178

Japan

Sales in Japan decreased ¥13.4 billion to ¥310.3 billion (US\$2,900 million). This large decrease was primarily due to the divestiture of the consumer products businesses in the reporting term, which had sales of ¥10.0 billion in the previous term. Without that factor, the decrease would have been ¥3.4 billion.

This decrease of ¥3.4 billion is mainly attributable to the elimination of sales of Optiray® and Euglucon®, and also the elimination from October 2004 of OTC drug sales resulting from the spin-off of OTC drug operations. This more than offset increased sales of major products such as Lipitor®, Micardis® and Harnal®.

North America

Sales in North America decreased ¥70.4 billion to ¥8.7 billion (US\$81 million). This large decrease was due to the divestiture of the consumer products businesses in the reporting term, which had sales of ¥77.9 billion in the previous term. Without that factor, an increase of ¥7.3 billion would have been recorded.

This increase of ¥7.3 billion is primarily attributable to sales of ¥1.1 billion (US\$10 million) achieved by the newly launched VESlcare®, income of ¥2.9 billion (US\$27 million) from the U.S. partnership established with Wyeth for the bone morphogenetic protein rhBMP-2, and ¥2.2 billion (US\$20 million) from the manufacture of consumer products under consignment agreements.

Europe

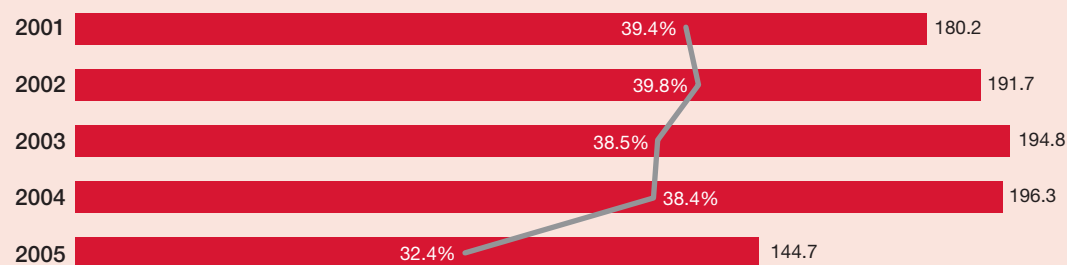
Sales in Europe totaled ¥120.4 billion (US\$1,125 million), an increase of ¥14.4 billion year-on-year. Contributing factors were growth of ¥8.5 billion in Omnic® sold through the Company's own channels and sales of bulk to and royalty revenue from licensees, and sales of new products Vesicare® and Eligard®, a treatment for advanced prostate cancer in the amount of ¥1.5 billion (US\$14 million) and ¥1.4 billion (US\$13 million), respectively.

Asia

Sales in Asia rose ¥5.4 billion to ¥7.4 billion (US\$69 million). The increase is primarily attributable to the first-time inclusion in consolidated accounts of Korea Yamanouchi and Taiwan Yamanouchi.

Overseas sales

Consolidated overseas sales and ratio of overseas sales to net sales (¥ billion)



Note: Year ended March 31

Overseas sales by geographical area

(Excluding consumer products businesses)

Year ended March 31	¥ billion		US\$ million	¥ billion		US\$ million
	2005	2004	2005	2005	2004	2005
North America.....	¥ 42.1	¥110.7	\$ 393	¥ 42.1	¥ 32.9	\$ 393
Europe.....	88.5	76.2	827	88.5	76.2	827
Asia	10.3	7.4	97	10.3	7.4	97
Other	3.6	1.9	34	3.6	1.9	34
Consolidated.....	¥144.7	¥196.3	\$1,352	¥144.7	¥118.4	\$1,352

Overseas sales decreased ¥51.5 billion to ¥144.7 billion (US\$1,352 million). This decline was mainly caused by the divestiture of the consumer products businesses, which more than offset increased sales of pharmaceuticals, principally driven by growth in Harnal® and the contribution of new products including Vesicare®. The net result was a 6 percentage-point decrease to 32.4% in the ratio of overseas sales to total sales.

Excluding the consumer products businesses sales in the previous year, overseas sales rose ¥26.2 billion, and the overseas sales ratio climbed 4.4 percentage points.

■ Cost of sales, SG&A expenses

■ Cost of sales

Cost of sales amounted to ¥141.1 billion (US\$1,319 million). This represented an improvement of 2.4 percentage points in the cost-of-sales ratio to 31.6%. The improvement in the cost-of-sales ratio is mainly attributable to the divestiture of the consumer products businesses.

Without the impact of the divestiture of the consumer products businesses, the cost-of-sales ratio would have deteriorated by 1.2 percentage points compared with the previous year. Of this, around 0.6 percentage point is attributable to NHI price cuts and changes in product mix, and around 0.6 percentage point to expenses for the manufacture of consumer products under consignment agreement.

■ SG&A expenses

SG&A expenses totaled ¥196.9 billion (US\$1,841 million). This represented a year-on-year improvement of 2.3 percentage points in the SG&A expense ratio to 44.0%. The decrease was primarily due to the divestiture of the consumer businesses.

Excluding the consumer products businesses results in the previous year, SG&A expenses decreased by ¥0.5 billion, and were thus hardly changed from the previous term. Within SG&A expenses, R&D spending was ¥58.8 billion (US\$549 million), a decrease of ¥10.4 billion. An increase of ¥9.9 billion in other SG&A spending is attributable to a ¥5.6 billion increase in costs related to the start-up of independent sales and marketing activities in the U.S. and a ¥4.8 billion increase in expenses for the sale and marketing of new products in Europe. The ratio of R&D expenses to net sales for the period was 13.2%.

■ Income and expenses before income taxes and minority interests

■ Operating income

Although gross profit decreased due to the downturn in sales, operating income rose ¥7.9 billion to ¥108.8 billion (US\$1,017 million) as a result of a decrease of R&D expenses as well as SG&A expenses associated with the divestiture of the consumer products businesses. Excluding the consumer products businesses results in the previous year, operating income rose ¥11.8 billion. Extra end-of-year shipments of products in Japan ahead of the merger had the effect of increasing operating income by about ¥5.9 billion (US\$55 million).

■ Other income (expenses)

Expenses for business integration totaled ¥20.9 billion (US\$195 million), of which personnel expenses amounted to ¥12.3 billion (US\$114 million). One-off charges comprised a loss on business restructuring of ¥12.6 billion (US\$117 million), including a ¥7.7 billion (US\$71 million) lump-sum payment accompanying the spin-off of formulation plants in Japan as wholly-owned subsidiaries on April 1, 2005, and cost of ¥10.5 billion (US\$98 million) in an extraordinary amortization of patents associated with revisions to an agreement with Pfizer Inc. concluded in May 2004.

■ Income taxes

Income taxes totaled ¥35.6 billion (US\$332 million). The effective tax rates were 50.4%, an increase of 8.8 percentage points from the previous term. This increase, which came despite benefits from R&D tax credit in Japan, largely reflected higher effective tax rates at overseas subsidiaries resulting from the start-up of independent sales and marketing activities in the U.S.

■ Net income

Year ended March 31	2005		2004		2005	
Net income	¥ 33.7 billion	¥ 60.0 billion			US\$315 million	
As a % of sales	7.5%	11.7%				
Net income per share.....						
Basic.....	¥102.52	¥181.09			\$0.96	
Diluted	¥101.72	¥179.46			\$0.95	

Net income declined ¥26.3 billion to ¥33.7 billion (US\$315 million) due to merger costs and losses incurred on business restructuring. As a result, earnings per share decreased 43.4% to ¥102.52 (US\$0.96).

■ Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2005 amounted to ¥913.5 billion (US\$8,537 million), an increase of ¥10.8 billion compared with the previous fiscal year-end.

Current assets rose ¥78.4 billion, primarily due to an increase in cash and cash equivalents, which rose ¥77.9 billion. Property, plant and equipment decreased ¥39.4 billion mainly as a result of the sale of the consumer products businesses and elimination of large-scale multi-purpose equipment and facilities at Yamanouchi's Takahagi site. Investments and other assets decreased ¥28.0 billion primarily due to the sale of investment securities and a decline in intangible assets resulting from an extraordinary amortization of patents.

Liabilities and shareholders' equity increased by ¥10.8 billion. Total liabilities decreased by ¥4.7 billion, primarily due to a decline of ¥12.9 billion in accrued retirement benefits for employees associated with implementation of an early retirement program and transfer of employees to group companies. Total shareholders' equity rose ¥16.5 billion as retained earnings increased by ¥24.4 billion, which more than offset the ¥12.5 billion increase in treasury stock.

■ Cash flows

■ Cash flows from operating activities

Net cash provided by operating activities totaled ¥48.5 billion (US\$454 million), an increase of ¥5.2 billion compared with the previous year. This is primarily attributable to a decrease in income taxes paid of ¥38.6 billion, although income before income taxes and minority interests decreased ¥32.6 billion.

■ Cash flows from investing activities

Net cash provided by investment activities totaled ¥46.9 billion (US\$438 million), compared with a ¥12.8 billion net cash outflow for the previous year. This was mainly due to proceeds for ¥36.7 billion (US\$343 million) from the sale of subsidiaries' shares arising from divestiture of the consumer businesses and sales of investment securities.

■ Cash flows from financing activities

Net cash used in financing activities totaled ¥24.6 billion (US\$230 million), a rise of ¥13.4 billion compared with the previous year. This was primarily due to purchase of treasury stock in an amount of ¥12.5 billion (US\$117 million).

Consolidated Balance Sheets

March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current assets:			
Cash and cash equivalents	¥423,478	¥345,501	\$3,957,738
Short-term investments (Note 15)	12,378	11,734	115,682
Notes and accounts receivable	136,625	125,845	1,276,869
Allowance for doubtful receivables	(308)	(475)	(2,878)
	<u>136,317</u>	<u>125,370</u>	<u>1,273,991</u>
Inventories (Note 4)	40,461	56,739	378,140
Deferred tax assets (Note 8)	30,666	25,213	286,598
Other current assets	14,169	14,504	132,421
Total current assets	<u>657,469</u>	<u>579,061</u>	<u>6,144,570</u>
Property, plant and equipment, at cost:			
Land	25,511	32,214	238,421
Buildings	139,257	159,787	1,301,467
Machinery and equipment	128,004	147,819	1,196,299
Other	3,242	12,420	30,299
Construction in progress	3,489	7,511	32,607
Accumulated depreciation	(164,828)	(185,631)	(1,540,448)
Property, plant and equipment, net	<u>134,675</u>	<u>174,120</u>	<u>1,258,645</u>
Investments and other assets:			
Investment securities (Note 15)	51,974	64,059	485,738
Investments in and advances to unconsolidated subsidiaries and affiliates	7,559	3,690	70,645
Intangible assets	14,670	27,266	137,103
Prepaid expenses	845	832	7,897
Deferred tax assets (Note 8)	22,295	20,194	208,364
Other assets	24,076	33,476	225,010
Total investments and other assets	<u>121,419</u>	<u>149,517</u>	<u>1,134,757</u>
Total assets	<u>¥913,563</u>	<u>¥902,698</u>	<u>\$8,537,972</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current liabilities:			
Short-term bank loans (Note 5)	—	¥ 800	—
Current portion of long-term debt (Note 6)	—	438	—
Notes and accounts payable:			
Trade	¥ 61,730	61,515	\$ 576,916
Construction	2,023	1,659	18,907
Accrued expenses	24,838	25,640	232,131
Accrued income taxes (Note 8)	21,468	10,477	200,636
Deferred tax liabilities (Note 8)	160	3,922	1,495
Other current liabilities	9,228	5,695	86,242
Total current liabilities	<u>119,447</u>	<u>110,146</u>	<u>1,116,327</u>
Long-term liabilities:			
Long-term debt (Note 6)	5,020	6,825	46,916
Accrued retirement benefits for employees (Note 9)	23,406	36,374	218,748
Accrued retirement benefits for directors	1,005	1,248	9,393
Deferred tax liabilities (Note 8)	2,295	2,418	21,449
Other long-term liabilities	18,917	17,832	176,793
Total long-term liabilities	<u>50,643</u>	<u>64,697</u>	<u>473,299</u>
Minority interests	1,579	2,463	14,757
Shareholders' equity (Notes 7 and 18):			
Common stock, without par value:			
Authorized — 800,000,000 shares			
Issued 2005 — 361,954,215 shares			
2004 — 361,216,470 shares	100,491	99,761	939,168
Additional paid-in capital	114,415	113,685	1,069,299
Retained earnings	640,518	616,112	5,986,150
Unrealized holding gain on securities	11,600	13,848	108,411
Translation adjustments	(11,091)	(16,557)	(103,654)
Total	<u>855,933</u>	<u>826,849</u>	<u>7,999,374</u>
Treasury stock, at cost:			
33,656,582 shares in 2005 and			
30,137,026 shares in 2004	(114,039)	(101,457)	(1,065,785)
Shareholders' equity, net	<u>741,894</u>	<u>725,392</u>	<u>6,933,589</u>
Contingent liabilities (Note 12)			
Total liabilities and shareholders' equity	<u>¥913,563</u>	<u>¥902,698</u>	<u>\$8,537,972</u>

Consolidated Statements of Income

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Net sales	¥447,051	¥511,208	¥506,603	\$4,178,047
Cost of sales	141,171	173,791	175,249	1,319,355
Gross profit	305,880	337,417	331,354	2,858,692
Selling, general and administrative expenses (Note 10)	196,990	236,457	225,656	1,841,028
Operating income	108,890	100,960	105,698	1,017,664
Other income (expenses):				
Interest and dividend income	4,451	2,932	3,205	41,598
Interest expense	(780)	(552)	(597)	(7,290)
Loss on devaluation of securities	(40)	—	(6,550)	(374)
Loss on business restructuring	(12,600)	(3,545)	(4,880)	(117,757)
Expenses for business integration	(20,936)	—	—	(195,664)
Extraordinary amortization of patents	(10,591)	—	—	(98,981)
Exchange gain (loss)	527	(5,769)	(5,094)	4,925
Equity in (losses) earnings of affiliates	(725)	667	(469)	(6,776)
Gain on sales of investment securities	5,723	8,115	6	53,486
Other, net	(3,301)	429	1,898	(30,850)
	(38,272)	2,277	(12,481)	(357,683)
Income before income taxes and minority interests	70,618	103,237	93,217	659,981
Income taxes (Note 8):				
Current	37,329	36,101	47,679	348,869
Deferred	(1,715)	6,881	(14,511)	(16,028)
	35,614	42,982	33,168	332,841
Income before minority interests	35,004	60,255	60,049	327,140
Minority interests in earnings of consolidated subsidiaries	(1,287)	(197)	(191)	(12,028)
Net income (Note 13)	¥ 33,717	¥ 60,058	¥ 59,858	\$ 315,112

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Common stock (Note 7)				
Balance at beginning of year				
(2005 — 361,216,470 shares;				
2004 — 361,216,470 shares;				
2003 — 361,203,052 shares)	¥ 99,761	¥ 99,761	¥ 99,745	\$ 932,346
Add:				
Shares issued upon conversion of convertible bonds				
(2005 — 737,745 shares;				
2004 — 0 shares;				
2003 — 13,418 shares)	730	—	16	6,822
Balance at end of year				
(2005 — 361,954,215 shares;				
2004 — 361,216,470 shares;				
2003 — 361,216,470 shares)	¥100,491	¥ 99,761	¥ 99,761	\$ 939,168
Additional paid-in capital (Note 7)				
Balance at beginning of year	¥113,685	¥113,685	¥113,669	\$1,062,477
Add:				
Conversion of convertible bonds	730	—	16	6,822
Balance at end of year	¥114,415	¥113,685	¥113,685	\$1,069,299
Retained earnings (Notes 7 and 18)				
Balance at beginning of year	¥616,112	¥566,089	¥515,832	\$5,758,056
Net income	33,717	60,058	59,858	315,112
Cash dividends paid	(10,211)	(9,934)	(9,500)	(95,429)
Bonuses to directors and corporate auditors	(92)	(101)	(101)	(860)
Increase due to inclusion in consolidation	992	—	—	9,271
Balance at end of year	¥640,518	¥616,112	¥566,089	\$5,986,150
Unrealized holding gain on securities				
Balance at beginning of year	¥ 13,848	¥ 4,758	¥ 7,360	\$ 129,421
Net changes during the year	(2,248)	9,090	(2,602)	(21,010)
Balance at end of year	¥ 11,600	¥ 13,848	¥ 4,758	\$ 108,411
Translation adjustments				
Balance at beginning of year	¥ (16,557)	¥ (4,103)	¥ (835)	\$ (154,738)
Adjustments arising from translation of foreign currency				
financial statements	5,466	(12,454)	(3,268)	51,084
Balance at end of year	¥ (11,091)	¥ (16,557)	¥ (4,103)	\$ (103,654)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Operating activities				
Income before income taxes and minority interests	¥ 70,618	¥103,237	¥ 93,217	\$ 659,981
Depreciation and amortization	28,039	25,118	26,081	262,047
Provision for retirement benefits, net of payments	(12,935)	(2,649)	(2,564)	(120,888)
(Gain) loss on sales of investment securities	(5,723)	(8,115)	144	(53,486)
Loss on devaluation of securities	40	—	6,550	374
Equity in losses (earnings) of affiliates	725	(667)	469	6,776
Interest expense	780	552	597	7,290
Notes and accounts receivable	(16,309)	1,485	5,437	(152,421)
Inventories	7,016	(1,910)	(5,951)	65,570
Other current assets	(973)	2,202	(1,032)	(9,093)
Notes and accounts payable	1,554	(1,171)	(19,499)	14,523
Accrued expenses	2,680	(2,516)	3,654	25,047
Other current liabilities	2,982	(1,449)	(528)	27,869
Other	2,028	(342)	3,069	18,953
Subtotal	80,522	113,775	109,644	752,542
Interest paid	(799)	(638)	(389)	(7,467)
Income taxes paid	(31,135)	(69,760)	(23,466)	(290,982)
Net cash provided by operating activities	48,588	43,377	85,789	454,093
Investing activities				
Additions to property, plant and equipment	(8,656)	(12,134)	(18,224)	(80,897)
Proceeds from sales of property, plant and equipment	2,620	3,816	1,876	24,486
Decrease (increase) in investments in and advances to unconsolidated subsidiaries and affiliates	3,251	(172)	158	30,383
Proceeds from sales of subsidiaries' shares	36,792	—	—	343,850
Decrease (increase) in short-term investments	3,329	(6,561)	28,863	31,112
Decrease (increase) in investment securities	8,288	9,471	(7,788)	77,458
Increase in other assets	(6,335)	(4,271)	(5,116)	(59,206)
Other	7,671	(2,993)	(3,752)	71,693
Net cash provided by (used in) investing activities	46,960	(12,844)	(3,983)	438,879
Financing activities				
Decrease in short-term bank loans	(800)	(100)	—	(7,477)
Repayment of long-term debt	(400)	(1,005)	(15,479)	(3,738)
Purchase of treasury stock	(12,582)	(40)	(31,714)	(117,589)
Cash dividends	(10,211)	(9,934)	(9,500)	(95,430)
Other	(699)	(140)	(924)	(6,532)
Net cash used in financing activities	(24,692)	(11,219)	(57,617)	(230,766)
Effects of exchange rate changes on cash and cash equivalents	4,096	(4,966)	(1,604)	38,280
Increase in cash and cash equivalents	74,952	14,348	22,585	700,486
Increase in cash and cash equivalents due to increase in consolidated subsidiaries	3,025	—	—	28,271
Cash and cash equivalents at beginning of year	345,501	331,153	308,568	3,228,981
Cash and cash equivalents at end of year	¥423,478	¥345,501	¥331,153	\$3,957,738

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2005

1. Basis of Presentation

Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd., hereinafter “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 those of their countries of domicile. 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 Securities and Exchange Law of Japan.

Certain amounts in the prior years' 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 unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. 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.

Investments in subsidiaries and affiliates, which are not consolidated or accounted for by the equity method, are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

All consolidated subsidiaries close their books of account at March 31 for financial reporting purposes except for Yamanouchi Pharmaceutical (China) Co., Ltd. which closes its books as of December 31. The necessary adjustments are made to the financial statements of Yamanouchi Pharmaceutical (China) Co., Ltd. to reflect any significant transactions from January 1 to March 31.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 5 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 consolidated subsidiaries are translated using the average rate during the year and, except for the components of shareholders' equity, the balance sheet accounts are translated into yen at the exchange rates in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as a component of shareholders' equity 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

Merchandise is stated principally at the lower of cost or market, cost being determined by the average method. Finished goods are stated principally at cost by the average method. Work in process and semi-finished goods, and raw materials and supplies are stated principally at cost by the first-in, first-out method and the average method, respectively. However, inventories of the foreign consolidated 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. 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 consolidated 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 consolidated subsidiaries 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, directly included in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average method.

(h) Stock and bond issuance expenses and discounts on bonds

Stock and bond issuance expenses are charged to income as incurred. Discounts on bonds are amortized by the straight-line method over the respective terms of the bonds.

(i) Research and development expenses

Research and development expenses are charged to income as incurred.

(j) 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.

(k) Retirement benefits

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. 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 (15 years through 17 years). Certain foreign consolidated subsidiaries have adopted the corridor approach for the amortization of actuarial gain or loss. Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of service of the employees (13 years through 16 years).

In addition, directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for

retirement benefits for these officers has been made at an estimated amount.

(l) Derivative financial instruments

The Company has entered into various derivative financial instruments in order to manage certain risks arising 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 an asset or liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(m) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 18. b.

(n) New accounting standards***Impairment of Fixed Assets***

A new Japanese accounting standard "Impairment of Fixed Assets" was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The Company is currently assessing the impact of this new accounting standard on its financial position and operating results.

Business Combination

A new Japanese accounting standard "Business Combination" was issued in October 2003 that is effective for fiscal years beginning on or after April 1, 2006. The new accounting standard requires business combinations to be accounted for primarily by the purchase method and permits certain limited business combinations to be accounted for by the pooling-of-interest method. The Company will account for the merger with Fujisawa Pharmaceutical Co., Ltd. by the pooling-of-interest method. See Note 18. a.

3. 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 the rate of ¥107 = U.S.\$1.00, the approximate rate of exchange on March 31, 2005. 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.

4. Inventories

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Merchandise and finished goods	¥16,825	¥24,725	\$157,243
Work in process and semi-finished goods	9,835	11,951	91,916
Raw materials and supplies.....	13,801	20,063	128,981
	¥40,461	¥56,739	\$378,140

5. Short-Term Bank Loans

Short-term bank loans consisted mainly of unsecured loans at interest rates ranging from 0.27% to 1.375% per annum at March 31, 2004.

6. Long-Term Debt

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Astellas Pharma Inc.:			
1.25% unsecured convertible bonds, payable in yen, due 2014	¥5,020	¥6,480	\$46,916
	5,020	6,480	46,916
Consolidated subsidiaries:			
Unsecured loans from banks and others, at rates ranging from 1.375% to 7.38%, due through 2017	—	783	—
	5,020	7,263	46,916
Less current portion	—	(438)	—
	¥5,020	¥6,825	\$46,916

The conversion price and period of the convertible bonds are summarized as follows:

	Conversion price per share at March 31, 2005	Period (up to and including)
1.25% convertible bonds due 2014	1,979.00	March 24, 2014

At March 31, 2005, if all the outstanding convertible bonds had been converted at the then current conversion price, 2,536 thousand new shares would have been issuable.

Under the indentures and trust deeds of the convertible

bonds, the conversion price is subject to adjustment in certain cases which include stock splits. A sufficient number of shares of common stock is reserved for the conversion of all outstanding convertible bonds.

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 0	\$ 0
2007	0	0
2008	0	0
2009	0	0
2010 and thereafter	5,020	46,916
	<u>¥5,020</u>	<u>\$46,916</u>

7. Additional Paid-in Capital and Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥10,362 million (\$96,841 thousand) as of both March 31, 2005 and 2004.

The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

8. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rates of approximately 41% for 2005 and 42% for 2004 and 2003. Income taxes of the foreign consolidated 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, 2005, 2004 and 2003 differ from the statutory tax rates for the following reasons:

	2005	2004	2003
Statutory tax rates	41.0%	41.7%	41.7%
Effect of:			
Tax deduction for research expenses	(7.6)	(4.2)	(4.2)
Different tax rates applied to income of foreign consolidated subsidiaries	12.0	(1.3)	(0.8)
Reversal of income taxes for prior periods	—	—	(3.8)
Expenses not deductible for income tax purposes	2.7	2.3	2.6
Tax rate change	—	0.4	1.0
Change in valuation allowance	4.0	—	—
Other, net	(1.7)	2.7	(0.9)
Effective tax rates	<u>50.4%</u>	<u>41.6%</u>	<u>35.6%</u>

The significant components of the deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 3,044	¥ 3,191	\$ 28,449
Accrued retirement benefits	7,699	12,898	71,953
Depreciation and amortization	10,838	9,431	101,290
Accrued expenses	7,572	7,113	70,766
Inventories	6,932	7,202	64,785
Accrued enterprise and other taxes	1,479	2,071	13,822
Other	41,821	20,471	390,851
Gross deferred tax assets	79,385	62,377	741,916
Valuation allowance	(15,757)	(1,309)	(147,262)
Total deferred tax assets	63,628	61,068	594,654
Deferred tax liabilities:			
Unrealized holding gain on securities	8,096	9,617	75,664
Depreciation and amortization	798	5,597	7,458
Deferred income	—	3,448	—
Inventories	—	1,036	—
Accrued retirement benefits	—	1,435	—
Other	4,228	868	39,514
Total deferred tax liabilities	13,122	22,001	122,636
Net deferred tax assets	¥50,506	¥39,067	\$472,018

9. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain foreign consolidated 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, 2005 and 2004 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Retirement benefit obligation	¥(85,970)	¥(96,487)	\$(803,458)
Plan assets at fair value	58,327	59,140	545,112
Unfunded retirement benefit obligation	(27,643)	(37,347)	(258,346)
Unrecognized actuarial gain or loss	14,869	13,000	138,963
Unrecognized prior service cost	(10,433)	(7,769)	(97,505)
Net retirement benefit obligation	(23,207)	(32,116)	(216,888)
Prepaid pension cost	199	4,258	1,860
Accrued retirement benefits	¥(23,406)	¥(36,374)	\$(218,748)

The components of retirement benefit expenses for the years ended March 31, 2005, 2004 and 2003 are outlined as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost	¥ 4,042	¥ 4,494	¥4,224	\$ 37,776
Interest cost	2,694	3,238	3,254	25,178
Expected return on plan assets	(1,473)	(1,931)	(2,038)	(13,766)
Amortization of actuarial gain or loss	559	990	795	5,224
Amortization of prior service cost	(659)	(327)	(545)	(6,159)
Other	15,403	3,847	1,024	143,953
Total	<u>¥20,566</u>	<u>¥10,311</u>	<u>¥6,714</u>	<u>\$192,206</u>

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

	2005	2004
Discount rates	2.0% – 6.3%	2.5% – 6.3%
Expected return on plan assets	1.6% – 9.0%	1.6% – 9.0%

10. 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, 2005, 2004, and 2003, were ¥58,842 million (\$549,925 thousand), ¥70,080 million and ¥66,874 million, respectively.

11. 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, 2005 and 2004, 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		
	Acquisition costs	Accumulated depreciation	Net book value
March 31, 2005			
Machinery and equipment	<u>¥3,316</u>	<u>¥1,483</u>	<u>¥1,833</u>
	Thousands of U.S. dollars		
March 31, 2005			
Machinery and equipment	<u>\$30,991</u>	<u>\$13,860</u>	<u>\$17,131</u>
	Millions of yen		
March 31, 2004			
Machinery and equipment	<u>¥6,642</u>	<u>¥3,858</u>	<u>¥2,784</u>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,091 million (\$10,196 thousand), ¥1,690 million and ¥1,371 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, 2005, 2004 and 2003, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 on non-cancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars	
	Finance leases	Operating leases	Finance leases	Operating leases
2006	¥ 887	¥13	\$ 8,290	\$121
2007 and thereafter	946	13	8,841	121
Total	<u>¥1,833</u>	<u>¥26</u>	<u>\$17,131</u>	<u>\$242</u>

12. Contingent Liabilities

At March 31, 2005, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of the Company's employees and affiliates in the aggregate amount of ¥6,243 million (\$58,346 thousand).

13. Amounts Per Share

	Yen			U.S. dollars
	2005	2004	2003	2005
Net income:				
Basic	¥ 102.52	¥ 181.09	¥ 177.43	\$ 0.96
Diluted	101.72	179.46	174.69	0.95
Cash dividends	31.00	31.00	28.00	0.29
Net assets	2,259.68	2,190.69	2,054.17	21.12

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, and 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.

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

Amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

14. Supplementary Cash Flow Information

The conversion of convertible bonds for the years ended March 31, 2005 and 2003 amounted to ¥1,460 million (\$13,644 thousand) and ¥32 million, respectively. There was no conversion of convertible bonds for the year ended

March 31, 2004.

The following is a summary of transferred assets and liabilities and acquisition cost of shares of Zepharmia Inc. in the year ended March 31, 2005.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥4,788	\$44,747
Fixed assets	1,604	14,991
Current Liabilities	(1,349)	(12,607)
Net	5,043	47,131
Additional payment	1,000	9,346
Acquisition cost	¥6,043	\$56,477

The following is a summary of the transferred assets and liabilities as of March 31, 2004 with related to nutritional and personal care products business and food and roses business which were sold during the year ended March 31, 2005.

	Millions of yen			Thousands of U.S. dollars		
	Nutritional and personal care products	Food and roses	Total	Nutritional and personal care products	Food and roses	Total
Current assets	¥20,479	¥10,605	¥31,084	\$191,393	\$ 99,112	\$290,505
Non-current assets	19,652	20,783	40,435	183,663	194,234	377,897
Total assets	¥40,131	¥31,388	¥71,519	\$375,056	\$293,346	\$668,402
Current liabilities	¥ 7,922	¥10,024	¥17,946	\$ 74,037	\$ 93,683	\$167,720
Long-term liabilities	10,795	925	11,720	100,888	8,645	109,533
Total liabilities	¥18,717	¥10,949	¥29,666	\$174,925	\$102,328	\$277,253
Minority interest	¥ 2,462	—	¥ 2,462	\$ 23,009	—	\$ 23,009

15. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2005 and 2004 are as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	2005	2005	Unrealized	2005	2005	Unrealized
	Carrying value	Estimated fair value	gain (loss)	Carrying value	Estimated fair value	gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	¥3,003	¥3,015	¥12	\$28,065	\$28,178	\$112
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Total	¥3,003	¥3,015	¥12	\$28,065	\$28,178	\$112
	Millions of yen			Thousands of U.S. dollars		
	2004			2004		
	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	¥ 600	¥ 600	—			
Corporate bonds	—	—	—			
Others	—	—	—			
Subtotal	¥ 600	¥ 600	—			
Securities whose carrying value exceeds their fair value:						
Government bonds	¥2,401	¥2,397	¥(4)			
Corporate bonds	—	—	—			
Others	—	—	—			
Subtotal	¥2,401	¥2,397	¥(4)			
Total	¥3,001	¥2,997	¥(4)			

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2005	2005	Unrealized	2005	2005	Unrealized
	Acquisition cost	Carrying value	gain (loss)	Acquisition cost	Carrying value	gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥14,058	¥34,003	¥19,945	\$131,383	\$317,785	\$186,402
Debt securities	4,000	4,004	4	37,383	37,421	38
Other	131	147	16	1,225	1,373	148
Subtotal	¥18,189	¥38,154	¥19,965	\$169,991	\$356,579	\$186,588
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 334	¥ 231	¥ (103)	\$ 3,121	\$ 2,159	\$ (962)
Debt securities	6,000	5,996	(4)	56,075	56,037	(38)
Other	5,000	4,743	(257)	46,729	44,328	(2,401)
Subtotal	¥11,334	¥10,970	¥ (364)	\$105,925	\$102,524	\$ (3,401)
Total	¥29,523	¥49,124	¥19,601	\$275,916	\$459,103	\$183,187

	Millions of yen		
	2004		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥19,538	¥43,068	¥23,530
Debt securities	2,000	2,000	—
Other	131	146	16
Subtotal	<u>¥21,669</u>	<u>¥45,214</u>	<u>¥23,546</u>
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 53	¥ 44	¥ (10)
Debt securities	9,200	9,185	(15)
Other	5,000	4,960	(40)
Subtotal	<u>¥14,253</u>	<u>¥14,189</u>	<u>¥ (65)</u>
Total	<u>¥35,922</u>	<u>¥59,403</u>	<u>¥23,481</u>

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Proceeds from sales	¥11,279	¥69,826	¥101,951	\$105,411
Gains on sales	5,722	8,188	6	53,477
Losses on sales	0	73	150	0

The redemption schedule for securities with maturities classified as other securities and held-to-maturity debt securities as of March 31, 2005 are as follows:

	Millions of yen			Thousands 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	¥2,600	¥2,403	—	\$24,299	\$22,458	—
Corporate bonds	6,999	1,000	—	65,411	9,355	—
Others	—	—	—	—	—	—
Total	<u>¥9,599</u>	<u>¥3,403</u>	<u>—</u>	<u>\$89,710</u>	<u>\$31,813</u>	<u>—</u>

16. Derivative Transactions

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange 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 disclosure of fair value information for derivatives as of March 31, 2005 and 2004 has been omitted since all derivatives have been accounted for as hedges.

17. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas, primarily in North America and Europe. The Company sold all of its shares of subsidiaries in Japan and the U.S. which engage in nutritional and personal care products business and food and roses business during the year ended March 31, 2005. Such

transfer was accounted for as if the sale of shares had taken place at the beginning of the current fiscal year.

The business and geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2005, 2004, and 2003 is outlined as follows:

Business segments

Year ended March 31, 2005	Millions of yen				
	Pharmaceuticals	Other	Total	Eliminations	Consolidated
I. Sales and operating income					
Sales to third parties	¥443,313	¥ 3,738	¥447,051	—	¥447,051
Intergroup sales and transfers	6	4,663	4,669	¥ (4,669)	—
Total sales	443,319	8,401	451,720	(4,669)	447,051
Operating expenses	335,825	7,320	343,145	(4,984)	338,161
Operating income	¥107,494	¥ 1,081	¥108,575	¥ 315	¥108,890
II. Assets, depreciation and capital expenditures					
Total assets	¥864,668	¥59,983	¥924,651	¥(11,088)	¥913,563
Depreciation and amortization.....	15,661	1,690	17,351	—	17,351
Capital expenditures	16,836	421	17,257	—	17,257
	Thousands of U.S. dollars				
Year ended March 31, 2005	Pharmaceuticals	Other	Total	Eliminations	Consolidated
I. Sales and operating income					
Sales to third parties	\$4,143,112	\$ 34,935	\$4,178,047	—	\$4,178,047
Intergroup sales and transfers	56	43,579	43,635	\$ (43,635)	—
Total sales	4,143,168	78,514	4,221,682	(43,635)	4,178,047
Operating expenses	3,138,551	68,411	3,206,962	(46,579)	3,160,383
Operating income	\$1,004,617	\$ 10,103	\$1,014,720	\$ 2,944	\$1,017,664
II. Assets, depreciation and capital expenditures					
Total assets	\$8,081,009	\$560,589	\$8,641,598	\$(103,626)	\$8,537,972
Depreciation and amortization.....	146,364	15,795	162,159	—	162,159
Capital expenditures	157,346	3,934	161,280	—	161,280

Year ended March 31, 2004	Millions of yen						Eliminations	Consolidated
	Pharmaceuticals	Nutritional and personal care products	Food and roses	Other	Total			
I. Sales and operating income								
Sales to third parties	¥421,543	¥28,829	¥59,032	¥ 1,804	¥511,208	—	¥511,208	
Intergroup sales and transfers	181	15	—	5,150	5,346	¥ (5,346)	—	
Total sales	421,724	28,844	59,032	6,954	516,554	(5,346)	511,208	
Operating expenses	328,275	25,798	58,196	3,712	415,981	(5,733)	410,248	
Operating income	<u>¥ 93,449</u>	<u>¥ 3,046</u>	<u>¥ 836</u>	<u>¥ 3,242</u>	<u>¥100,573</u>	<u>¥ 387</u>	<u>¥100,960</u>	
II. Assets, depreciation and capital expenditures								
Total assets	¥814,192	¥40,130	¥31,389	¥47,554	¥933,265	¥(30,567)	¥902,698	
Depreciation and amortization	19,114	2,428	1,870	1,706	25,118	—	25,118	
Capital expenditures	12,635	1,407	1,712	405	16,159	—	16,159	

Year ended March 31, 2003	Millions of yen						Eliminations	Consolidated
	Pharmaceuticals	Nutritional and personal care products	Food and roses	Other	Total			
I. Sales and operating income								
Sales to third parties	¥411,307	¥30,635	¥62,815	¥ 1,846	¥506,603	—	¥506,603	
Intergroup sales and transfers	57	24	—	5,178	5,259	¥ (5,259)	—	
Total sales	411,364	30,659	62,815	7,024	511,862	(5,259)	506,603	
Operating expenses	315,617	27,799	59,254	3,918	406,588	(5,683)	400,905	
Operating income	<u>¥ 95,747</u>	<u>¥ 2,860</u>	<u>¥ 3,561</u>	<u>¥ 3,106</u>	<u>¥105,274</u>	<u>¥ 424</u>	<u>¥105,698</u>	
II. Assets, depreciation and capital expenditures								
Total assets	¥802,486	¥44,312	¥37,790	¥52,185	¥936,773	¥(38,603)	¥898,170	
Depreciation and amortization	18,917	2,893	1,816	1,856	25,482	—	25,482	
Capital expenditures	19,356	3,938	2,466	1,411	27,171	—	27,171	

Geographical areas

Year ended March 31, 2005	Millions of yen						Consolidated
	Japan	North America	Europe	Asia	Total	Eliminations	
Sales to third parties	¥310,388	¥ 8,714	¥120,472	¥7,477	¥447,051	—	¥447,051
Intergroup sales and transfers	40,390	19,568	4,280	48	64,286	¥(64,286)	—
Total sales	350,778	28,282	124,752	7,525	511,337	(64,286)	447,051
Operating expenses	244,084	29,654	120,907	6,537	401,182	(63,021)	338,161
Operating income (loss)	¥106,694	¥ (1,372)	¥ 3,845	¥ 988	¥110,155	¥ (1,265)	¥108,890
Total assets	¥680,854	¥87,428	¥146,658	¥9,030	¥923,970	¥(10,407)	¥913,563

Year ended March 31, 2005	Thousands of U.S. dollars						Consolidated
	Japan	North America	Europe	Asia	Total	Eliminations	
Sales to third parties	\$2,900,822	\$ 81,439	\$1,125,907	\$69,879	\$4,178,047	—	\$4,178,047
Intergroup sales and transfers	377,477	182,878	40,000	449	600,804	\$(600,804)	—
Total sales	3,278,299	264,317	1,165,907	70,328	4,778,851	(600,804)	4,178,047
Operating expenses	2,281,158	277,140	1,129,972	61,094	3,749,364	(588,981)	3,160,383
Operating income (loss)	\$ 997,141	\$(12,823)	\$ 35,935	\$ 9,234	\$1,029,487	\$ (11,823)	\$1,017,664
Total assets	\$6,363,121	\$817,084	\$1,370,636	\$84,392	\$8,635,233	\$ (97,261)	\$8,537,972

Year ended March 31, 2004	Millions of yen						Consolidated
	Japan	North America	Europe	Asia	Total	Eliminations	
Sales to third parties	¥323,884	¥79,210	¥106,041	¥2,073	¥511,208	—	¥511,208
Intergroup sales and transfers	33,343	15,549	4,172	123	53,187	¥(53,187)	—
Total sales	357,227	94,759	110,213	2,196	564,395	(53,187)	511,208
Operating expenses	(262,490)	(97,746)	(102,816)	(2,027)	(465,079)	54,831	(410,248)
Operating income (loss)	¥ 94,737	¥ (2,987)	¥ 7,397	¥ 169	¥ 99,316	¥ 1,644	¥100,960
Total assets	¥689,574	¥93,707	¥144,013	¥4,089	¥931,383	¥(28,685)	¥902,698

Year ended March 31, 2003	Millions of yen						Consolidated
	Japan	North America	Europe	Asia	Total	Eliminations	
Sales to third parties	¥323,838	¥ 84,540	¥ 96,107	¥2,118	¥506,603	—	¥506,603
Intergroup sales and transfers	34,011	14,514	2,645	132	51,302	¥(51,302)	—
Total sales	357,849	99,054	98,752	2,250	557,905	(51,302)	506,603
Operating expenses	255,017	95,853	92,614	2,155	445,639	(44,734)	400,905
Operating income	¥102,832	¥ 3,201	¥ 6,138	¥ 95	¥112,266	¥ (6,568)	¥105,698
Total assets	¥682,000	¥103,647	¥133,491	¥4,452	¥923,590	¥(25,420)	¥898,170

Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen				
Year ended March 31, 2005	North America	Europe	Asia	Other	Total
Overseas sales	¥42,116	¥88,553	¥10,380	¥3,696	¥144,745
Consolidated net sales					447,051

	Thousands of U.S. dollars				
Year ended March 31, 2005	North America	Europe	Asia	Other	Total
Overseas sales	\$ 393,607	\$827,598	\$97,009	\$34,544	\$1,352,758
Consolidated net sales					4,178,047
Overseas sales as a percentage of consolidated net sales	9.4%	19.8%	2.3%	0.9%	32.4%

	Millions of yen				
Year ended March 31, 2004	North America	Europe	Asia	Other	Total
Overseas sales	¥110,759	¥76,210	¥7,423	¥1,934	¥196,326
Consolidated net sales					511,208
Overseas sales as a percentage of consolidated net sales	21.7%	14.9%	1.4%	0.4%	38.4%

	Millions of yen				
Year ended March 31, 2003	North America	Europe	Asia	Other	Total
Overseas sales	¥115,357	¥70,265	¥8,033	¥1,161	¥194,816
Consolidated net sales					506,603
Overseas sales as a percentage of consolidated net sales	22.8%	13.9%	1.6%	0.2%	38.5%

18. Subsequent Events

a. Pursuant to the resolution made by general shareholders' meeting of the Company and Fujisawa Pharmaceutical Co., Ltd. ("Fujisawa") held on June 24, 2004 to approve the merger agreement, the Company merged with Fujisawa effective April 1, 2005 and changed its name to Astellas Pharma Inc.

The following summarizes the descriptions of the merger.

- 1) The Company issued 209,473,788 shares of common stock and allotted them to shareholders of Fujisawa registered in the shareholders register as of the day prior to the effective date of merger at the rate of one share of the Company in exchange for 0.71 share of common stock of Fujisawa. Among the shares that were allotted to the shareholders of Fujisawa, 29 million shares were from the Company's common stock in treasury. No share of the Company was allotted to Fujisawa's common stock in treasury.
- 2) The Company will pay ¥11 (\$0.1) per share as a cash payment upon the merger, in lieu of the dividend to be paid for the fiscal year ended March 31, 2005 to the shareholders of Fujisawa, who were registered in the shareholders register as of the day prior to the effective date of merger as soon as the general shareholders meeting is held on June 24, 2005.
- 3) Following the merger, capital surplus, legal reserve and voluntary reserve of the Company increased by ¥59,897 million (\$559,785 thousand), ¥6,464 million (\$60,411 thousand) and ¥210,782 million (\$1,969,925 thousand), respectively. As a result, capital surplus, legal reserve and voluntary reserve of the Company amounted to ¥174,311 million (\$1,629,075 thousand), ¥16,826 million (\$157,252 thousand) and ¥772,884 million (\$7,223,215 thousand), respectively.

4) The assets acquired and liabilities assumed from Fujisawa were as follows:

Total assets	¥491,505 million	(\$4,593,505 thousand)
Current assets —	¥208,829 million	(\$1,951,673 thousand)
Noncurrent assets —	¥282,675 million	(\$2,641,822 thousand)
Total liabilities	¥102,320 million	(\$956,262 thousand)
Current liabilities —	¥95,067 million	(\$888,477 thousand)
Noncurrent liabilities —	¥7,252 million	(\$67,776 thousand)

b. The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 24, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥31=US\$0.29 per share)	¥5,252	\$49,084
Bonuses to directors and corporate auditors	44	411
	<u>¥5,296</u>	<u>\$49,495</u>

Report of Independent Auditors

The Board of Directors
Astellas Pharma Inc.

We have audited the accompanying consolidated balance sheets of Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd.) (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, 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. (formerly Yamanouchi Pharmaceutical Co., Ltd.) and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 18, the Company merged with Fujisawa Pharmaceutical Co., Ltd. effective April 1, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 3.

June 24, 2005

Ernst & Young ShinNikon

Summarized Financial Review (Former Fujisawa)

■ Net sales

Net sales totaled ¥414.9 billion (US\$3,878 million), an increase of 4.9% over the previous period.

In Japan, sales decreased 1.1% to ¥219.2 billion (US\$2,049 million). In ethical pharmaceuticals, sales of the cardin antifungal agent Funguard®, the antipsychotic agent Seroquel®, the anti-allergic Intal® and the hypnotic Myslee® showed substantial increases, while the immunosuppressant Prograf®, the antidepressant Luvox® and other products made good headway. In addition, extra shipments ahead of a temporary shut-down in ordering and delivery systems (just before the merger with Yamanouchi) had the effect of increasing sales by about ¥2.5 billion (US\$23 million). Overall, however, sales declined as a result of the transfer in October 2004 of OTC drug operations to Zepharm Inc., a company jointly established with Yamanouchi, as well as of the virtually total withdrawal from the chemicals business in the previous period.

Overseas, sales in North America climbed 11.6% to ¥121.0 billion (US\$1,131 million) on strong growth in three main products, Prograf®, the pharmacologic stress imaging agent Adenoscan® and the treatment for atopic dermatitis Protopic®, despite appreciation of the yen against the U.S. dollar. Sales also climbed in Europe, rising 14.4% to ¥65.9 billion (US\$616 million) thanks to sales growth of Prograf® and Protopic®, the main products sold by Fujisawa GmbH, and to the yen's weakening against the euro.

Net sales by geographic area

Year ended March 31	¥ billion		US\$ million
	2005	2004	2005
Japan	¥219.2	¥221.7	\$2,049
North America.....	121.0	108.4	1,131
Europe.....	65.9	57.6	616
Asia.....	8.7	7.5	81
Consolidated.....	¥414.9	¥395.4	\$3,878

■ Operating income

Operating income was ¥83.3 billion (US\$778 million), a rise of 47.0% over the previous period. The overall increase of ¥26.6 billion reflected a rise of ¥22.3 billion in gross profit, which is attributable to growth in sales and an improvement in gross margin resulting from changes in product mix and a decline of ¥4.3 billion in SG&A expenses from the previous period. Extra shipments ahead of the merger accounted for approximately ¥1.4 billion (US\$13 million) of the operating income.

Operating income:

Year ended March 31	¥ billion		US\$ million
	2005	2004	2005
Japan	¥54.4	¥35.4	\$509
North America.....	24.4	20.6	228
Europe.....	7.9	1.4	74
Asia.....	1.3	1.0	12
Eliminations.....	(4.8)	(1.8)	(45)
Consolidated.....	¥83.3	¥56.7	\$778

■ Net income

Net income declined 37.7% to ¥25.8 billion (US\$241 million) due to ¥39.4 billion (US\$368 million) in expenses for the business integration. The main components were personnel expenses, costs of withdrawing from the home care business and IT-related costs.

Top-selling ethical pharmaceuticals

Year ended March 31	¥ billion		US\$ million
	2005	2004	2005
Prograf®	¥122.9	¥104.4	\$1,148
Adenoscan®	33.1	28.3	309
Cefzon®	23.6	27.8	220
Protopic®	21.5	17.3	200
Myslee®	14.7	12.2	137
Funguard®	13.8	11.1	128
Seroquel®	13.1	10.4	122
Intal®	11.9	9.2	111
Luvox®	8.8	7.8	82
AmBisome®	8.8	8.9	82

Consolidated Statements of Income (Unaudited)

For the Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net sale	¥414,960	¥395,401	¥382,079	\$3,878,131
Cost of sales	138,141	140,917	137,198	1,291,038
Gross profit	276,819	254,484	244,881	2,587,093
Selling, general and administrative expenses	124,467	123,794	119,968	1,163,242
Research and development expenses	68,780	73,643	62,426	642,804
Amortization of excess of cost over net assets acquired	223	344	344	2,084
Operating income	83,349	56,703	62,143	778,963
Other income (expenses)				
Interest and dividend income	1,369	1,322	1,797	12,794
Interest expenses	(124)	(403)	(625)	(1,159)
Equity in earnings of affiliated companies	971	899	668	9,075
Gain on sales of investments in affiliated companies	—	—	4,717	—
Gain on sales of fixed assets	—	1,563	—	—
Gain on the return of the substitutional portion of the welfare pension fund	—	13,934	—	—
Gain on sales of cleaning and hygiene product business for the food and beverage industry	—	511	—	—
Loss on disposal of fixed assets	(3,064)	—	—	(28,636)
Loss on devaluation of investments in securities	—	—	(6,830)	—
Loss on disposal of obsolete inventories	(1,272)	(894)	(1,362)	(11,888)
Loss on withdrawal of the chemicals business in US	—	(3,443)	—	—
Expenses for business integration	(39,439)	—	—	(368,589)
Expenses related to transfer of OTC drugs business	—	(1,625)	—	—
Expenses related to closing the Kuanyin plant	—	(1,277)	—	—
Expenses related to implementation of measures reinforcing the Japanese business	—	—	(14,700)	—
Other, net	2,851	1,848	(1,118)	26,646
Income before income taxes and minority interests	44,641	69,138	44,690	417,206
Income taxes				
Current	21,319	18,372	27,229	199,243
Deferred	(2,562)	9,425	(11,275)	(23,944)
	18,757	27,797	15,954	175,299
Income before minority interests	25,884	41,341	28,736	241,907
Minority interest in consolidated subsidiaries	(69)	127	(101)	(645)
Net income	¥ 25,815	¥ 41,468	¥ 28,635	\$ 241,262
		Yen		U.S. dollars
Amounts per share:				
Net income				
Basic	¥77.42	¥125.63	¥86.62	\$0.72
Diluted	76.88	123.65	85.37	0.72
Cash dividends	22.00	22.00	18.00	0.21

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.\$1, the approximate exchange rate as of March 31, 2005.

Consolidated Balance Sheets (Unaudited)

March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets:			
Cash and cash equivalents	¥ 65,323	¥ 39,104	\$ 610,495
Trade receivables —			
Notes	7,022	7,043	65,626
Accounts	85,475	77,987	798,832
Allowance for doubtful receivables	(189)	(222)	(1,766)
Marketable securities and short-term investments —			
Marketable securities	29,591	23,758	276,551
Short-term investments	23,659	19,782	221,112
Inventories	50,145	49,771	468,645
Deferred taxes	28,257	20,959	264,084
Prepaid expenses and other current assets	15,031	18,577	140,477
Total current assets	<u>304,314</u>	<u>256,759</u>	<u>2,844,056</u>
Property, plant and equipment, at cost:			
Land	13,480	14,499	125,981
Buildings	94,599	96,024	884,103
Machinery and equipment	132,625	133,600	1,239,487
Construction in progress	3,965	3,932	37,056
Total	<u>244,669</u>	<u>248,055</u>	<u>2,286,627</u>
Less accumulated depreciation	(156,742)	(156,688)	(1,464,879)
Property, plant and equipment, net	<u>87,927</u>	<u>91,367</u>	<u>821,74</u>
Investments and other assets:			
Excess of cost over net assets acquired	1,041	1,265	9,729
Goodwill and proprietary technology	9,218	10,895	86,150
Investments in affiliated companies	9,144	2,792	85,458
Marketable securities	106,673	91,619	996,944
Other investments in securities	7,648	7,707	71,477
Deferred taxes	3,561	3,874	33,280
Other assets	26,709	33,415	249,616
Total investments and other assets	<u>163,994</u>	<u>151,567</u>	<u>1,532,654</u>
Cash and cash equivalents	¥ 65,323	¥ 39,104	\$ 610,495
Total	<u>¥556,235</u>	<u>¥499,693</u>	<u>\$5,198,458</u>

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.\$1, the approximate exchange rate as of March 31, 2005.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current liabilities:			
Short-term borrowings	¥ 587	¥ 1,112	\$ 5,486
Current portion of long-term debt	1,501	14,062	14,028
Trade payables —			
Notes	1,085	628	10,140
Accounts	61,351	44,560	573,374
Accrued income taxes	6,882	2,980	64,318
Accrued expenses	31,300	17,532	292,523
Accrued bonuses	9,300	8,769	86,916
Other current liabilities	12,245	5,056	114,439
Total current liabilities	<u>124,251</u>	<u>94,699</u>	<u>1,161,224</u>
Long-term liabilities:			
Long-term debt	422	1,475	3,944
Accrued retirement benefits for employees	11,481	21,488	107,299
Accrued severance indemnities for the directors and corporate auditors	34	1,154	318
Other long-term liabilities	10,003	4,382	93,486
Total long-term liabilities	<u>21,940</u>	<u>28,499</u>	<u>205,047</u>
Minority interest in consolidated subsidiaries	<u>130</u>	<u>551</u>	<u>1,215</u>
Shareholders' equity:			
Common stock —			
Authorized — 800,000,000 shares			
Issued 2005 — 336,389,665 shares	44,291		413,935
Issued 2004 — 330,190,106 shares		38,594	
Capital surplus	62,933	57,237	588,159
Retained earnings	298,295	280,508	2,787,803
Foreign currency translation adjustments	(8,171)	(12,667)	(76,364)
Net unrealized gain on securities	13,920	13,553	130,093
Less treasury stock, at cost —			
2005 — 511,089 shares	(1,354)		(12,654)
2004 — 483,425 shares		(1,281)	
Shareholders' equity, net	<u>409,914</u>	<u>375,944</u>	<u>3,830,972</u>
Contingent liabilities and commitments			
Total	<u>¥556,235</u>	<u>¥499,693</u>	<u>\$5,198,458</u>

Consolidated Statements of Shareholders' Equity (Unaudited)

For the Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Common stock:				
Balance at beginning of year	¥ 38,594	¥ 38,588	¥ 38,588	\$ 360,692
Shares issued upon conversion of debentures	5,697	6	0	53,243
Balance at end of year	<u>¥ 44,291</u>	<u>¥ 38,594</u>	<u>¥ 38,588</u>	<u>\$ 413,935</u>
Capital surplus:				
Balance at beginning of year	¥ 57,237	¥ 57,231	¥ 57,231	\$ 534,925
Increase due to conversion of debentures	5,696	6	0	53,234
Balance at end of year	<u>¥ 62,933</u>	<u>¥ 57,237</u>	<u>¥ 57,231</u>	<u>\$ 588,159</u>
Retained earnings:				
Balance at beginning of year	¥280,508	¥242,351	¥219,707	\$2,621,570
Net income	25,815	41,468	28,635	241,262
Adjustment due to change of the fiscal year-end of foreign subsidiaries	—	3,008	—	—
Cash dividends	(7,981)	(6,264)	(5,941)	(74,590)
Bonuses to the directors and corporate auditors	(47)	(55)	(50)	(439)
Balance at end of year	<u>¥298,295</u>	<u>¥280,508</u>	<u>¥242,351</u>	<u>\$2,787,803</u>
Foreign currency translation adjustments	<u>¥ (8,171)</u>	<u>¥ (12,667)</u>	<u>¥ (5,704)</u>	<u>\$ (76,364)</u>
Net unrealized gain on securities	<u>¥ 13,920</u>	<u>¥ 13,553</u>	<u>¥ 4,081</u>	<u>\$ 130,093</u>
Treasury stock, at cost	<u>¥ (1,354)</u>	<u>¥ (1,281)</u>	<u>¥ (1,210)</u>	<u>\$ (12,654)</u>

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.\$1, the approximate exchange rate as of March 31, 2005.

Consolidated Statements of Cash Flows (Unaudited)

For the Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Cash flows from operating activities:				
Net income	¥25,815	¥41,468	¥28,635	\$241,262
Adjustments to reconcile net income to net cash provided by operating activities —				
Depreciation and amortization	19,482	20,340	21,176	182,075
Expenses related to implementation of measures reinforcing the Japanese business	—	—	14,700	—
Gain on sales of fixed assets	—	(1,563)	—	—
Gain on the return of the substitutional portion of the welfare pension fund	—	(13,934)	—	—
Gain on sales of cleaning and hygiene product business for the food and beverage industry	—	(511)	—	—
Gain on sales of investments in affiliated companies	—	—	(4,716)	—
Equity in earnings of affiliated companies, net	(971)	(899)	(668)	(9,075)
Foreign exchange loss	418	679	329	3,907
Dividends earned from affiliated companies	501	503	256	4,682
Loss on disposal of fixed assets	3,064	—	—	28,636
Loss on disposal of obsolete inventories	1,272	894	1,362	11,888
Loss on devaluation of investments in securities	—	—	6,830	—
Loss on withdrawal of the chemicals business in US	—	3,443	—	—
Expenses for business integration	28,077	—	—	262,402
Expenses related to transfer of OTC drugs business	—	1,625	—	—
Expenses related to closing the Kuanyin plant	—	1,277	—	—
Changes in assets and liabilities —				
Decrease (increase) in trade receivables	(9,330)	3,357	(7,015)	(87,196)
Decrease (increase) in inventories	(2,688)	3,391	(3,114)	(25,121)
Decrease (increase) in deferred tax assets	(2,751)	10,776	(10,971)	(25,710)
(Increase) decrease in other current assets	4,959	(7,597)	1,841	46,346
(Decrease) increase in trade payables	6,082	(3,687)	306	56,841
(Decrease) increase in accrued income taxes	2,965	(7,628)	2,544	27,710
(Decrease) increase in other current liabilities	10,919	(21,830)	7,458	102,047
Decrease in accrued retirement benefits for employees	(10,616)	(7,695)	(2,314)	(99,215)
Other	(1,522)	(8,013)	293	(14,227)
Total adjustments	49,861	(27,072)	28,297	465,990
Net cash provided by operating activities	75,676	14,396	56,932	707,252
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(11,623)	(12,890)	(15,412)	(108,626)
Decrease (increase) in marketable securities and short-term investments	4,662	4,353	(10,682)	43,570
Proceeds from sales of non-current marketable securities	5,755	11,979	13,065	53,785
Acquisition of non-current marketable securities	(33,730)	(35,659)	(17,323)	(315,234)
Proceeds from sales of other investments in securities	39	3,440	5,047	364
Acquisition of other investments in securities	(59)	(61)	(3,002)	(551)
Increase in other investments	(7,103)	(2,232)	(1,076)	(66,383)
Other	2,624	3,959	780	24,524
Net cash used in investing activities	(39,435)	(27,111)	(28,603)	(368,551)
Cash flows from financing activities:				
Net decrease in short-term borrowings	(3,231)	(3,059)	(1,846)	(30,196)
Borrowings of long-term debt	490	—	—	4,579
Repayments of long-term debt	(115)	—	(100)	(1,075)
Dividends paid	(8,016)	(6,312)	(5,987)	(74,916)
Other	(73)	(92)	(987)	(682)
Net cash used in financing activities	(10,945)	(9,463)	(8,920)	(102,290)
Effect of exchange rate changes on cash and cash equivalents	923	(2,037)	(1,577)	8,626
Net (decrease) increase in cash and cash equivalents	26,219	(24,215)	17,832	245,037
Cash and cash equivalents at beginning of year	39,104	69,140	51,308	365,458
Cash and cash equivalents of the subsidiaries excluded from consolidation	—	(39)	(0)	—
Decrease in cash and cash equivalents upon change of fiscal year-end of foreign subsidiaries	—	(5,782)	—	—
Cash and cash equivalents at end of year	¥65,323	¥39,104	¥69,140	\$610,495

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.\$1, the approximate exchange rate as of March 31, 2005.

Principal Subsidiaries and Affiliates

(as of July 2005)

■ North America

Holding Company in North America

Astellas US Holding, Inc.

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■ Europe

(Some entities are in the legal process of changing their names to include "Astellas")

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Astellas Pharma Taiwan, Inc.

(to be established by the merger of the following 2 companies by the end of 2005)

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Fujisawa Taiwan Co., Ltd.

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Yamanouchi Pharmaceutical (China) Co., Ltd.*

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Fujisawa Pharmaceutical (China) Co., Ltd.*

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* These entities will change their names to include "Astellas."

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P.T. Astellas Pharma Indonesia

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■ Japan

(Astellas Toyama Co., Ltd. and Astellas Shizuoka Co., Ltd. are in legal process of
changing their names to include "Astellas")

Astellas Tokai Co., Ltd.**Astellas Toyama Co., Ltd.****Astellas Shizuoka Co., Ltd.****Zepharma Inc.**

Investor Information

(as of April 1, 2005)

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TEL: +81-3-3244-3000
<http://www.astellas.com>

Common Stock

Authorized: 2,000,000,000
Issued: 571,428,003

Stock Exchange Listing

Tokyo (Ticker Code: 4503), Osaka, Nagoya, Sapporo
Euronext Paris

Independent Certified Public Accountants

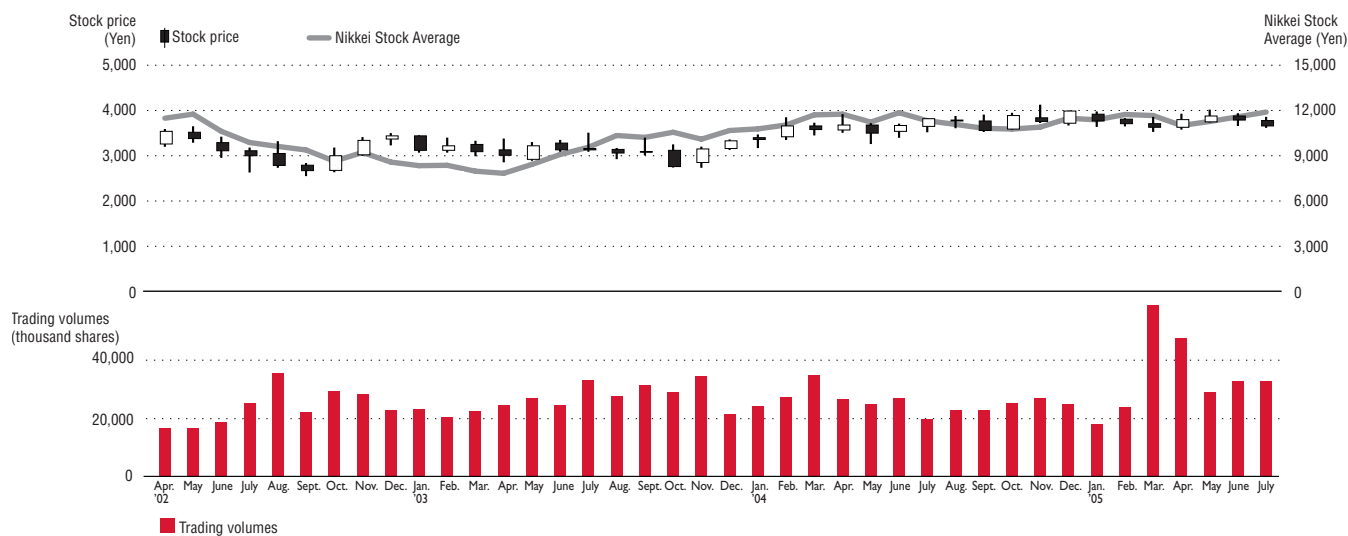
Shin Nihon & Co.
Osaka Kokusai Bldg., 3-13, Azuchi-machi 2-chome, Chuo-ku, Osaka 541-0052, Japan

Transfer Agent for Common Stock in Japan

The Chuo Mitsui Trust and Banking Company, Limited
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Stock Prices and Trading Volumes on the Tokyo Stock Exchange

(highest/lowest in the month; yen)



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