Financial Section

Year ended March 31, 2006

Key Financial Data

Years ended March 31	(¥ billion) 2006	2005 (Pro forma)	2005	(US$ million) 2006
Net sales	¥879.4	¥862.0	¥447.1	$7,516
Cost of sales	273.0	279.3	141.2	2,333
Gross profit	606.4	582.7	305.9	5,183
SG&A expenses	413.3	390.5	197.0	3,533
(R&D expenses)	142.1	127.6	58.8	1,214
Operating income	193.0	192.2	108.9	1,650
Other income (expenses)	(16.0)	(77.0)	(38.3)	(136)
Income before income taxes and minority interests	177.1	115.3	70.6	1,513
Income taxes	71.7	54.4	35.6	613
Net income	103.7	59.5	33.7	886

Notes: 1. Figures for year ended March 31, 2005 in the Management's Discussion & Analysis section are shown on a pro form basis, representing the results of the two merged entities simply added together. Figures for years ended March 31, 2004 and 2005 in financial statements represent the results of Yamanouchi Pharmaceutical Co., Ltd., the surviving company.

2. The translation of yen amounts into U.S. dollar amounts in this section is included solely for convenience at the rate of ¥117=US$1.00, the approximate exchange rate on March 31, 2006.

Contents

Management's Discussion & Analysis

■ Overview

During the term ended March 31, 2006, net sales on a consolidated basis rose 2.0% year-on-year to ¥879.4 billion ($7,516 million), and operating income rose 0.4% to ¥193.0 billion ($1,650 million). Net income jumped 74.1% to ¥103.7 billion ($886 million).

Net sales increased thanks to steady growth of mainstay products, while certain one-time factors, chiefly in Japan, had a negative impact on net sales. Operating income posted a slight increase. R&D expenses increased due to proactive licensing activities, and sales and marketing expenses for new products increased overseas. The jump in net income reflected a decrease year-on-year in "expenses for business integration" and other one-time extraordinary expenses.

Average exchange rates

Years ended March 31	2006	2005
Yen-dollar	**¥113**	¥108
Yen-euro	**138**	135

During the term, the yen averaged ¥113 to the U.S. dollar and ¥138 to the euro; compared with the previous fiscal year the yen was weaker against both currencies. The impact of exchange-rate fluctuations was to increase net sales by ¥13.7 billion and operating income by ¥5.6 billion.

■ Net sales

Net sales on a consolidated basis rose 2.0% year-on-year to ¥879.4 billion. Of this total, sales in the ethical pharmaceutical business rose 1.9% to ¥847.9 billion ($7,247 million).

Sales of global mainstay products

Sales of the immunosuppressant Prograf® rose 18.8% to ¥145.9 billion ($1,247 million) and sales of Harnal® (brand name in Europe: Omnic® /Omnic OCAS®), a treatment for the functional symptoms of benign prostatic hyperplasia (BPH), climbed 1.3% to ¥137.8 billion ($1,178 million).

Prograf® further strengthened its dominant status in the United States, the largest transplant market, as a drug for the prevention of rejection after organ transplants. In Japan, in addition to the transplant market, a further boost to sales came from approval for an additional indication of rheumatoid arthritis in April 2005.

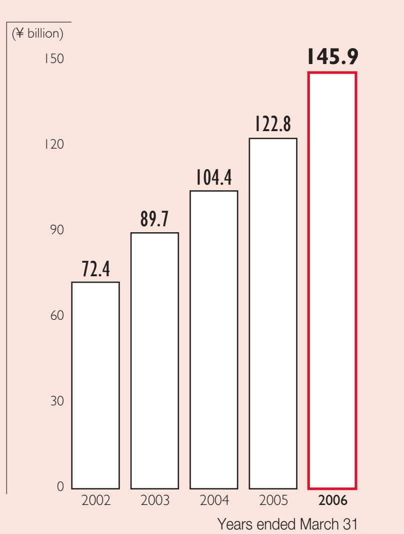
Harnal® is also a global top-selling product for functional symptoms of BPH. However, in Japan, its substance patent expired in February 2005 and now generics have entered the market. Although we launched a new formulation, an orally disintegrating tablet, in June 2005, sales have declined amid intensified competition. Its substance patent in Europe also expired in February 2006. Sales, however, expanded in the reporting term, thanks to brisk sales before the patent expiry.

Sales of Vesicare®, for overactive bladder, rose 439.0% year-on-year to ¥14.8 billion ($126 million). This product expanded its market share in Europe and the U.S. thanks to our proactive promotional activities.

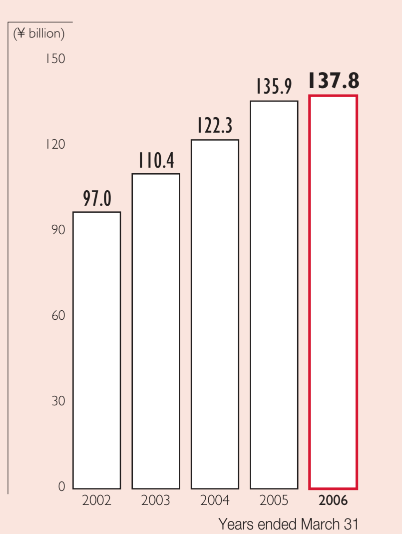
The echinocandin antifungal injectable agent Mycamine®/Funguard® saw sales rise by 10.5% year-on-year to ¥15.2 billion ($130 million). In the U.S., since the launch in May 2005, we have been working to deepen market penetration through proactive promotional activities with our co-promotion partner, Hoffmann-La Roche Inc. In Japan, sales of this product stayed almost flat due to the launch of a competitive rival product.

Sales of Protopic®, a treatment for atopic dermatitis, fell 32.7% to ¥14.4 billion ($123 million). An issue involving labeling changes in the U.S. had a severe impact on sales.

Sales of Prograf®



Sales of Harnal®



Sales of mainstay products in Japan

We were able to achieve synergy benefits for products whose sales are highly dependent on detail calls, such as the hypercholesterolemia treatment Lipitor®, the long-acting angiotensin II receptor antagonist Micardis® and the hypnotic Myslee®.

With its unique profiles, Micardis® enjoyed strong market penetration and expanded its share despite extremely harsh competition. Sales in the term rose 42.8% to ¥37.3 billion ($319 million).

Lipitor® and Myslee® further strengthened their position as top products in their fields. Sales of Lipitor® increased 7.0% year-on-year to ¥91.5 billion ($782 million), giving it a share of nearly 40% of the statin market, and Myslee® rose 28.4% to ¥17.1 billion ($146 million), gaining a nearly 30% share of the market for sleeping medicines.

Gaster®, for peptic ulcers and gastritis, saw sales decline 5.8% year-on-year to ¥68.8 billion ($588 million). This product has been on the market for over 20 years, but remains market leader due to its superior efficacy and safety.

Major products sold in Japan

Years ended March 31	¥ billion		US$ million
	2006	2005	**2006**
Lipitor®	**¥91.5**	¥85.5	**$782**
Gaster®	**68.8**	73.1	**588**
Harnal®	**44.9**	49.4	**384**
Micardis®	**37.3**	26.1	**319**
Cefzon®	**18.4**	17.7	**157**
Myslee®	**17.1**	13.3	**146**
Seroquel®	**15.2**	13.1	**130**
Prograf®	**14.2**	10.5	**121**
Funguard®	**14.0**	13.8	**120**

Sales by geographical area

Years ended March 31	¥ billion		US$ million
	2006	2005	**2006**
Japan	**¥511.1**	¥529.6	**$4,368**
North America	**145.3**	129.7	**1,242**
Europe	**203.2**	186.4	**1,737**
Asia (excluding Japan)	**19.6**	16.2	**168**

Japan

Sales in Japan declined 3.5% year-on-year to ¥511.1 billion ($4,368 million). Mainstay products such as Lipitor®, Micardis® and Myslee® generally performed strongly, but sales were negatively affected by a variety of one-time factors such as 1) extra product shipments at the previous term-end ahead of a temporary shutdown of distribution/ordering systems due to the merger, 2) withdrawal from non-pharmaceutical businesses such as the home care business and medical supplies and systems business, and 3) transfer of some products to other companies in the previous term.

North America

Sales in North America rose 12.0% year-on-year to ¥145.3 billion ($1,242 million). Although sales of Protopic® fell substantially, sales grew for Prograf® and the pharmacological stress imaging agent Adenoscan®. The new products VESIcare® and Mycamine® made contributions to the sales increase.

Europe

Sales in Europe rose 9.0% year-on-year to ¥203.2 billion ($1,737 million). Higher sales of Prograf®, Omnic®/Omnic OCAS®, and Vesicare® contributed to the increase in revenues. Bulk sales of Harnal® to licensees and royalty revenues from licensees were almost the same as in the previous term.

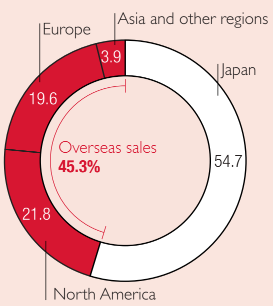
Asia

In Asia, sales rose 21.1% year-on-year to ¥19.6 billion ($168 million) on growth in sales of Prograf® and Harnal®.

Overseas sales

Overseas sales by geographical area

Years ended March 31	¥ billion		US$ million
	2006	2005	**2006**
North America	**¥192.0**	¥172.3	**$1,640**
Europe	**172.2**	154.8	**1,472**
Asia and other regions	**34.1**	31.5	**291**
Total	**¥398.3**	¥358.6	**$3,404**



Overseas sales rose 11.1% year-on-year to ¥398.3 billion ($3,404 million). Prograf® and Harnal® continued to fuel growth and further sales impetus came from Vesicare®. Overseas sales accounted for 45.3% of net sales on a consolidated basis, up 3.7 percentage points year-on-year.

Gross profit and operating income

Gross profit

Cost of sales amounted to ¥273.0 billion ($2,333 million). Changes of product mix and efforts to reduce the cost of sales led to a 1.4 percentage point improvement year-on-year in the cost-of-sales ratio, to 31.0%.

Sales increases and the improvement in the cost-of-sales ratio pushed up the gross profit 4.1% year-on-year to ¥606.4 billion ($5,183 million).

Operating income

As a result of proactive product in-licensing during the term, R&D expenses rose 11.3% year-on-year to ¥142.1 billion ($1,214 million). SG&A expenses excluding R&D rose 3.2% year-on-year to ¥271.3 billion ($2,319 million). An increase in sales and marketing expenses for new products in the European and U.S. markets outweighed reductions in personnel costs chiefly in Japan and efficient use of expenses. As a result, operating income rose 0.4% year-on-year to ¥193.0 billion ($1,650 million). R&D expenses accounted for 16.2% of sales in the term under review, an increase of 1.4 percentage points year-on-year.

■ Other income (expenses), net income

Income before income taxes and minority interests increased ¥61.8 billion to ¥177.1 billion ($1,513 million), mainly due to a decrease in one-time expenses such as business integration expenses (declining by ¥39.1 billion to ¥21.3 billion ($182 million)), and loss on business restructuring and extraordinary amortization of patents reported in the previous term.

Income taxes totaled ¥71.7 billion ($613 million). The effective tax rate was 40.5%, a decrease of 6.7 percentage points year-on-year. The main reason for the improvement in the effective tax rate was improved earnings at our subsidiary in Ireland. The temporary negative impact on the effective tax rate in the previous term from divestiture of our consumer businesses was also a factor in the improvement of the effective tax rate.

Net income rose 74.1% to ¥103.7 billion ($886 million).

■ Assets, liabilities and shareholders' equity

As of March 31	¥ billion		US$ million
	2006	2005 (Pro forma)	**2006**
Total assets	**¥1,584.5**	¥1,469.8	**$13,543**
Total liabilities	**367.2**	316.3	**3,138**
Minority interests	**0.4**	1.7	**4**
Shareholders' equity excluding treasury stock	**1,216.9**	1,151.8	**10,401**

Total assets as of March 31, 2006 stood at ¥1,584.5 billion ($13,543 million) a year-on-year increase of ¥114.7 billion. Current assets rose ¥88.5 billion year-on-year to ¥1,050.3 billion ($8,977 million). Property, plant and equipment declined ¥16.0 billion year-on-year to ¥206.6 billion ($1,766 million). Investments and other assets rose ¥42.2 billion year-on-year to ¥327.6 billion ($2,800 million).

Current liabilities rose ¥56.5 billion year-on-year to ¥300.2 billion ($2,566 million). Long-term liabilities declined ¥5.6 billion to ¥67.0 billion ($572 million). Shareholders' equity excluding treasury stock totaled ¥1,216.9 billion ($10,401 million), and the shareholders' equity ratio ended the term at 76.8%.

Cash flows

Years ended March 31	¥ billion		US$ million
	2006	2005 (Pro forma)	**2006**
Cash flows from operating activities	**¥140.2**	¥124.3	**$1,198**
Cash flows from investing activities	**(87.7)**	75.2	**(749)**
Cash flows from financing activities	**(76.8)**	(35.6)	**(656)**

Cash flows from operating activities

Net cash provided by operating activities increased ¥15.9 billion year-on-year to ¥140.2 billion ($1,198 million), mainly due to an increase in income before income taxes and minority interests. Major inflows include income before income taxes and minority interests totaling ¥177.1 billion ($1,513 million) and, depreciation and amortization totaling ¥37.6 billion ($322 million), while major outflows included ¥58.7 billion ($501 million) in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥87.7 billion ($749 million) compared with inflows of ¥7.5 billion in the previous term. This was mainly attributable to an increase in investment securities, and proceeds from sales of a subsidiary's shares in the previous term.

Major outflows included an increase in investment securities totaling ¥60.8 billion ($519 million), and addition to property, plant and equipment totaling ¥21.5 billion ($183 million).

Cash flows from financing activities

Net cash used in financing activities increased by ¥41.1 billion year-on-year to ¥76.8 billion ($656 million). The main factors were a ¥33.8 billion year-on-year increase in purchases of treasury stock.

Major outflows include purchases of treasury stock totaling ¥46.4 billion ($397 million) and cash dividends totaling ¥22.2 billion ($190 million).

Capital policy

The Company is committed to sustained improvement in enterprise value, leading to improved returns to shareholders. While putting priority on investment to assure future growth, the Company will continuously increase dividend payments assuming improvement in medium- to long-term earnings on a consolidated basis. We will also implement share buybacks in a flexible manner to improve capital efficiency and raise the level of returns on shareholders' equity. Based on these policies, we have a medium-term DOE (consolidated dividend on equity ratio) target of 3.5% and aim to improve DOE still further in the longer term.

We have set the annual dividend at ¥70 per share, yielding a payout ratio for the term (on a consolidated basis) of 38.1% and DOE of 3.3%.

As part of our policies on return to shareholders and improvements in capital efficiency, we purchased approximately 11 million shares of our own shares during the term, with a total value of approximately ¥46 billion. In May 2006, we cancelled 10 million shares in treasury stock.

Business risks

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

Impact of Pharmaceuticals Regulations:
Astellas' core business, the pharmaceutical business, is subject to various regulations in each country where Astellas operates. Medical cost containment measures in developed countries, such as the NHI drug price reduction implemented in Japan on April 2006, could have negative impacts on earnings. More stringent regulations governing clinical development, production and distribution of pharmaceuticals could also increase costs.

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

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

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

Astellas' R&D activities are subject to these inherent risks.

Foreign Exchange-Rate Fluctuations:
As the operations of Astellas are carried out in many countries and territories, exchange rate fluctuations can affect the business results and financial condition of Astellas.

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

Consolidated Balance Sheets

March 31, 2006 and 2005

ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 5) 2006
Current assets:			
Cash and cash equivalents	¥ 473,423	¥423,478	$ 4,046,350
Short-term investments (Note 16)	165,830	12,378	1,417,350
Notes and accounts receivable	244,205	136,625	2,087,222
Allowance for doubtful receivables	(548)	(308)	(4,684)
	243,657	136,317	2,082,538
Inventories (Note 6)	93,864	40,461	802,256
Deferred tax assets (Note 9)	56,047	30,666	479,034
Other current assets	17,485	14,169	149,446
Total current assets	1,050,306	657,469	8,976,974
Property, plant and equipment, at cost:			
Land	35,017	25,511	299,291
Buildings	233,452	139,257	1,995,316
Machinery and equipment	257,859	128,004	2,203,923
Other	1,237	3,242	10,573
Construction in progress	6,372	3,489	54,462
Accumulated depreciation	(327,369)	(164,828)	(2,798,027)
Property, plant and equipment, net	206,568	134,675	1,765,538
Investments and other assets:			
Investment securities (Note 16)	239,967	51,974	2,051,000
Investments in and advances to unconsolidated subsidiaries and affiliates	2,235	7,559	19,103
Intangible assets	31,515	14,670	269,359
Prepaid expenses	443	845	3,786
Deferred tax assets (Note 9)	16,411	22,295	140,265
Other assets	37,078	24,076	316,907
Total investments and other assets	327,649	121,419	2,800,420
Total assets	¥1,584,523	¥913,563	$13,542,932

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 5) 2006
Current liabilities:			
Short-term bank loans (Note 7)	¥ **414**	¥ —	$ **3,538**
Notes and accounts payable:			
Trade	**189,657**	61,730	**1,621,000**
Construction	**3,262**	2,023	**27,880**
Accrued expenses	**56,663**	24,838	**484,299**
Accrued income taxes (Note 9)	**40,018**	21,468	**342,034**
Deferred tax liabilities (Note 9)	**3**	160	**26**
Other current liabilities	**10,184**	9,228	**87,044**
Total current liabilities	**300,201**	119,447	**2,565,821**
Long-term liabilities:			
Long-term debt (Note 7)	**562**	5,020	**4,803**
Accrued retirement benefits for employees (Note 10)	**40,668**	23,406	**347,590**
Accrued retirement benefits for directors	**65**	1,005	**556**
Deferred tax liabilities (Note 9)	**1,409**	2,295	**12,043**
Other long-term liabilities	**24,277**	18,917	**207,495**
Total long-term liabilities	**66,981**	50,643	**572,487**
Minority interests	**444**	1,579	**3,795**
Shareholders' equity (Notes 8 and 19)**:**			
Common stock, without par value:			
Authorized: 2,000,000,000 shares;			
Issued: 573,949,476 shares in 2006 and 361,954,215 shares in 2005	**102,986**	100,491	**880,222**
Additional paid-in capital	**176,807**	114,415	**1,511,171**
Retained earnings	**959,217**	640,518	**8,198,436**
Unrealized holding gain on securities	**44,252**	11,600	**378,222**
Translation adjustments	**(4,382)**	(11,091)	**(37,453)**
Total	**1,278,880**	855,933	**10,930,598**
Treasury stock, at cost:			
15,639,913 shares in 2006 and 33,656,582 shares in 2005	**(61,983)**	(114,039)	**(529,769)**
Shareholders' equity, net	**1,216,897**	741,894	**10,400,829**
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	**¥1,584,523**	¥913,563	**$13,542,932**

Astellas Pharma Inc. and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 5)
	2006	2005	2004	**2006**
Net sales	**¥879,362**	¥447,051	¥511,208	**$7,515,915**
Cost of sales	**272,997**	141,171	173,791	**2,333,308**
Gross profit	**606,365**	305,880	337,417	**5,182,607**
Selling, general and administrative expenses (Note 11)	**413,345**	196,990	236,457	**3,532,863**
Operating income	**193,020**	108,890	100,960	**1,649,744**
Other income (expenses):				
Interest and dividend income	**8,296**	4,451	2,932	**70,906**
Interest expense	**(1,381)**	(780)	(552)	**(11,803)**
Loss on devaluation of securities	**(458)**	(40)	—	**(3,915)**
Business integration expenses	**(21,294)**	(20,936)	—	**(182,000)**
Loss on impairment of fixed assets	**(8,699)**	—	—	**(74,350)**
Loss on business restructuring	**—**	(12,600)	(3,545)	**—**
Extraordinary amortization of patents	**—**	(10,591)	—	**—**
Exchange gain (loss)	**3,902**	527	(5,769)	**33,350**
Equity in earnings (losses) of affiliates	**547**	(725)	667	**4,675**
Gain on sales of investment securities	**3,021**	5,723	8,115	**25,821**
Other, net	**116**	(3,301)	429	**991**
	(15,950)	(38,272)	2,277	**(136,325)**
Income before income taxes and minority interests	**177,070**	70,618	103,237	**1,513,419**
Income taxes (Note 9)**:**				
Current	**72,161**	37,329	36,101	**616,761**
Deferred	**(433)**	(1,715)	6,881	**(3,701)**
	71,728	35,614	42,982	**613,060**
Income before minority interests	**105,342**	35,004	60,255	**900,359**
Minority interests in earnings of consolidated subsidiaries	**(1,683)**	(1,287)	(197)	**(14,385)**
Net income (Note 14)	**¥103,659**	¥ 33,717	¥ 60,058	**$ 885,974**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 5)
	2006	2005	2004	**2006**
Common stock (Note 8)				
Balance at beginning of year (2006 — 361,954,215 shares; 2005 — 361,216,470 shares; 2004 — 361,216,470 shares)	**¥100,491**	¥ 99,761	¥ 99,761	**$ 858,897**
Add:				
Shares issued upon merger with Fujisawa Pharmaceutical Co., Ltd. (2006 — 209,473,788 shares)	**—**	—	—	**—**
Shares issued upon conversion of convertible bonds (2006 — 2,521,473 shares; 2005 — 737,745 shares; 2004 — 0 shares)	**2,495**	730	—	**21,325**
Balance at end of year (2006 — 573,949,476 shares; 2005 — 361,954,215 shares; 2004 — 361,216,470 shares)	**¥102,986**	¥100,491	¥ 99,761	**$ 880,222**
Additional paid-in capital (Note 8)				
Balance at beginning of year	**¥114,415**	¥113,685	¥113,685	**$ 977,906**
Add:				
Increase due to merger	**59,897**	—	—	**511,940**
Conversion of convertible bonds	**2,495**	730	—	**21,325**
Balance at end of year	**¥176,807**	¥114,415	¥113,685	**$1,511,171**
Retained earnings (Notes 8 and 19)				
Balance at beginning of year	**¥640,518**	¥616,112	¥566,089	**$5,474,513**
Net income	**103,659**	33,717	60,058	**885,974**
Cash dividends paid	**(22,181)**	(10,211)	(9,934)	**(189,581)**
Bonuses to directors and corporate auditors	**(49)**	(92)	(101)	**(419)**
Increase due to merger	**266,034**	—	—	**2,273,795**
Increase due to change in scope of consolidation	**27,371**	992	—	**233,940**
Increase due to merger of consolidated subsidiaries	**66**	—	—	**564**
Payment upon merger	**(3,694)**	—	—	**(31,573)**
Decrease due to change in scope of consolidation	**(203)**	—	—	**(1,735)**
Redemption of treasury stock	**(1,354)**	—	—	**(11,573)**
Loss on disposition of treasury stock	**(50,950)**	—	—	**(435,469)**
Balance at end of year	**¥959,217**	¥640,518	¥616,112	**$8,198,436**
Unrealized holding gain on securities				
Balance at beginning of year	**¥ 11,600**	¥ 13,848	¥ 4,758	**$ 99,145**
Net changes during the year	**32,652**	(2,248)	9,090	**279,077**
Balance at end of year	**¥ 44,252**	¥ 11,600	¥ 13,848	**$ 378,222**
Translation adjustments				
Balance at beginning of year	**¥ (11,091)**	¥ (16,557)	¥ (4,103)	**$ (94,795)**
Adjustments arising from translation of foreign currency financial statements	**6,709**	5,466	(12,454)	**57,342**
Balance at end of year	**¥ (4,382)**	¥ (11,091)	¥ (16,557)	**$ (37,453)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 5)
	2006	2005	2004	**2006**
Operating activities				
Income before income taxes and minority interests	**¥177,070**	¥ 70,618	¥103,237	**$1,513,419**
Depreciation and amortization	**37,636**	28,039	25,118	**321,675**
Loss on impairment of fixed assets	**8,699**	—	—	**74,350**
Provision for retirement benefits, net of payments	**5,259**	(12,935)	(2,649)	**44,949**
Gain on sales of investment securities	**(3,021)**	(5,723)	(8,115)	**(25,821)**
Loss on devaluation of securities	**458**	40	—	**3,915**
Equity in (earnings) losses of affiliates	**(547)**	725	(667)	**(4,675)**
Interest expense	**1,381**	780	552	**11,803**
Notes and accounts receivable	**6,532**	(16,309)	1,485	**55,829**
Inventories	**(4,736)**	7,016	(1,910)	**(40,479)**
Other current assets	**2,320**	(973)	2,202	**19,829**
Notes and accounts payable	**(4,824)**	1,554	(1,171)	**(41,231)**
Accrued expenses	**(10,510)**	2,680	(2,516)	**(89,829)**
Other current liabilities	**(10,389)**	2,982	(1,449)	**(88,795)**
Other	**(5,152)**	2,028	(342)	**(44,032)**
Subtotal	**200,176**	80,522	113,775	**1,710,906**
Interest paid	**(1,351)**	(799)	(638)	**(11,547)**
Income taxes paid	**(58,674)**	(31,135)	(69,760)	**(501,487)**
Net cash provided by operating activities	**140,151**	48,588	43,377	**1,197,872**
Investing activities				
Additions to property, plant and equipment	**(21,454)**	(8,656)	(12,134)	**(183,368)**
Proceeds from sales of property, plant and equipment	**8,889**	2,620	3,816	**75,974**
(Increase) decrease in investments in and advances to unconsolidated subsidiaries and affiliates	**(48)**	3,251	(172)	**(410)**
Proceeds from sales of subsidiaries' shares	**—**	36,792	—	**—**
(Increase) decrease in short-term investments	**(13,602)**	3,329	(6,561)	**(116,256)**
(Increase) decrease in investment securities	**(60,767)**	8,288	9,471	**(519,376)**
Increase in other assets	**(2,845)**	(6,335)	(4,271)	**(24,316)**
Other	**2,166**	7,671	(2,993)	**18,513**
Net cash (used in) provided by investing activities	**(87,661)**	46,960	(12,844)	**(749,239)**
Financing activities				
Decrease in short-term bank loans	**(1,693)**	(800)	(100)	**(14,470)**
Proceeds from long-term debt	**201**	—	—	**1,718**
Repayment of long-term debt	**(136)**	(400)	(1,005)	**(1,162)**
Purchases of treasury stock	**(46,400)**	(12,582)	(40)	**(396,581)**
Cash dividends	**(22,181)**	(10,211)	(9,934)	**(189,581)**
Payment upon merger	**(3,695)**	—	—	**(31,581)**
Other	**(2,865)**	(699)	(140)	**(24,488)**
Net cash used in financing activities	**(76,769)**	(24,692)	(11,219)	**(656,145)**
Effects of exchange rate changes on cash and cash equivalents	**7,406**	4,096	(4,966)	**63,298**
(Decrease) increase in cash and cash equivalents	**(16,873)**	74,952	14,348	**(144,214)**
Increase in cash and cash equivalents due to merger	**39,325**	—	—	**336,111**
Increase in cash and cash equivalents due to increase in consolidated subsidiaries	**27,403**	3,025	—	**234,214**
Increase in cash and cash equivalents due to merger of consolidated subsidiaries	**90**	—	—	**769**
Cash and cash equivalents at beginning of year	**423,478**	345,501	331,153	**3,619,470**
Cash and cash equivalents at end of year	**¥473,423**	¥423,478	¥345,501	**$4,046,350**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2006

1. Basis of Presentation

Astellas Pharma Inc. ("the Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with 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.

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 them down.

All consolidated subsidiaries close their books of account at March 31 for financial reporting purposes except for Astellas Pharma China, Inc. which closes its books as of December 31. The necessary adjustments are made to the financial statements of Astellas Pharma China, Inc. 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 exchange 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 average method. 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. However, depreciation of property, plant and equipment of the foreign consolidated subsidiaries is calculated principally by the straight-line method. The useful lives of property, plant and equipment are summarized as follows:

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

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

(f) Leases

Noncancelable leases of the Company and its domestic 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, included directly 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 the balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost.

Actuarial gain and loss recognized for the former Yamanouchi's plans 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, and prior service cost recognized for the former Yamanouchi's plans is being amortized as incurred by the straight-line method over the average remaining years of service of the employees.

Actuarial gain and loss recognized for the former Fujisawa's plans and assumed upon the merger are being amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the employees (10 years), and prior service cost recognized for the former Fujisawa plans and assumed upon the merger is being amortized as incurred by the straight-line method over the average remaining years of service of the employees (10 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. The Company decided to terminate its retirement benefits plan for directors and corporate auditors effective March 31, 2005 and the provision was fully reversed.

(l) Derivative financial instruments

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

(m) Appropriations 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 19 (c).

(n) New accounting standards

On December 27, 2005, the Accounting Standards Board of Japan issued a new accounting standard for stock options which requires companies to recognize the related expenses calculated at fair value over the respective vesting periods for stock options granted on or subsequent to May 1, 2006. The Company believes that there will be no significant impact on the Company's consolidated financial statements from the adoption of this new accounting standard.

3. Merger with Fujisawa Pharmaceutical Co. Ltd.

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

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

The consolidated financial information of Fujisawa for the years ended March 31, 2005 and 2004 is summarized as follows:

	Millions of yen	
	2005	2004
Net sales	¥414,959	¥395,401
Net income	25,815	41,468

4. Accounting Changes

(a) Until the year ended March 31, 2005, work in process and semi-finished goods were stated at cost by the first-in, first-out method. Effective April 1, 2005, the Company and the former Yamanouchi's domestic consolidated subsidiaries began to value their work in process and semi-finished goods at cost by the average method. This change was made in order to implement more logical cost management following the merger with Fujisawa by unifying the method of valuation of work in process and semi-finished goods with that of other inventories (merchandise, finished goods and raw materials and supplies). The effect of this change was immaterial for the year ended March 31, 2006.

(b) Until the year ended March 31, 2005, the Company applied a special accounting treatment for forward foreign exchange contracts. Effective April 1, 2005, the Company changed its accounting for forward foreign exchange contracts to the benchmark method considering the fact that the transaction volume had significantly increased after the merger with Fujisawa. The effect of this change was immaterial for the year ended March 31, 2006.

(c) Effective April 1, 2005, the Company adopted a new accounting standard for the impairment of fixed assets. The Group bases its grouping for assessing such impairment losses on its business segments. However, the Group determines whether an asset is impaired on an individual asset basis when the asset is deemed idle or if it is scheduled to be disposed of. The effect of this adoption was to decrease income before income taxes and minority interests by ¥8,699 million ($74,350 thousand), which consisted of a loss on intangible assets of ¥4,981 million ($42,573 thousand) and a loss on tangible assets of ¥3,717 million ($31,769 thousand), for the year ended March 31, 2006.

5. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥117 = U.S.$1.00, the approximate rate of exchange on March 31, 2006. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

6. Inventories

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Merchandise and finished goods	**¥52,642**	¥16,825	**$449,932**
Work in process and semi-finished goods	**16,305**	9,835	**139,959**
Raw materials and supplies	**24,917**	13,801	**212,965**
	¥93,864	¥40,461	**$802,256**

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

Short-term bank loans consisted mainly of secured loans at interest rates ranging from 0.71% to 5.24% per annum at March 31, 2006.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Astellas Pharma Inc.:			
1.25% unsecured convertible bonds, payable in yen, due 2014	**¥ 30**	¥5,020	**$ 256**
	30	5,020	**256**
Consolidated subsidiaries:			
Secured loans from banks and others, at rates ranging from 1.11% to 11.96%, due through 2010	**532**	—	**4,547**
	¥562	¥5,020	**$4,803**

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

	Conversion price per share at March 31, 2006	Conversion period (up to and including)
1.25% convertible bonds due 2014	1,979.00	March 24, 2014

At March 31, 2006, if all the outstanding convertible bonds had been converted at the then current conversion price, 15 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, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ —	$ —
2008	172	1,470
2009	150	1,282
2010	139	1,188
2011 and thereafter	101	863
	¥562	$4,803

The assets pledged as collateral for short-term bank loans of ¥200 million ($1,709 thousand) and long-term debt of ¥486 million ($4,154 thousand) at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥649	$5,547
Land	153	1,308
Total	¥802	$6,855

8. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and the additional paid-in capital account equals 25% of the common stock account. 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 upon approval by the Board of Directors. The Code further 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. The Company's shares of common stock have no par value in accordance with the Code.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law stipulates requirements on distribution of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

9. 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 2006 and 2005, and 42% for 2004. 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, 2006, 2005 and 2004 differ from the statutory tax rates for the following reasons:

	2006	2005	2004
Statutory tax rates	**41.0%**	41.0%	41.7%
Effect of:			
Tax deductions for research expenses	**(3.9)**	(7.6)	(4.2)
Different tax rates applied to income of foreign consolidated subsidiaries	**(1.3)**	12.0	(1.3)
Expenses not deductible for income tax purposes	**2.7**	2.7	2.3
Tax rate change	**—**	—	0.4
Change in valuation allowance	**0.9**	4.0	—
Other, net	**1.1**	(1.7)	2.7
Effective tax rates	**40.5%**	50.4%	41.6%

The significant components of the deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 4,791	¥ 3,044	$ 40,949
Accrued retirement benefits	11,103	7,699	94,897
Depreciation and amortization	22,288	10,838	190,496
Impairment loss	3,574	—	30,547
Accrued expenses	21,530	7,572	184,017
Inventories	20,732	6,932	177,197
Accrued enterprise and other taxes	3,574	1,479	30,547
Other	32,103	41,821	274,384
Gross deferred tax assets	119,695	79,385	1,023,034
Valuation allowance	(14,660)	(15,757)	(125,299)
Total deferred tax assets	105,035	63,628	897,735
Deferred tax liabilities:			
Unrealized holding gain on securities	30,324	8,096	259,179
Depreciation and amortization	1,934	798	16,530
Other	1,731	4,228	14,795
Total deferred tax liabilities	33,989	13,122	290,504
Net deferred tax assets	¥ 71,046	¥50,506	$ 607,231

10. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., tax-qualified plans, welfare pension fund plan, tax-qualified plans (closed type) and lump-sum payment plans. In addition, certain employees may be entitled to additional special retirement benefits upon early termination of employment based on the conditions under which termination occurs. Such benefits are not subject to the actuarial calculation required by the accounting standard for retirement benefits.

Certain foreign 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, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(167,464)	¥(85,970)	$(1,431,316)
Plan assets at fair value	125,351	58,327	1,071,376
Unfunded retirement benefit obligation	(42,113)	(27,643)	(359,940)
Unrecognized actuarial loss	17,258	14,869	147,504
Unrecognized prior service cost	(9,023)	(10,433)	(77,120)
Net retirement benefit obligation	(33,878)	(23,207)	(289,556)
Prepaid pension cost	6,790	199	58,034
Accrued retirement benefits	¥ (40,668)	¥(23,406)	$ (347,590)

The components of retirement benefit expenses for the years ended March 31, 2006, 2005 and 2004 are outlined as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Service cost	**¥ 8,569**	¥ 4,042	¥ 4,494	**$ 73,239**
Interest cost	**4,141**	2,694	3,238	**35,393**
Expected return on plan assets	**(2,826)**	(1,473)	(1,931)	**(24,154)**
Amortization of actuarial loss	**3,195**	559	990	**27,308**
Amortization of prior service cost	**(554)**	(659)	(327)	**(4,735)**
Other	**4,188**	15,403	3,847	**35,795**
Total	**¥16,713**	¥20,566	¥10,311	**$142,846**

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

	2006	2005
Discount rates	**2.0% – 12.0%**	2.0% – 6.3%
Expected rates of return on plan assets	**1.6% – 8.0%**	1.6% – 9.0%

11. Research and Development Expenses

Research and development expenses, all of which were included in selling, general and administrative expenses for the years ended March 31, 2006, 2005, and 2004, totaled ¥142,076 million ($1,214,325 thousand), ¥58,842 million and ¥70,080 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of leased assets as of March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		
March 31, 2006	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥3,302**	**¥2,191**	**¥1,111**

	Thousands of U.S. dollars		
March 31, 2006	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**$28,222**	**$18,726**	**$9,496**

	Millions of yen		
March 31, 2005	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥3,316	¥1,483	¥1,833

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,074 million ($9,179 thousand), ¥1,091 million and ¥1,690 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, 2006, 2005 and 2004, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 on non-cancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31,	Finance leases	Operating leases	Finance leases	Operating leases
2007	¥ 768	¥10	$6,564	$ 85
2008 and thereafter	343	14	2,932	120
Total	¥1,111	¥24	$9,496	$205

13. Contingent Liabilities

Contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Contingent liabilities as guarantors of indebtedness of the Company's employees and affiliates	¥5,529	$47,256
Other contingent liabilities relating to a debt assumption contract	600	5,128
Other	206	1,761

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

14. Amounts per Share

	Yen			U.S. dollars
	2006	2005	2004	**2006**
Net income:				
Basic	**¥ 183.88**	¥ 102.52	¥ 181.09	**$ 1.57**
Diluted	**183.56**	101.72	179.46	**1.57**
Cash dividends	**70.00**	31.00	31.00	**0.60**
Net assets	**2,179.44**	2,259.68	2,190.69	**18.63**

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

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

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

15. Supplementary Cash Flow Information

The conversion of convertible bonds for the years ended March 31, 2006 and 2005 amounted to ¥4,990 million ($42,650 thousand) and ¥1,460 million, respectively. There was no conversion of convertible bonds for the year ended March 31, 2004.

16. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2006 and 2005 is summarized as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	2006			**2006**		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose carrying value exceeds their fair value:						
Government bonds	**¥2,402**	**¥2,381**	**¥(21)**	**$20,530**	**$20,350**	**$(180)**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥2,402**	**¥2,381**	**¥(21)**	**$20,530**	**$20,350**	**$(180)**

	Millions of yen		
	2005		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds	¥3,003	¥3,015	¥12
Corporate bonds	—	—	—
Other	—	—	—
Total	¥3,003	¥3,015	¥12

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2006			**2006**		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥ 26,898**	**¥100,348**	**¥73,450**	**$ 229,897**	**$ 857,675**	**$627,778**
Debt securities	**31,003**	**31,024**	**21**	**264,983**	**265,162**	**179**
Other	**12,470**	**15,170**	**2,700**	**106,582**	**129,659**	**23,077**
Subtotal	**¥ 70,371**	**¥146,542**	**¥76,171**	**$ 601,462**	**$1,252,496**	**$651,034**
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 1,467**	**¥ 1,403**	**¥ (64)**	**$ 12,538**	**$ 11,991**	**$ (547)**
Debt securities	**205,946**	**204,578**	**(1,368)**	**1,760,222**	**1,748,530**	**(11,692)**
Other	**6,959**	**6,779**	**(180)**	**59,479**	**57,940**	**(1,539)**
Subtotal	**¥214,372**	**¥212,760**	**¥ (1,612)**	**$1,832,239**	**$1,818,461**	**$ (13,778)**
Total	**¥284,743**	**¥359,302**	**¥74,559**	**$2,433,701**	**$3,070,957**	**$637,256**

	Millions of yen		
	2005		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥14,058	¥34,003	¥19,945
Debt securities	4,000	4,004	4
Other	131	147	16
Subtotal	¥18,189	¥38,154	¥19,965
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 334	¥ 231	¥ (103)
Debt securities	6,000	5,996	(4)
Other	5,000	4,743	(257)
Subtotal	¥11,334	¥10,970	¥ (364)
Total	¥29,523	¥49,124	¥19,601

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Proceeds from sales	**¥42,367**	¥11,279	¥69,826	**$362,111**
Gain on sales	**3,201**	5,722	8,188	**27,359**
Loss on sales	**132**	0	73	**1,128**

The redemption schedule for securities with maturities classified as other securities and held-to-maturity debt securities as of March 31, 2006 is summarized 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	**¥110,530**	**¥32,719**	**¥3,890**	**$ 944,701**	**$279,650**	**$33,248**
Corporate bonds	**24,041**	**66,687**	**136**	**205,479**	**569,974**	**1,162**
Others	**302,544**	**—**	**—**	**2,585,846**	**—**	**—**
Total	**¥437,115**	**¥99,406**	**¥4,026**	**$3,736,026**	**$849,624**	**$34,410**

17. Derivative Transactions

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

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

The notional amounts and the estimated fair value of derivatives outstanding as of March 31, 2006 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Sell:						
U.S.$	**¥ 1,169**	**¥ 1,166**	**¥ 3**	**$ 9,991**	**$ 9,965**	**$ 26**
Euro	**8,141**	**8,257**	**(116)**	**69,581**	**70,573**	**(992)**
Buy:						
U.S.$	**4,056**	**4,098**	**42**	**34,667**	**35,026**	**359**
Total	**¥13,366**	**¥13,521**	**¥ (71)**	**$114,239**	**$115,564**	**$(607)**

The disclosure of fair value information on derivatives at March 31, 2005 was omitted since all derivatives were accounted for as hedges.

18. 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 its shares in its subsidiaries in Japan and the U.S. which were engaged in the nutritional and personal care business and the food and rose business during the year ended March 31, 2005. This transaction was accounted for as if the sale of these shares had taken place at the beginning of the fiscal year.

Business segments

The Company's businesses are segmented into "Pharmaceutical" and "Other" based on their similarity in terms of distribution methods, the nature and type of products sold, and manufacturing methods. As net sales, operating income and total assets in the "Pharmaceutical" segment constituted more than 90% of the consolidated totals, the disclosure of business segment information has been omitted for the year ended March 31, 2006.

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

Year ended March 31, 2005	Millions of yen Pharma-ceuticals	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

Year ended March 31, 2004	Millions of yen Pharma-ceuticals	Nutritional and personal care products	Food and roses	Other	Total	Eliminations	Consolidated
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	¥ 93,449	¥ 3,046	¥ 836	¥ 3,242	¥100,573	¥ 387	¥100,960
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

Geographical areas

The geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2005, and 2004 is outlined as follows:

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

	Thousands of U.S. dollars						
Year ended March 31, 2006	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	**$ 4,368,761**	**$1,242,230**	**$1,737,026**	**$167,898**	**$ 7,515,915**	**$ —**	**$ 7,515,915**
Intergroup sales and transfers	**811,675**	**338,308**	**254,077**	**222**	**1,404,282**	**(1,404,282)**	**—**
Total sales	**5,180,436**	**1,580,538**	**1,991,103**	**168,120**	**8,920,197**	**(1,404,282)**	**7,515,915**
Operating expenses	**3,999,479**	**1,300,906**	**1,833,940**	**135,350**	**7,269,675**	**(1,403,504)**	**5,866,171**
Operating income	**$ 1,180,957**	**$ 279,632**	**$ 157,163**	**$ 32,770**	**$ 1,650,522**	**$ (778)**	**$ 1,649,744**
Total assets	**$10,665,471**	**$1,183,128**	**$1,904,427**	**$163,026**	**$13,916,052**	**$ (373,120)**	**$13,542,932**

	Millions of yen						
Year ended March 31, 2005	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
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

	Millions of yen						
Year ended March 31, 2004	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
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

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, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen				
Year ended March 31, 2006	North America	Europe	Asia	Other	Total
Overseas sales	**¥191,985**	**¥172,230**	**¥25,688**	**¥8,366**	**¥398,269**
Consolidated net sales					**879,362**

	Thousands of U.S. dollars				
Year ended March 31, 2006	North America	Europe	Asia	Other	Total
Overseas sales	**$1,640,897**	**$1,472,051**	**$219,556**	**$71,505**	**$3,404,009**
Consolidated net sales					**7,515,915**
Overseas sales as a percentage of consolidated net sales	**21.8%**	**19.6%**	**2.9%**	**1.0%**	**45.3%**

	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
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%

19. Subsequent Events

(a) Transfer of shares of Zepharma Inc.

The Company transferred all outstanding shares of its wholly-owned OTC subsidiary, Zepharma Inc., to Daiichi Sankyo Co., Ltd. on April 13, 2006 based on the transfer agreement between the Company and Daiichi Sankyo Co., Ltd. dated March 31, 2006. The consideration stipulated in the terms of this transfer amounted to ¥35,502 million and the Company plans to recognize a special gain on the sale of this subsidiary's shares of ¥21,241 million for the year ending March 31, 2007.

(b) Conclusion of licensing agreement for development stage products with FibroGen of the U.S.

On April 28, 2006, the Company entered into a licensing agreement for FG2216, a therapeutic compound for the treatment of renal anemia and chemotherapy-induced anemia, as well as for certain other compounds with similarly acting mechanisms, with FibroGen, a U.S. pharmaceutical company, for the rights to the exclusive development and marketing of these future products in Europe, the Middle East, and South Africa. Under the terms of this agreement, the Company will pay an upfront fee of $300 million to FibroGen upon signing the agreement and will pay further development milestones totaling $465 million. In addition, the Company will purchase shares of FibroGen to be newly issued for $50 million. The upfront fee (of approximately ¥35 billion) and a portion of the subsequent development milestones are expected to be recorded as research and development expenses and have been included in selling, general and administrative expenses for the year ending March 31, 2007.

(c) The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 27, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥40=U.S.$0.34 per share)	¥22,332	$190,873
Bonuses to directors and corporate auditors	94	803
Reserve for advanced depreciation of fixed assets	823	7,034
General reserve	43,000	367,521
	¥66,249	$566,231

Report of Independent Auditors

The Board of Directors
Astellas Pharma Inc.

We have audited the accompanying consolidated balance sheets of Astellas Pharma Inc. ("the Company") and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astellas Pharma Inc. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

Supplementary Information

(1) As described in Note 4(c), effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets.
(2) As described in Note 19(a), the Company transferred all outstanding shares of its wholly-owned OTC subsidiary, Zepharma Inc., to Daiichi Sankyo Co., Ltd. on April 13, 2006.
(3) As described in Note 19(b), the Company entered into a licensing agreement for certain compounds with FibroGen on April 28, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 5.

Ernst & Young ShinNihon

June 27, 2006

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(as of July 2006)

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Astellas Toyama Co., Ltd.
Astellas Shizuoka Co., Ltd.
Astellas Pharma Chemicals Co., Ltd.

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(as of March 31, 2006)

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TEL: +81-3-3244-3000

http://www.astellas.com

Common Stock

Authorized: 2,000,000,000

Issued: 573,949,476

Number of Shareholders: 48,217

Stock Exchange Listing

Tokyo (Ticker Code: 4503), Osaka

Independent Certified Public Accountants

Shin Nihon & Co.

Osaka Kokusai Bldg., 3-13, Azuchi-machi 2-chome,

Chuo-ku, Osaka 541-0052, Japan

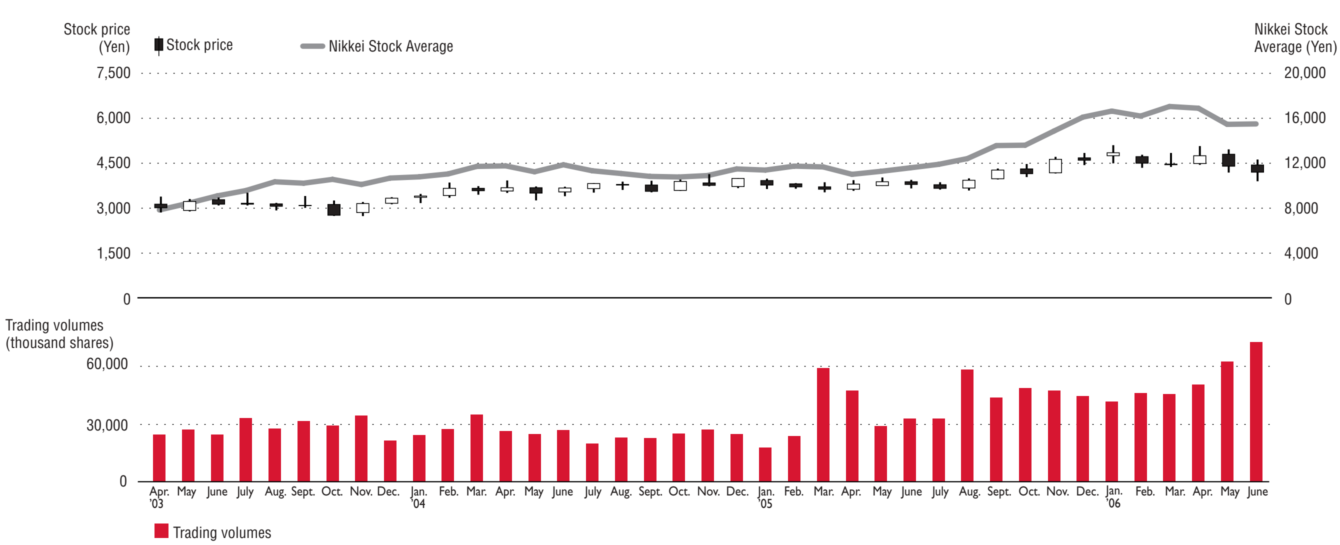
Transfer Agent for Common Stock in Japan

The Chuo Mitsui Trust and Banking Company, Limited

33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Stock Prices and Trading Volumes on the Tokyo Stock Exchange

(highest/lowest in the month; yen)

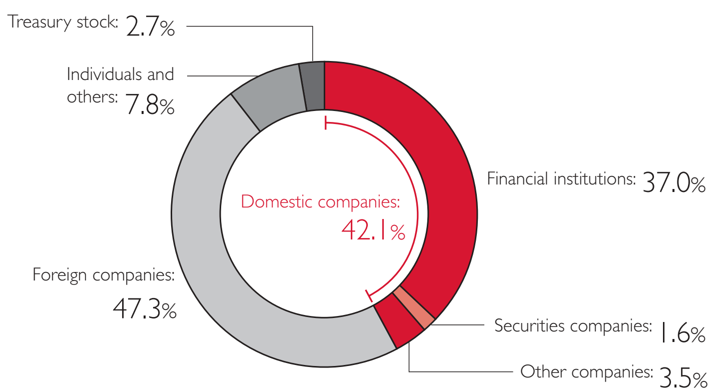


Major Shareholders

Name	Shares owned (Thousand shares)	Percentage of total common shares outstanding
The Master Trust Bank of Japan, Ltd. (Trust account)	41,877	7.29
Japan Trustee Services Bank, Ltd. (Trust account)	30,730	5.35
Nippon Life Insurance Company	25,587	4.45
The Chase Manhattan Bank N.A. London SL Omnibus Account (Standing agent: Mizuho Corporate Bank, Ltd.'s Kabutocho Custody & Proxy Department within the Settlement & Clearing Services Division)	23,883	4.16
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	19,600	3.41
State Street Bank and Trust Company 505103 (Standing agent: Mizuho Corporate Bank, Ltd.'s Kabutocho Custody & Proxy Department within the Settlement & Clearing Services Division)	14,552	2.53
State Street Bank and Trust Company (Standing agent: Mizuho Corporate Bank, Ltd.'s Kabutocho Custody & Proxy Department within the Settlement & Clearing Services Division)	8,544	1.48
State Street Bank and Trust Company 505041 (Standing agent: Mizuho Corporate Bank, Ltd.'s Kabutocho Custody & Proxy Department within the Settlement & Clearing Services Division)	7,810	1.36
The Chase Manhattan Bank N.A. London (Standing agent: Mizuho Corporate Bank, Ltd.'s Kabutocho Custody & Proxy Department within the Settlement &Cleaning Services Division)	7,620	1.32
Mellon Bank N.A. as agent for its client Mellon Omnibus U.S. Pension (Standing agent: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	6,983	1.21

Note: Astellas owned 15,639,913 shares as treasury stock as of March 31, 2006.

Breakdown of Shareholders



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Printed in Japan on recycle paper