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Financial Results of Astellas for Fiscal Year 2006

Japan, May 15, 2007 – Astellas Pharma Inc. (hereinafter referred as “the Company”) today announced the financial results for the fiscal year 2006 (FY2006), ended March 31, 2007.

(1) Consolidated financial results for FY2006 (April 1, 2006 – March 31, 2007)

(all amounts are in million of yen – fractions dropped)

	FY2005	FY2006	Changes (%)
Net sales	879,361	920,624	+4.7%
Operating income	193,020	190,514	-1.3%
Ordinary income	202,588	197,813	-2.4%
Net income	103,658	131,285	+26.7%
Per share profit (Yen)	183.88	244.07	+32.7%
R&D expenses (% of net sales)	142,076 (16.2%)	167,945 (18.2%)	+18.2%

(2) Forecasts of consolidated financial results for FY2007 (fiscal year ending March 31, 2008)

(all amounts are in million of yen – fractions dropped)

	FY2006	FY2007 forecasts	Changes (%)
Net sales	920,624	968,000	+5.1%
Operating income	190,514	250,000	+31.2%
Ordinary income	197,813	260,000	+31.4%
Net income	131,285	152,000	+15.8%
Per share profit (Yen)	244.07	295.51	+21.1%
R&D expenses (% of net sales)	167,945 (18.2%)	141,000 (14.6%)	-16.0%

Cautionary statement regarding forward-looking information

This press release includes forward-looking statements based on a number of assumptions and beliefs in light of the information currently available to management and subject to significant risks and uncertainties. Actual financial results may differ materially depending on a number of factors, including adverse economic conditions, currency exchange rate fluctuations, adverse legislative and regulatory developments, delays in new product launches, the pricing and product initiatives of competitors, the inability of the company to market existing and new product effectively, interruptions in production, infringement of the company's intellectual property rights and the adverse outcome of material litigation.

1. Summary of Business Results and Financial Conditions

(1) Consolidated business results for FY2006 and forecasts for FY2007

Business results for the fiscal year ended March 31, 2007 (FY2006) and business forecasts for the fiscal year ending March 31, 2008 (FY2007) of the Company are as follows.

Business results for FY2006

Consolidated financial results

(millions of yen – fractions dropped)

	FY2005	FY2006	Changes (%)
Net sales	879,361	920,624	+41,262 (+4.7%)
Operating income	193,020	190,514	-2,505 (-1.3%)
Ordinary income	202,588	197,813	-4,775 (-2.4%)
Net income	103,658	131,285	+27,626 (+26.7%)

Exchange rate for FY2006: ¥117/US\$, ¥150/ euro

Exchange rate for FY2005: ¥113/US\$, ¥138/ euro

(Note) Exchange rate fluctuations caused ¥26.0 billion increase in net sales and ¥8.4 billion increase in operating income due to the depreciation of the yen against US\$ and euro as stated in the notes above.

Overview of FY2006

In this fiscal year, net sales increased compared to the previous fiscal year, while operating income and ordinary income decreased. However, net income increased compared to the previous fiscal year.

Net sales

- Consolidated net sales increased 4.7% to ¥920.6 billion. Sales of ethical pharmaceutical business increased 8.3% from the previous fiscal year to ¥918.5 billion.
- Overseas sales were ¥450.0 billion, representing a 13.0% increase over the previous fiscal year, and accounting for 48.9% of consolidated net sales.

Operating income

- Operating income decreased 1.3% to ¥190.5 billion.
- Gross profit came to ¥636.5 billion, up 5.0% thanks to the sales increase and

cost-of-sales ratio improvement by 0.1 percentage points to 30.9% of consolidated net sales due to the factors such as changes in product mix.

- In terms of expenses, selling, general and administrative expenses increased 7.9% to ¥446.0 billion. The increase was attributable to a significant increase in research and development expenses by 18.2% to ¥167.9 billion accounting for 18.2% of consolidated net sales mainly due to the upfront fees for in-licensing of oral anemia treatments from FibroGen, Inc.

Ordinary income

- Ordinary income decreased 2.4% to ¥197.8 billion.
- Non-operating income/expenses (net) decreased due to the exchange losses while interest income increased.

Net income

- Net income increased 26.7% to ¥131.2 billion.
- Extraordinary gains significantly increased due to the factors such as gains amounting ¥21.2 billion from the sale of all outstanding shares of Zepharma Inc. and ¥12.3 billion from the sale of investment securities. Further, total of extraordinary losses in this fiscal year including ¥17.6 billion of expenses for integration and closure of business bases and ¥6.0 billion of loss on impairment of fixed assets decreased compared to those in the previous fiscal year including expenses for business integration.

Segment information

Geographical segment information

Japan

- Sales in Japan decreased 1.9% to ¥501.6 billion.
- In ethical pharmaceutical business, sales of main products including a long-acting angiotensin-II receptor antagonist Micardis, a hypercholesterolemia treatment Lipitor, the immunosuppressant Prograf and the hypnotic Myslee showed a continued growth despite the negative impact of the NHI drug price reduction in April 2006. Vesicare, a treatment for overactive bladder, launched in June 2006 also contributed to the sales increase. Meanwhile, sales of Harnal for the treatment of functional symptoms of benign prostatic hyperplasia, decreased due to the significant NHI drug price reduction.
- Sales of non-ethical pharmaceutical business decreased as a result of business restructuring including the divestiture of OTC subsidiary Zepharma Inc.
- Operating income in Japan decreased 15.6% to ¥116.6 billion mainly due to an increase in research and development expenses.

Overseas

<North America>

- Sales in North America increased 19.4% to ¥173.5 billion.
- In addition to a brisk growth of Prograf and VESicare, the candin antifungal agent Mycamine and Amevive for the treatment for psoriasis to which the Company acquired the worldwide rights from Biogen Idec Inc. in April 2006 contributed to

- the sales increase.
- Operating income in North America increased 57.6% to ¥51.5 billion.

<Europe>

- Sales in Europe increased 8.1% to ¥219.6 billion.
- While sales of Omnic/Omic OCAS (brand name in Japan: Harnal) in the European market significantly declined due to the intensified competition with generic drugs after the patent expiry in major European countries, Prograf and Vesicare showed continuous growth and Eligard for the treatment of advanced prostate cancer also contributed to the sales increase. Harnal bulk sales to and royalty revenue from licensees increased thanks to a robust growth in the US market. In addition, yen's depreciation against euro contributed to the sales increase.
- Operating income in Europe increased 29.3% to ¥23.7 billion.

(note) Astellas has promoted establishment of an optimum business structure with an effective use of the funds that are retained mainly in Europe, in connection with inter-regional transactions between Europe and North America. As a result, gross profit and a portion of expenses for some businesses in North America are accounted for in the Europe segment of the geographical segment information.

<Asia>

- Sales in Asia increased 30.9% to ¥25.7 billion thanks to a growth of Prograf and Harnal. Operating income was ¥3.7 billion, a 2.2% decrease.

Other information

Research & Development

The Company aims to make a sustainable growth in mid- and long-term by generating a continuous and fast stream of innovative new products. From that perspective, the Company is proactively promoting its research and development activities as its most important measures.

In the drug discovery field, the Company settled six categories, including urology, inflammation/immunology, infectious diseases (virus), CNS/pains, diabetes, and cancer, as its most important R&D categories with concern of unmet medical needs, market potential, and its research potential. The Company further reinforces the base technology such as the genomic technology to generate new pharmaceuticals, and is building a new technology platform for the development of antibody drugs in addition to the drug discovery research based on its expertise in chemical synthesis and fermentation. In March 2007, the Company and Regeneron Pharmaceuticals, Inc. entered into a non-exclusive license agreement that allows Astellas to utilize Regeneron's VelocImmune[®] technology to discover human antibody product candidates.

Further, in order to pursue the productivity in the drug discovery, the Company decided to put together its drug discovery research function in Tsukuba area and its development research function in Kashima area. As a part of the measures, the Company started to construct new buildings at its Miyukigaoka Research Center in Tsukuba area.

In terms of clinical development, the Company prioritizes development projects and allocates its resources efficiently in order to accelerate its development activities. Major progress achieved in this fiscal year was as follows;

In Japan, Vesicare obtained approval and was launched in June 2006 and the selective COX-2 inhibitor Celecox was approved in January 2007. An additional indications of Prograf for lupus nephritis, and Funguard for pediatric use and prophylaxis of infections in hematopoietic stem cell transplantation patients were also approved in this fiscal year. Several candidates such as the immunosuppressant FK506 modified release formulation, a quinolone antibiotic T-3811 and YM529 for osteoporosis were filed. Further, several projects including FK199B, a modified release formulation of zolpidem, a treatment for insomnia, are in phase III, and anti-thrombosis YM150 and some projects are in phase II.

In overseas, YM087 obtained approval for additional indication of hypervolemic hyponatremia in the US in February 2007. In Europe, the candidin antifungal agent FK463 was filed in April 2006. In the US, an injectable antibiotic telavancin for complicated skin and skin structure infections, RSD1235 for atrial fibrillation, and an additional indication of FK463 for candidemia and other *candida* infections were filed in December 2006. Several projects including ASP2151 for herpes zoster and genital herpes entered into phase II. Clinical studies for many new drug candidates such as YM150 are ongoing.

Further, FK506 modified release (product name: Advagraf) obtained approval in Europe in April 2007.

Enhancement of product line by in-licensing activities

The Company is striving to enhance its product line by proactive in-licensing activities as well as strengthening its in-house research and development activities in order to medium- and long-term growth.

In April 2006, the Company entered into licensing agreement with Ilypsa, Inc. for the right to develop and market the treatment of hyperphosphatemia ILY-101 in Japan. The Company also concluded the license agreement with FibroGen, Inc. in April 2006 for oral anemia therapies FG-2216 (YM311), FG-4592 and other compounds with similar mechanism of action for exclusive development and marketing in Europe, etc. In July 2006, the Company agreed with Theravance, Inc. to add Japan to the collaboration for the development and commercialization of the antibiotic telavancin. Further, the Company entered into a licensing agreement with Kirin on exclusive collaboration in developing and marketing a fully human anti CD40 antagonistic monoclonal antibody in the world.

Production

The Company continuously reviews its production system to ensure further competitiveness in global market by improving efficiency of the productivity. In overseas, the Company transferred its three European plants in Ireland, Germany and Italy to Temmler Group, German pharmaceutical company. In Japan, all outstanding shares of its production subsidiary, Hoshienu Pharma Inc., was transferred in March 2007, and the Company's Nagoya plant was closed. In its medium term plan, the

Company plans to reduce the number of production sites in FY2010 to around 10 from 18 sites as of October 2006. Through these measures, the number of production sites comes to 12 at the end of March 31, 2007.

The Company span off its manufacturing and analytical functions for active pharmaceutical ingredients including the ones for clinical trials at its Takahagi site and established Astellas Pharma Chemicals Co., Ltd. in April 2006. As a result, the Company has transferred all its production functions to its subsidiaries.

Further, it merged three production subsidiaries, Astellas Tokai Co., Ltd., Astellas Shizuoka Co., Ltd. and Astellas Clinical Supply Co., Ltd. on April 1, 2007 in order to pursue production efficiency.

Number of employees

The number of employees as of March 31, 2007 is approximately 13,900. In its medium term plan, the Company plans to reduce the number of employees to 13,500 as of March 2011 from 14,600 as of June 2006.

In February 2007, the Company decided to offer an early retirement program to employees of the Company and its group companies in Japan to realize optimal organization.

Concentration on ethical pharmaceutical business

Based on its corporate strategy to concentrate on ethical pharmaceutical business, the Company implemented the business restructuring measures since its launch in April 2005. In April 2006, the Company transferred all outstanding shares of Zepharma Inc., its OTC subsidiary, to Daiichi Sankyo Co., Ltd. by ¥35.5 billion.

As a result of the measures, almost 100 percent of the Company's sales was composed of sales of ethical pharmaceutical business.

Business forecasts for FY2007

Consolidated Business Forecasts:

<Semi-annual forecasts>

(Millions of yen – fractions dropped)

	1H/FY2006	1H/FY2007 forecasts	Change (amount)	Change (%)
Net sales	447,924	477,000	+29,075	+6.5%
Operating income	72,474	125,000	+52,525	+72.5%
Ordinary income	77,015	130,000	+52,984	+68.8%
Net income	60,674	69,000	+8,325	+13.7%

Expected exchange rate: ¥115/US\$, ¥150/euro

<Annual forecasts>

(Millions of yen – fractions dropped)

	FY2006	FY2007 forecasts	Change (amount)	Change (%)
Net sales	920,624	968,000	+47,375	+5.1%
Operating income	190,514	250,000	+59,485	+31.2%
Ordinary income	197,813	260,000	+62,186	+31.4%
Net income	131,285	152,000	+20,714	+15.8%

Expected exchange rate: ¥115/US\$, ¥150/euro

The detail of annual forecasts for the fiscal year ending March 31, 2008 (FY2007) is as follows;

Net sales

Net sales are anticipated to total ¥968.0 billion, an increase of 5.1% compared to this fiscal year.

Overseas sales are anticipated to come to ¥483.0 billion accounting for 49.9% of consolidated net sales.

Sales by geographical segments

<Japan>

Sales in Japan are anticipated to total ¥509.8 billion, up 1.6% from this fiscal year. Sales of key products such as Micardis, Lipitor, Vesicare, Myslee and Prograf are anticipated to continue a strong growth.

<Overseas>

In North America, Prograf is anticipated to continue to grow and VESicare and Mycamine are also anticipated to increase its sales. Sales in North America are anticipated to total ¥203.5 billion, up 17.3%.

In Europe, sales of Prograf and Vesicare are anticipated to grow. Meanwhile, sales of

Omnice / Omnice OCAS are anticipated to decline due to the further intensified competition with generic products. Sales in Europe are anticipated to total ¥224.8 billion, up 2.3%.

Sales in Asia are anticipated to increase 16.3% to ¥29.9 billion due to the continuous growth of Prograf and Harnal.

Operating income, Ordinary income and Net income

Operating income is anticipated to total ¥250.0 billion, 31.2% increase compared to this fiscal year, which is attributable to the sales increase and improvement of cost-of-goods ratio. Further, research and development expenses are anticipated to decrease 16.0% to ¥141.0 billion, or 14.6% of the consolidated sales because of the large research and development expenses in this fiscal year due to the in-licensing fees.

Ordinary income is anticipated to increase 31.4% to ¥260.0 billion and net income is anticipated to increase 15.8% to ¥152.0 billion.

(2) Financial conditions for FY2006

Assets, Liabilities and Shareholders' equity

Main changes in the consolidated balance sheet compared to the end of the previous fiscal year are as follows;

<Assets>

Total assets as of March 31, 2007 decreased ¥113.8 billion to ¥1,470.7 billion compared to March 31, 2006.

Current assets: ¥965.9 billion (down ¥84.3 billion compared to March 31, 2006)

- While cash and cash equivalents increased ¥45.2 billion, marketable securities decreased ¥161.0 billion compared to March 31, 2006. The decrease of the liquidity was mainly attributable to share buybacks and an increase in up-front payments of in-licensing activities.

Fixed assets: ¥504.7 billion (down ¥29.4 billion compared to March 31, 2006)

- Property, plant and equipment decreased ¥12.0 billion compared to March 31, 2006 mainly due to the transfer of three European plants.
- Intangible fixed assets increased ¥9.9 billion compared to March 31, 2006 due to the factors such as the product acquisition and milestone payments for in-licensed products.
- Investments and other assets decreased ¥27.4 billion compared to March 31, 2006. While deferred tax assets increased ¥20.7 billion, investment securities decreased ¥31.4 billion and other assets decreased ¥16.8 billion.

<Liabilities>

Liabilities as of March 31, 2007 increased ¥4.5 billion to ¥371.7 billion compared to March 31, 2006.

Current liabilities: ¥308.8 billion (up ¥8.6 billion compared to March 31, 2006)

- Notes and accounts payable increased ¥10.5 billion and accrued expenses increased ¥14.8 billion while other accounts payable decreased ¥21.5 billion.

Fixed liabilities: ¥62.8 billion (down ¥4.1 billion compared to March 31, 2006)

- Accrued retirement benefits for employees decreased ¥22.1 billion as a result of the revision of retirement benefits plan while other long-term liabilities increased ¥19.4 billion for unsettled in-licensing payment.

<Shareholders' equity>

Shareholders' equity as of March 31, 2007 decreased ¥118.3 billion to ¥1,098.9 billion compared to March 31, 2006.

- Treasury stock
The Company bought back 44.03 million shares from the stock market amounting ¥219.9 billion during this fiscal year. In May 2006, 10 million shares with the value of ¥39.6 billion were canceled.

Consolidated cash flow

<Cash flow from operating activities>

Cash inflows from operating activities decreased ¥12.2 billion compared to the previous fiscal year to ¥127.9 billion.

- While income before income taxes increased ¥34.6 billion, income tax payments increased ¥33.6 billion.

<Cash flow from investing activities>

Cash inflows from investing activities came to ¥72.4 billion while cash outflows from investing activities were ¥87.6 billion in the previous fiscal year.

- Cash outflows from the acquisitions of marketable securities and investment securities decreased ¥73.8 billion and ¥46.0 billion, respectively.
- Major inflows included ¥33.5 billion mainly from sale of all outstanding shares of Zepharma Inc.

<Cash flow from financing activities>

Cash outflows from financing activities increased ¥186.7 billion compared to the previous fiscal year to ¥263.5 billion.

- Purchase of treasury stock increased ¥173.6 billion to ¥220.0 billion.
- Cash dividends paid increased ¥18.1 billion to ¥44.0 billion from ¥25.8 billion in the previous fiscal year including ¥3.6 billion of payment to shareholders of Fujisawa's shares of common stock in lieu of dividends .

As a result, cash and cash equivalents at March 31, 2007 totaled ¥422.5 billion, a ¥50.9 billion decrease compared to March 31, 2006.

Cash Flow Indicators

	FY2005	FY2006
Shareholders' equity ratio (%)	76.8%	74.7%
Shareholders' equity ratio on a fair market value basis (%)	157.5%	177.7%
Cash flow to interest-bearing liabilities ratio (%)	0.5%	0.8%
Interest coverage ratio (times)	148.2	694.6

- Shareholders' equity ratio (%): total shareholders' equity / total assets
- Shareholders' equity ratio on a fair market value basis (%): market capitalization / total assets
- Interest-bearing liabilities ratio on cash flow (%)
interest-bearing liabilities / cash flow from operating activities (before eliminating interests and income taxes)
- Interest coverage ratio (times):
cash flow from operating activities (before eliminating interests and income taxes) / interest payment

(Notes)

1. Each indicator is calculated using financial data on a consolidated basis.
2. Market capitalization is calculated based on the number of outstanding shares at the end of the reporting period (after eliminating treasury stock).
3. Of all liabilities included in the consolidated balance sheet, those on which the Company pays interest are computed as interest-bearing liabilities.

4. Cash flow from operating activities reported in the consolidated cash flow statement are used as cash flow from operating activities (before eliminating interests and income taxes).
5. The interest expense reported in the consolidated cash flow statement is used as interest payment.

(3) Profit distribution policy

The Company is committed to sustained improvement in its enterprise value, leading to improved return 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, and also implement share buybacks in a flexible manner to improve capital efficiency and raise the level of return to shareholders. Based on these policies, the Company has a medium-term DOE (dividend on equity) target of 8% in the fiscal year ending March 31, 2011 (FY2010).

The Company plans to pay annual dividend for this fiscal year at ¥80 per share (including year-end dividend of ¥40 per share) to shareholders, yielding DOE of 3.7 %. As a part of profit distribution and as measures of its capital policy, the Company implemented share buyback from the stock market of 44.03 million shares, which amounted to approximately ¥219.9 billion, during this fiscal year.

Further, the Company cancelled 10 million shares of its treasury stock in May 2006 and decided to cancel 45 million shares of its treasury stock subject to the approval for the reversal of general reserve at the Company's Annual Shareholders' Meeting to be held on June 26, 2007.

The Company anticipates that the annual dividend in FY2007 to be ¥100 (composed of interim dividend of ¥50 and year-end dividend of ¥50)

(4) 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 in 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 litigation is initiated, or if our products cause any unexpected adverse effects.

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

Inherent Uncertainties in Pharmaceutical R&D:

In general, the probability of discovering a promising compound through drug discovery research is not high. Further, it takes a large amount of investments and a great deal of time to successfully launch a new product after discovery of a new compound. However, it may be necessary to discontinue clinical development if the effectiveness of a drug is not proven as initially expected, or if 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' research and development activities are subject to these inherent risks.

Foreign Exchange Rate Fluctuations:

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

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

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(All amounts are in millions of yen and amounts less than one million have been omitted.)

Accounts	(A) As of March 31, 2006		(B) As of March 31, 2007		Fluctuation (B)-(A)
	Amounts	Ratio	Amounts	Ratio	
Assets		%		%	
I. Current assets					
1. Cash on hand and in banks	178,107		223,398		45,290
2. Trade notes and accounts receivable	227,222		231,070		3,848
3. Marketable securities	445,358		284,355		(161,003)
4. Inventories	93,863		90,979		(2,884)
5. Deferred tax assets	56,047		58,180		2,133
6. Other	50,255		78,563		28,307
Allowance for doubtful receivables	(548)		(562)		(14)
Total current assets	1,050,306	66.3	965,984	65.7	(84,322)
II. Fixed assets					
1. Property, plant and equipment					
(1) Buildings and structures	99,271		88,924		(10,347)
(2) Machinery, equipment and vehicles	37,278		30,655		(6,622)
(3) Tools, furniture and fixtures	28,340		22,358		(5,981)
(4) Land	35,016		35,637		620
(5) Construction in progress	6,372		16,744		10,371
(6) Other	287		235		(52)
Total property, plant and equipment	206,567	13.0	194,555	13.2	(12,011)
2. Intangible fixed assets	31,515	2.0	41,511	2.8	9,995
3. Investments and other assets					
(1) Investment securities	242,162		210,694		(31,467)
(2) Long-term loans receivable	2,386		2,286		(100)
(3) Deferred tax assets	16,411		37,179		20,768
(4) Other	35,559		18,667		(16,891)
Allowance for doubtful receivables	(387)		(178)		209
Total investments and other assets	296,133	18.7	268,650	18.3	(27,482)
Total fixed assets	534,216	33.7	504,717	34.3	(29,499)
Total assets	1,584,522	100.0	1,470,701	100.0	(113,821)

(All amounts are in millions of yen and amounts less than one million have been omitted.)

Accounts	(A) As of March 31, 2006		(B) As of March 31, 2007		Fluctuation (B)-(A)
	Amounts	Ratio	Amounts	Ratio	
Liabilities		%		%	
I. Current liabilities					
1.Trade notes and accounts payable	62,507		73,018		10,510
2.Short-term loans payable	414		1,671		1,257
3.Other accounts payable	130,411		108,828		(21,582)
4.Accrued expenses	50,824		65,715		14,890
5.Accrued income taxes	40,017		44,352		4,334
6.Accrued consumption tax	1,125		2,017		892
7.Deferred tax liabilities	3		-		(3)
8.Accrued bonus for directors	-		101		101
9.Allowance for sales rebates	-		4,047		4,047
10.Allowance for sales rebates and others	5,838		-		(5,838)
11.Other	9,058		9,081		22
Total current liabilities	300,201	19.0	308,833	21.0	8,632
II. Long-term liabilities					
1.Convertible bonds	30		-		(30)
2.Long-term loans payable	531		-		(531)
3.Deferred tax liabilities	1,408		583		(824)
4.Accrued retirement benefits for employees	40,667		18,480		(22,187)
5.Accrued retirement benefits for directors	65		34		(30)
6.Other	24,277		43,774		19,497
Total long-term liabilities	66,980	4.2	62,873	4.3	(4,106)
Total liabilities	367,181	23.2	371,706	25.3	4,525
Net assets					
I. Shareholders' equity					
1.Common stock	102,985	6.5	103,000	7.0	(15)
2.Capital surplus	176,806	11.2	176,821	12.0	(15)
3.Retained earnings	959,217	60.5	1,006,648	68.4	(47,431)
4.Treasury stock	(61,982)	(3.9)	(241,919)	(16.4)	179,936
Total shareholders' equity	1,177,027	74.3	1,044,551	71.0	132,475
II. Valuation, translation adjustments and others					
1.Unrealized holding gains on securities	44,252	2.8	38,085	2.6	6,166
2.Translation adjustments	(4,382)	(0.3)	15,722	1.1	(20,104)
Total valuation, translation adjustments and others	39,869	2.5	53,807	3.7	(13,937)
III. Stock subscription rights	-	-	284	0.0	(284)
IV. Minority interests	443	0.0	351	0.0	92
Total net assets	1,217,340	76.8	1,098,994	74.7	118,346
Total liabilities and net assets	1,584,522	100.0	1,470,701	100.0	113,821

(2) Consolidated Statements of Income

(All amounts are in millions of yen and amounts less than one million have been omitted.)

Accounts	(A) For the year ended March 31, 2006		(B) For the year ended March 31, 2007		Fluctuation (B)-(A)
	Amounts	Ratio	Amounts	Ratio	
I. Nets sales	879,361	100.0	920,624	100.0	41,262
II. Cost of sales	272,996	31.0	284,063	30.9	11,066
Gross profit	606,364	69.0	636,560	69.1	30,195
III. Selling, general and administrative expenses (Note 1)	413,344	47.0	446,046	48.4	32,701
Operating income	193,020	22.0	190,514	20.7	(2,505)
IV. Non-operating income	14,873	1.6	13,862	1.5	(1,010)
Interest income	7,281		10,363		3,081
Dividend income	1,014		1,433		418
Equity in earnings of affiliates	546		1,163		616
Exchange gain	3,901		-		(3,901)
Other	2,128		902		(1,225)
V. Non-operating expenses	5,304	0.6	6,563	0.7	1,259
Interest expense	1,381		343		(1,038)
Loss on disposal of inventories	2,630		1,130		(1,499)
Exchange loss	-		3,594		3,594
Other	1,292		1,495		202
Ordinary income	202,588	23.0	197,813	21.5	(4,775)
VI. Special gains	7,882	0.9	41,079	4.4	33,197
Gain on sales of fixed assets	2,543		4,210		1,666
Gain on sales of investment securities	3,148		12,382		9,233
Gain on sales of subsidiaries' shares	-		21,241		21,241
Gain on disposition of corporate pension insurance specified assets	-		2,297		2,297
Gain on liquidation of subsidiaries	1,498		-		(1,498)
Other	691		947		255
VII. Special losses	33,401	3.8	27,128	2.9	(6,272)
Loss on sales and disposal of fixed assets	1,113		1,117		3
Loss on impairment of fixed assets	8,699		6,071		(2,627)
Expenses for integration and closure of business bases (Note 2)	-		17,660		17,660
Special retirement benefits	-		1,223		1,223
Expenses for business integration (Note 3)	21,293		-		(21,293)
Other	2,294		1,055		(1,239)
Income before income taxes and minority interests	177,069	20.1	211,764	23.0	34,694
Income taxes-current	72,160	8.1	97,258	10.5	25,097
Income taxes-deferred	(433)	(0.0)	(18,675)	(2.0)	(18,242)
Minority interests	1,683	0.2	1,896	0.2	212
Net income	103,658	11.8	131,285	14.3	27,626

Notes;

- | | | | |
|----------------------------------|--|--|------------------------|
| 1. Total amounts of R&D expenses | (A) For the year ended
March 31, 2006 | (B) For the year ended
March 31, 2007 | Fluctuation
(B)-(A) |
| | 142,076 | 167,945 | 25,869 |
2. These expenses are mainly related to consolidation of research and development facilities and reorganization of manufacturing functions.
3. These expenses consisted of those incurred from the merger with Fujisawa Pharmaceutical Co., Ltd.

(3) Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2006

(All amounts are in millions of yen and amounts less than one million have been omitted.)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2005	¥100,490	¥114,414	¥640,517	¥(114,038)	¥741,384
Movements during the year					
Conversion of convertible bonds	2,495	2,495			4,990
Cash dividends paid			(22,181)		(22,181)
Bonuses to directors and corporate auditors			(49)		(49)
Net income			103,658		103,658
Purchase of treasury stock				(46,434)	(46,434)
Disposal of treasury stock			(50,948)	98,490	47,542
Cancellation of treasury stock			(1,354)		(1,354)
Increase due to merger		59,897	266,034		325,931
Increase due to change in scope of consolidation			27,371		27,371
Increase due to merger of consolidated subsidiaries			66		66
Payment upon merger			(3,694)		(3,694)
Decrease due to change in scope of consolidation			(203)		(203)
Other					
Net change in items other than shareholders' equity					
Total movements during the year	2,495	62,392	318,699	52,055	435,642
Balance as of March 31, 2006	102,985	176,806	959,217	(61,982)	1,177,027

	Valuation, translation adjustments and others			Minority interests	Total net assets
	Unrealized holding gains on securities	Translation adjustments	Total valuation, translation and others		
Balance as of March 31, 2005	¥11,599	¥(11,090)	¥508	¥1,578	¥743,472
Movements during the year					
Conversion of convertible bonds					4,990
Cash dividends paid					(22,181)
Bonuses to directors and corporate auditors					(49)
Net income					103,658
Purchase of treasury stock					(46,434)
Disposal of treasury stock					47,542
Cancellation of treasury stock					(1,354)
Increase due to merger	13,919	(8,171)	5,748	130	331,810
Increase due to change in scope of consolidation					27,371
Increase due to merger of consolidated subsidiaries					66
Payment upon merger					(3,694)
Decrease due to change in scope of consolidation					(203)
Other					
Net change in items other than shareholders' equity	18,732	14,879	33,612	(1,265)	32,347
Total movements during the year	32,652	6,708	39,360	(1,134)	473,868
Balance as of March 31, 2006	44,252	(4,382)	39,869	443	1,217,340

For the year ended March 31,2007

(All amounts are in millions of yen and amounts less than one million have been omitted.)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	¥102,985	¥176,806	¥959,217	¥(61,982)	¥1,177,027
Movements during the period					
Conversion of convertible bonds	15	15			30
Cash dividends paid			(44,066)		(44,066)
Bonuses to directors and corporate auditors			(93)		(93)
Net income			131,285		131,285
Purchase of treasury stock				(220,046)	(220,046)
Disposal of treasury stock			(118)	477	359
Cancellation of treasury stock			(39,632)	39,632	-
Other			56		56
Net change in items other than shareholders' equity					
Total movements during the period	15	15	47,431	(179,936)	(132,475)
Balance as of March 31, 2007	103,000	176,821	1,006,648	(241,919)	1,044,551

	Valuation, translation adjustments and others			Stock subscription rights	Minority interests	Total net assets
	Unrealized holding gains on securities	Translation adjustments	Total valuation, translation and others			
Balance as of March 31, 2006	¥44,252	¥(4,382)	¥39,869	-	¥443	¥1,217,340
Movements during the period						
Conversion of convertible bonds						30
Cash dividends paid						(44,066)
Bonuses to directors and corporate auditors						(93)
Net income						131,285
Purchase of treasury stock						(220,046)
Disposal of treasury stock						359
Cancellation of treasury stock						-
Other						56
Net change in items other than shareholders' equity	(6,166)	20,104	13,937	284	(92)	14,129
Total movements during the period	(6,166)	20,104	13,937	284	(92)	(118,346)
Balance as of March 31, 2007	38,085	15,722	53,807	284	351	1,098,994

(4) Consolidated Statements of Cash Flows

(All amounts are in millions of yen and amounts less than one million have been omitted.)

Accounts	(A) For the year ended March 31, 2006	(B) For the year ended March 31, 2007	Fluctuation (B)-(A)
	Amounts	Amounts	
I. Cash flows from operating activities			
Income before income taxes and minority interests	¥177,069	¥211,764	¥34,694
Depreciation and amortization	37,439	34,010	(3,429)
Loss on impairment of fixed assets	8,699	6,071	(2,627)
Amortization of excess of cost over net assets acquired	196	-	(196)
Amortization of excess of net assets acquired over cost	-	(39)	(39)
Gain on sales of investment securities	(3,148)	(12,382)	(9,233)
Gain on sales of subsidiary's shares	-	(21,241)	(21,241)
Gain on disposition of corporate pension insurance specified assets	-	(2,297)	(2,297)
Net gain on sales and disposal of fixed assets	(1,429)	(3,092)	(1,662)
Decrease in allowance for doubtful receivables	(113)	(239)	(126)
Increase (decrease) in accrued retirement benefits for employees	5,259	(23,099)	(28,358)
Interest and dividend income	(8,296)	(11,796)	(3,500)
Equity in earnings of affiliates	(546)	(1,163)	(616)
Interest expense	1,381	343	(1,038)
Exchange loss (gain)	188	(47)	(236)
Decrease (increase) in trade notes and accounts receivables	6,084	(4,995)	(11,080)
(Increase) decrease in inventories	(4,735)	3,541	8,276
(Decrease) increase in trade notes and accounts payables	(504)	9,213	9,718
Decrease in other accounts receivable	447	-	(447)
(Decrease) increase in other accounts payable	(4,319)	5,626	9,946
Payments of bonuses to directors	(49)	(93)	(44)
Other	(22,177)	19,779	41,957
Subtotal	191,443	209,859	18,415
Interest and dividends received	8,732	10,682	1,949
Interest paid	(1,350)	(317)	1,033
Income taxes paid	(58,673)	(92,293)	(33,619)
Net cash provided by operating activities	140,151	127,930	(12,220)
II. Cash flows from investing activities			
Purchases of marketable securities	(202,829)	(128,984)	73,845
Proceeds from sales of marketable securities	193,807	190,183	(3,624)
Purchases of property, plant and equipment	(21,454)	(24,659)	(3,205)
Proceeds from sales of property, plant and equipment	8,889	7,348	(1,540)
Purchases of intangible fixed assets	(2,844)	(16,077)	(13,232)
Purchases of investment securities	(80,852)	(34,769)	46,082
Proceeds from sales of investment securities	20,084	28,999	8,914
Additional acquisition of shares of consolidated subsidiaries	-	(85)	(85)
Proceeds from sales of shares of subsidiaries' stock resulting in changes in the scope of consolidation	-	33,501	33,501
Loans receivable made	(1,232)	(242)	989
Collection of loans receivable	1,184	637	(546)
Net (increase) decrease in short-term investments	(4,579)	3,821	8,401
Other	2,166	12,757	10,590
Net cash (used in) provided by investing activities	(87,660)	72,431	160,092

(All amounts are in millions of yen and amounts less than one million have been omitted.)

Accounts	(A) For the year ended March 31, 2006	(B) For the year ended March 31, 2007	Fluctuation (B)-(A)
	Amounts	Amounts	
III. Cash flows from financing activities			
Net (increase) decrease in short-term loans payable	(1,692)	2,203	3,896
Repayments of long-term loans payable	(135)	(127)	8
Proceeds from long-term loans payable	201	-	(201)
Purchases of treasury stock	(46,399)	(220,046)	(173,646)
Cash dividends paid	(22,181)	(44,066)	(21,885)
Cash dividends paid to minority shareholders	(3,045)	(1,843)	1,201
Payment upon merger	(3,694)	-	3,694
Other	179	359	179
Net cash used in financing activities	(76,768)	(263,520)	(186,752)
IV. Effects of exchange rate changes on cash and cash equivalents	7,405	12,925	5,520
V. Decrease in cash and cash equivalents	(16,873)	(50,233)	(33,360)
VI. Increase in cash and cash equivalents due to merger	39,324	-	(39,324)
VII. Increase (decrease) in cash and cash equivalents due to the change in scope of consolidation	27,403	(676)	(28,079)
VIII. Increase in cash and cash equivalents due to merger of subsidiaries	89	-	(89)
IX. Cash and cash equivalents at beginning of the year	423,478	473,423	49,944
X. Cash and cash equivalents at end of the year	473,423	422,513	(50,909)

Change in presentation

Since "Decrease in other accounts receivable" which had been separately presented in operating activities became immaterial, it was included in "Other" in the consolidated statement of cash flows for the current fiscal year. "Decrease in other accounts receivable" amounted to 160 million yen.

(Tax-Effect Accounting)

As of March 31, 2006	As of March 31, 2007
<p>1. Significant components of deferred tax assets and liabilities</p> <p style="text-align: right;">(Millions of yen)</p> <p>Deferred tax assets</p> <p>Loss on devaluation of investments in securities ¥4,790</p> <p>Accrued retirement benefits 11,103</p> <p>Depreciation 22,288</p> <p>Loss on impairment of fixed assets 3,573</p> <p>Accrued expenses 21,530</p> <p>Inventories 20,731</p> <p>Accrued enterprise tax 3,574</p> <p>Other 32,102</p> <hr/> <p>Total gross deferred tax assets 119,694</p> <p>Valuation allowance (14,659)</p> <hr/> <p>Total deferred tax assets 105,035</p> <p>Deferred tax liabilities</p> <p>Unrealized holding gain on securities (30,323)</p> <p>Depreciation (1,934)</p> <p>Other (1,730)</p> <hr/> <p>Total deferred tax liabilities (33,988)</p> <hr/> <p>Net deferred tax assets <u>71,046</u></p>	<p>1. Significant components of deferred tax assets and liabilities</p> <p style="text-align: right;">(Millions of yen)</p> <p>Deferred tax assets</p> <p>Loss on devaluation of investments in securities ¥3,924</p> <p>Accrued retirement benefits 7,777</p> <p>Depreciation 39,527</p> <p>Loss on impairment of fixed assets 5,571</p> <p>Accrued expenses 20,058</p> <p>Inventories 22,888</p> <p>Accrued enterprise tax 3,110</p> <p>Other 37,558</p> <hr/> <p>Total gross deferred tax assets 140,416</p> <p>Valuation allowance (16,180)</p> <hr/> <p>Total deferred tax assets 124,235</p> <p>Deferred tax liabilities</p> <p>Unrealized holding gain on securities (25,716)</p> <p>Depreciation (1,082)</p> <p>Other (2,660)</p> <hr/> <p>Total deferred tax liabilities (29,459)</p> <hr/> <p>Net deferred tax assets <u>94,776</u></p>
<p>2. The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate is summarized as follows:</p> <p>Because the difference between the effective tax rate after adoption of tax-effect accounting and the statutory tax rate is less than 5% of the statutory tax rate, the reconciliation was omitted. The statutory tax rate and the effective tax rate after adoption of tax-effect accounting are 41.0% and 40.5%, respectively.</p>	<p>2. The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate is summarized as follows:</p> <p style="text-align: right;">(%)</p> <p>Domestic statutory tax rate 41.0</p> <p>(Reconciliation)</p> <p>Tax credit for research and development expenses (5.1)</p> <p>Permanently non-deductible expenses such as entertainment expenses 2.1</p> <p>Different tax rates applied to foreign subsidiaries (2.4)</p> <p>Other 1.5</p> <hr/> <p>Effective tax rate after adoption of tax-effect <u>37.1</u></p>

(5) Segment Information

(Business segment information)

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

(Geographical segment information)

For the year ended March 31, 2006

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
1. Sales and operating income							
Sales							
(1) Sales to third parties	¥511,143	¥145,341	¥203,232	¥19,643	¥879,361	-	¥879,361
(2) Intergroup sales and transfers	94,966	39,582	29,726	25	164,301	(¥164,301)	-
Total	606,110	184,923	232,959	19,669	1,043,663	(164,301)	879,361
Operating expenses	467,938	152,206	214,571	15,835	850,551	(164,210)	686,341
Operating income (loss)	¥138,171	¥32,717	¥18,388	¥3,834	¥193,111	(¥91)	¥193,020
2. Total assets	¥1,247,859	¥138,426	¥222,818	¥19,073	¥1,628,177	(¥43,655)	¥1,584,522

- (Notes) 1. Countries and areas are segmented based on their geographical proximity.
 2. Major countries and areas which belong to segments other than Japan are as follows:
 (1) North America -- The United States, Canada
 (2) Europe ----- The United Kingdom, The Republic of Ireland, The Netherlands, Germany, France, Italy, Spain
 (3) Asia ----- Korea, The Peoples' Republic of China, Taiwan

For the year ended March 31, 2007

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
1. Sales and operating income							
Sales							
(1) Sales to third parties	¥501,663	¥173,559	¥219,697	¥25,704	¥920,624	-	¥920,624
(2) Intergroup sales and transfers	100,542	53,729	40,158	1	194,432	(¥194,432)	-
Total	602,206	227,288	259,856	25,705	1,115,056	(194,432)	920,624
Operating expenses	485,564	175,717	236,072	21,955	919,309	(189,199)	730,110
Operating income (loss)	¥116,642	¥51,570	¥23,784	¥3,750	¥195,747	(¥5,233)	¥190,514
2. Total assets	¥1,053,068	¥175,396	¥266,520	¥21,880	¥1,516,866	(¥46,165)	¥1,470,701

- (Notes) 1. Countries and areas are segmented based on their geographical proximity.
 2. Major countries and areas which belong to segments other than Japan are as follows:
 (1) North America -- The United States, Canada
 (2) Europe ----- The United Kingdom, The Republic of Ireland, The Netherlands, Germany, France, Italy, Spain
 (3) Asia ----- Korea, The Peoples' Republic of China, Taiwan

(Overseas Sales)

For the year ended March 31, 2006

	North America	Europe	Asia	Other	Total
1. Overseas sales (<i>Millions of yen</i>)	¥191,985	¥172,230	¥25,688	¥8,365	¥398,269
2. Consolidated net sales (<i>Millions of yen</i>)					¥879,361
3. Overseas sales as a percentage of consolidated net sales	21.8%	19.6%	2.9%	1.0%	45.3%

- (Notes) 1. Countries and areas are segmented based on their geographical proximity.
2. Major countries and areas in each segment are as follows:
(1) North America -- The United States, Canada
(2) Europe ----- The United Kingdom, Germany, France, Italy, Spain
(3) Asia ----- Korea, The Peoples' Republic of China, Taiwan
3. Overseas sales consist of export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries.

For the year ended March 31, 2007

	North America	Europe	Asia	Other	Total
1. Overseas sales (<i>Millions of yen</i>)	¥223,226	¥182,752	¥31,158	¥12,924	¥450,062
2. Consolidated net sales (<i>Millions of yen</i>)					¥920,624
3. Overseas sales as a percentage of consolidated net sales	24.2%	19.9%	3.4%	1.4%	48.9%

- (Notes) 1. Countries and areas are segmented based on their geographical proximity.
2. Major countries and areas in each segment are as follows:
(1) North America -- The United States, Canada
(2) Europe ----- The United Kingdom, Germany, France, Italy, Spain
(3) Asia ----- Korea, The Peoples' Republic of China, Taiwan
3. Overseas sales consist of export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries.

Subsequent events

For the year ended March 31, 2006

Transfer of shares of Zephama Inc.

The Company completed the transfer of all outstanding shares of its wholly-owned OTC subsidiary, Zephama 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 of the transfer amounted to 35,502 million yen and the Company will record a special gain on sales of subsidiaries' shares of 21,241 million yen for the fiscal year ending March 31, 2007.

(Profile of Zephama Inc.)

Address: Nihonbashi-honcho 2-7-1, Chuo-ku, Tokyo, Japan

President: Masaji Oe

Date of incorporation: October 1, 2004

Operations: development and marketing of drugs, quasi-drugs, cosmetics, food products

Fiscal year end: March 31

Employees: 197 (as of March 31, 2006)

Common stock: 300 million yen

Sales: 22,032 million yen (for the fiscal year ended March 2006)

Major products: gastrointestinal medicine (Gaster-10), comprehensive cold medicine (Precol, Cakonal), skin treatment medication (Makiron, Eurax, Pyroace), antiallergenic (AG Eyes/AG Nose)

Conclusion of licensing agreement of development stage products with Fibrogen of the US

On April 28, 2006, the Company entered into the licensing agreement of FG2216, therapy for renal anemia and chemotherapy-induced anemia, and other compounds with similar mechanism of action with FibroGen, a US pharmaceutical company, for exclusive development and marketing in Europe, Middle East, and South Africa. The Company believes FG2216 will contribute to the substantial expansion of the Company's European business by fully utilizing the infrastructure it has established in Europe in the fields of urology and renal transplantation. Under the agreement, the Company will pay an upfront fee of US\$ 300 million to FibroGen upon signing of the agreement and will further pay development milestones totaling US\$465 million. In addition, the Company will purchase shares to be newly issued by FibroGen for US\$ 50 million. The upfront fee (approximately 35 billion yen) and part of development milestones are expected to be recorded as research and development expenses in sales, general and administrative expenses for the fiscal year ending March 31, 2007.

For the year ended March 31, 2007

Not applicable