

May 17, 2004

**Fujisawa and Yamanouchi Will Establish “Zepharma Inc.”,
an OTC Pharmaceutical Company**

Fujisawa Pharmaceutical Co., Ltd. (Headquartered in Osaka, Japan; President: Hatsu Aoki, Ph.D.; “Fujisawa”) and Yamanouchi Pharmaceutical Co., Ltd. (Headquartered in Tokyo, Japan; President: Toichi Takenaka, Ph.D.; “Yamanouchi,” and collectively the “Parties”) have reached a definitive agreement (“Definitive Agreement”) to integrate their OTC businesses and establish a new joint venture (“New JV” or “Zepharma”) through Joint Business NewCo Division (*Kyodo Shinsetsu Bunkatsu*), as previously announced on October 16, 2003. The board of directors of the Parties made resolutions at their respective board meetings today to this effect. The key highlight of the transaction is as follows:

- 1) The New JV will operate under the name of “Zepharma Inc.” and commence its operations on October 1, 2004;
- 2) The New JV will be headquartered in Tokyo, Japan;
- 3) The Parties will have an equal equity ownership of 50:50 in Zepharma;
- 4) The New JV will have highly recognized brands in major therapeutic categories, such as gastrointestinal (Gaster 10), cold remedy (Precol and Cakonal), dermatological product (Makiron, Eurax, and PyroAce), anti-allergy drug (AG Eyes/AG Nose), and will strive to enhance its competitiveness and provide higher consumer satisfaction in the OTC pharmaceuticals market through the integration of marketing know-how and R&D capabilities of the Parties;
- 5) The New JV will aim to further improve its profitability with its focused and flexible organization comprising of 200 employees, as well as the establishment of more efficient operational structures ;
- 6) The New JV will be granted the first refusal rights for switch OTC pharmaceutical candidates originating from the Parties.

The outlines of the corporate division and Zepharma are as follows:

- Outline of the Corporate Division

1. Purpose of the Corporate Division

The Parties currently conduct OTC businesses in Japan (including quasi-drugs, cosmetics, and food, etc.) that are well recognized by and popular among the consumers.

The establishment of Zepharma through Joint Business NewCo Division is intended to reinforce competitiveness in the OTC businesses, and strengthen the future growth of the New JV, by fully utilizing the synergies expected to result from the integration, including marketing know-how and R&D expertise of the Parties and so on, efficient organizational planning through specialization in core business functions by outsourcing manufacturing and logistics, and collaboration with the Parties focusing on the ethical pharmaceutical businesses.

Zepharma will operate under the spirit of self-independence and a new corporate culture which is neither that of Fujisawa nor Yamanouchi. The ultimate goal of Zepharma is to become a company that provides higher consumer satisfaction in the field of self-medication by responding to the changes in the OTC market trends in a timely manner by valuing the voices of consumers.

2. Summary of the Corporate Division

- (1) Schedule of the Corporate Division

Board Approval of the Corporate Division Plan:	May 17, 2004
Signing of the Definitive Agreement:	May 17, 2004
Effective Date of the Corporate Division:	Oct. 1, 2004 (expected)
Registration of the Corporate Division:	Oct. 1, 2004 (expected)

- (2) Structure for the Corporate Division

- 1) Structure of the Corporate Division

This transaction is structured as *Kyodo Shinsetsu Bunkatsu* (the “Joint Business NewCo Division”) as effected under the Japanese Commercial Code, where the Parties separate their OTC businesses respectively and integrate the separated businesses into Zepharma, the ordinary shares of which will be allotted to the Parties. The Joint Business NewCo Division hereunder will be conducted utilizing the *Kan’i Bunkatsu* (Simplified Division) program.

- 2) Rationale for the Selection of the Structure

This structure was selected for the ease and flexibility in the separation of the OTC businesses of the Parties and subsequent establishment of the New JV in comparison with the structure utilizing conventional business transfer structure.

- (3) Allotment of Shares

- 1) Allotment Ratio

The New JV will issue 6,000 ordinary shares in total allotted to Fujisawa and Yamanouchi, 3,000 each.

- 2) Basis of Evaluation of Allotment Ratio

Based on the results of valuation analyses conducted by financial advisors appointed by each of the Parties, the Parties had negotiations and came to an agreement on the above allotment ratio. The Parties have received fairness opinion on the allotment ratio from a financial point of view from their respective financial advisors: Lehman Brothers for Fujisawa and Nomura Securities for Yamanouchi.

- (4) Cash Payments through the Corporate Division

Neither Parties will receive cash payment through the Corporate Division.

(5) Rights and Obligations to be Succeeded by the New JV

The New JV will assume the assets and liabilities attributable to the Parties' OTC businesses (includes quasi-drugs, cosmetics, and food, etc.), including any corresponding rights, obligations and contractual positions there of on the effective date of the Corporate Division. The assets and liabilities to be assumed will be determined based on the balance sheet as of March 31, 2004 with certain subsequent adjustments done until one day prior to the effective date of the Corporate Division.

However, the New JV will not succeed any intellectual property rights of the Parties which are related to the businesses other than the OTC businesses and any equity stakes in the Parties' respective OTC-related subsidiaries.

(6) Outlook of Fulfillment of Obligation

The Parties will not obtain individual consent of the creditors to effect the transfer of the liabilities from each of the Parties to the New JV under the Corporate Division. As a result, a creditor can choose to claim their liabilities to any of the Parties or the New JV. However, each of the Parties or the New JV will take ultimate responsibility for the liabilities attributable to each of them, regardless of which one of the Parties or the New JV the creditor chooses to make a claim.

There would not be any predicaments affecting the certainty of fulfilling any obligations by either Fujisawa, Yamanouchi, or the New JV, as there is no event that is expected to occur which will adversely affect the fulfillment of such obligation after the effective date of the Corporate Division and that the Corporate Division is not expected to create any material impact on the position of the Parties.

(7) Directors and Auditors of the New JV

<Board Members>

Rep. Director and President: Masaji Ohe
(Corporate Vice President, OTC & Consumer Products Division of Fujisawa)

Rep. Director and Executive Deputy President: Koji Yoshinaga
(Director of the Board, Consumer Healthcare of Yamanouchi)

Member of the Board: Yoshikazu Yokomaku
(Director of Sales Planning and Sales Promotion Dept., Consumer Healthcare Division of Yamanouchi)

Member of the Board: Masanori Yamada
(Associate Executive Director, OTC & Consumer Products Division of Fujisawa)

Member of the Board: Kenji Ando
(Director of Marketing Dept., Consumer Healthcare Division of Yamanouchi)

Member of the Board: Katsuhiko Yoshida
(Director, Planning & Administration, OTC & Consumer Products Division of Fujisawa)

<Corporate Auditors>

Corporate Auditor: Masaya Ishii
(Corporate Auditor of Fujisawa)

Corporate Auditor: Hajime Nakajima
(Director of the Board, Director of Consumer Business Dept. of Yamanouchi)

3. Company Profiles

	Transferor Corporations (as of 3/31/2004)	Transferor Corporations (as of 3/31/2004)	New JV (as of 10/1/2004)
(1) Business Name	Fujisawa Pharmaceuticals, Co., Ltd.	Yamanouchi Pharmaceuticals, Co., Ltd.	Zepharm Inc.
(2) Business overview	Manufacturing, marketing, import and export of pharmaceuticals, medical supplies and systems, and home care business, etc.	Manufacturing, marketing, import and export of drugs, quasi-drugs, foods, and medical devices	Development and sales of OTC pharmaceuticals, quasi-drugs, cosmetics, and food, etc.
(3) Date of Incorporation	December , 1930	April , 1923	October 1, 2004
(4) Principle Location of Office	4-7, Doshomachi 3-chome, Chuo-ku, Osaka	3-11, Nihonbashi-Honcho 2-chome, Chuo-ku, Tokyo	7-1, Nihonbashi-Honcho 2-chome, Chuo-ku, Tokyo
(5) Representative	Hatsuo Aoki, Ph.D., President & CEO	Toichi Takenaka, Ph.D., President & CEO	Masaji Ohe, Representative Director and President
(6) Paid-in Capital	¥38,594 million	¥ 99,760 million	¥300 million
(7) Shares Outstanding	330,190,106 shares	361,216,470 shares	6,000 shares
(8) Shareholder's Equity	¥353,688 million	¥ 665,665 million	¥ 12,448 million
(9) Total Assets	¥499,196 million	¥ 784,191 million	¥15,931 million
(10) Fiscal Year End	March 31	March 31	March 31
(11) No. of Employees	3,645	4,088	Approx. 200
(12) Major Customers	Kuraya Sanseido, Suzuken, Azwell and others	Kuraya Sanseido, Suzuken, Azwell and others	Kuraya Sanseido Kobashou Tanpei Nakata Mogi Pharmaceuticals
(13) Major Shareholders (%)	The Master Trust Bank of Japan 10.48% Japan Trustee Services Bank 10.24% Nippon Life Insurance 6.92% The Chase Manhattan Bank, NA London 5.17% UFJ Bank 4.31%	The Master Trust Bank of Japan 10.29% Japan Trustee Services Bank 7.69% The Chase Manhattan Bank, NA London 4.51% State Street Bank and Trust Company 4.30% Nippon Life Insurance 4.08%	Fujisawa 50% Yamanouchi 50%
(14) Main Banks	UFJ Bank Bank of Tokyo Mitsubishi Mizuho Corporate Bank	Sumitomo Mitsui Banking Corporation UFJ Bank Bank of Tokyo Mitsubishi	
(15) Relationship among Parties			
Capital	Both transferor corporations to equally hold 50% of shares of the New JV		
Personnel	Related employees of Fujisawa and Yamanouchi will be transferred to the New JV, concurrently with the Corporate Division		
Business Relationship	Both transferor corporations and their subsidiaries will sell products to the New JV		

(16) Summary of last 3 years of Transferor Corporations (in JPY millions, except per share items)						
Transferor Company	Fujisawa			Yamanouchi		
Fiscal Year	3/2002	3/2003	3/2004	3/2002	3/2003	3/2004
Sales	¥223,469	¥257,415	¥264,431	¥318,763	¥346,586	¥345,426
Operating Profit	18,334	33,831	35,384	83,091	97,249	89,246
Ordinary Profit	26,699	41,249	49,191	85,216	98,916	89,681
Net Profit	15,820	13,635	35,972	42,282	58,276	59,275
EPS (JPY)	48.44	41.16	108.96	118.61	172.77	178.76
Dividend Per Share (JPY)	16.00	18.00	22.00	25.00	28.00	31.00
Book Value Per Share (JPY)	930.31	953.81	1,072.59	1,738.26	1,834.21	2,010.31

4. Overview of the Divided Divisions

(1) Summary of Divided Businesses

OTC businesses including quasi-drugs, cosmetics, and food, etc.

Reference: Summary of OTC businesses of the Parties

	Fujisawa	Yamanouchi
Division Name	OTC and Consumer Products Division	Consumer Healthcare Division
Representative	Masaji Ohe (Corporate Vice President, OTC & Consumer Products Division)	Koji Yoshinaga (Director of the Board, Consumer Healthcare)
Number of Employees	Approx. 120 (Fujisawa non-consolidated basis as of April 2004)	Approx. 120 (Yamanouchi non-consolidated basis as of April 2004)
Sales	¥11,854 million (Non-consolidated basis for fiscal year ended March 31, 2004)	¥11,636 million (Non-consolidated basis for fiscal year ended March 31, 2004)
Business Area	OTC pharmaceuticals and quasi-drugs	OTC pharmaceuticals, quasi-drugs, cosmetics, and food
Main Products	Cold remedy "Precol," Anti-allergy drug "AG Eyes/AG Nose," dermatological product "Eurax," athlete's foot treatment "PyroAce," vitamin supplement "Neuvita Gold"	Gastrointestinal drug "Gaster 10," cold remedy "Cakonal," disinfectant "Makiron," natural skin soap "Minon," condom line "Sunsea"

(2) Performance of OTC Businesses for Fiscal Year Ended March 31, 2004 (In JPY millions)

	Fujisawa			Yamanouchi		
	OTC (A)	Total/ Company (B)	Margin (A)/(B) x 100	OTC (A)	Total/ Company (B)	Margin (A)/(B) x 100
Sales	¥11,854	264,431	4.5	¥11,636	345,426	3.3

(3) Asset/Liabilities to be Divided (Expected Figures of September 30, 2004) (In JPY millions)

Fujisawa			Yamanouchi		
Assets	Liabilities	Net Assets	Assets	Liabilities	Net Assets
8,189	1,613	6,576	7,741	1,868	5,872

5. Overview of the Transferor Corporations, Post Corporate Division

The business names, principal location of office, paid-in capital, and fiscal year ends for the transferor corporations, post Corporate Division are as described above. Due to the Corporate Division, the business segments that are to be separated into the New JV will be eliminated from the business area of the transferor corporations, on a non-consolidated basis. As a result of the transaction, total assets of Fujisawa and Yamanouchi are to decrease by approximately ¥1.6 billion and ¥1.8 billion, respectively.

On February 24, 2004, the Parties reached a basic agreement to merge as of April 1, 2005, and is currently in the process of concluding a definitive agreement.

6. Impact on the Financial Performance of the Transferor Corporations

The new JV will be an affiliate company, which is consolidated to the Parties by equity method and the impacts on the Parties' financial performance are included in expected figures for the fiscal year ending March 31, 2005 that were announced by Fujisawa and Yamanouchi on April 27, 2004 and May 13, 2004, respectively while the impacts are considered little.

• Outline of Zepharma Inc.

1. Outline of Company

Company Name:	Zepharma Inc.
Planned Date of Incorporation:	October 1, 2004
Principal Location of Office:	7-1, Nihonbashi-Honcho 2-chome, Chuo-ku, Tokyo
Paid-in Capital:	¥300 million
Ownership Ratio:	Fujisawa 50%, Yamanouchi 50%
Representative:	Representative Director and President, Masaji Ohe (Currently Corporate Vice President, OTC & Consumer Products Division of Fujisawa) Representative Director and Executive Deputy President, Koji Yoshinaga (Currently Director of the Board, Consumer Healthcare of Yamanouchi)
Number of Employees:	Approximately 200 (roughly same number of employees are to be transferred)
Business:	Development and sales of OTC pharmaceuticals, quasi-drugs, cosmetics, and food, etc.
Main Products:	Gastrointestinal drug "Gaster 10", cold remedy "Precol" and "Cakonal", dermatological products "Makiron (disinfectant)," "Eurax (dermatological)," and "PyroAce (athlete's foot)", anti-allergy drug "AG Eyes/AG Nose," vitamin supplement "Neuvita Gold," natural skin soap "Minon," and condom line "Sunsea"

* Above outline are expected data as of the date of establishment, October 1, 2004

2. Origin of the Company Name

The name of the New JV, Zepharma is comprised of the combination of the Greek terminology "ze" which means "to live", and "pharma" which describes a pharmaceutical company. The "ze" part also represents the pursuit of the ultimate (z) - "zetima" and everlasting passion - "zeal". Furthermore, the word "zephyr," which is pronounced similarly, describes the gentle breeze that carries a breath of Spring. The determination of the New JV, a determination to bring about fresh breeze into the world of self-medication with a strong passion to contribute to the comfortable well being of people, is included in the naming of Zepharma.

3. Management Philosophy/Vision

(1) Management Philosophy

<Objective>

To contribute to the comfortable well-being of people by providing innovative products and information that enhance the quality of self-medication.

<Mission Statement>

- Pursue the greatest consumer satisfaction
- Provide employees with a rewarding job and opportunities for self-fulfillment
- Sustain growth of the enterprise value
- Co-existence with the society and natural environment through fair minded operational practices

<Values>

- Always start from the voices of customers
- Trustworthy people, products, and process
- Idea is the most valuable asset
- Challenging innovation and speed
- Independence of individuals and teamwork
- Emphasize communication

(2) Vision

<Goals for 2010>

- Achieve #1 consumer satisfaction in the field of self-medication
- Establish a profitable and competitive business model through proactive reforms
- Become a company with full of challenging spirit and dynamism with a culture to reward those who exhibited excellence and effort

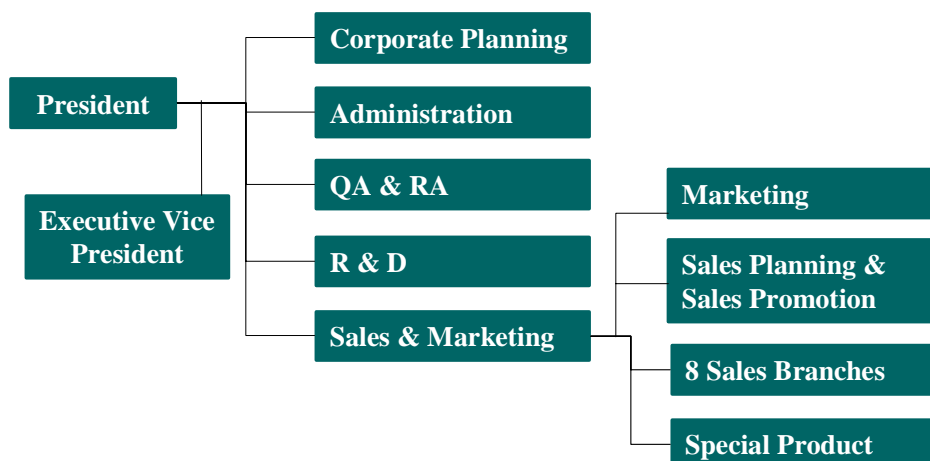
<Performance Goals for 2010>

Sales: Over ¥50 billion(organic growth + external resources)
Operating Income: 10% of sales
Productivity per Employee: No. 1 in industry in sales and profits

Ref: The business size of Zepharma estimated based on the latest results of Fujisawa and Yamanouchi is about ¥23 billion.

4. Organization Structure

(1) Organizational Chart



* The New JV does not have manufacturing functions.

(2) Personnel
Employees: Approx. 200 (150 in Sales & Marketing)
Temporary Hires: Approx. 40

(3) Operational Bases
Headquarters (Tokyo), Research Laboratory (Yokohama), Branches (Sendai, Kannetsu, Tokyo, Nagoya, Kyoto, Osaka, Hiroshima, Fukuoka), and Satellite Offices (Sapporo, Chiba, Saitama, Yokohama, Kobe)

* Satellite offices are regional offices bases under the branches.

5. Basic Management Strategy

<Management Strategy in Accordance with Development Stage>

First Stage (stage for organic growth utilizing current resources): Increasing profitability and reinforcing growth, etc.

Second Stage (stage for significant leap procuring external resources, in addition to organic growth): Acquiring products, M&A, etc.

<Overall Strategy>

Establish a revenue base and corporate presence, and promote alliance strategy.

- Focusing & concentration - establish / reinforce revenue base through improvement in efficiency
- Establish brand recognition and confidence among the consumers
- Adopt external resources / seek and materialize alliance opportunities

<Management System>

Create a corporate culture that emphasizes on speed, performance, and prompt communication.

<Business Strategy>

Strengthen competitiveness and growth through integration.

- Sales/Marketing: Develop current major brands to its full potential Further focus on brands in the 3 major therapeutic categories with over ¥3 billion in sales (gastrointestinal drugs, cold remedy, and dermatological drugs (including athlete's foot))
- R&D: Enhance / Speed up the development of new products
New products to be launched in midterm: gastrointestinal drugs, cold remedy, and life style drugs
- Quality Assurance: Institute fully reliable quality assurance and safety control systems from the perspective of consumers

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