Yamanouchi

Speed with Vision

Yamanouchi Pharmaceutical Co., Ltd. Annual Report 2001

S P E E D W I T H V I S I O N

— Move quickly in preparation, implementation and achievement of goals —

Corporate philosophy: **“Creating and Caring ... for Life”**
— Products that contribute to the well-being of people everywhere

Goal: **Become a Market-Oriented, R&D-Driven Global Enterprise**

In Pursuit of Future Prosperity
- **Accelerate global clinical development**
- **Start our own sales activities in the U.S. and turn profitable quickly**
- **Bolster genomics discovery research**

Growing Profits
- **Expand sales of mainstay products and quickly launch new products**

Raising Corporate Value
- **Aim for sustainable growth**
- **Raise management transparency**
- **Uphold the highest ethical standards**
- **Raise employee motivation**

Cautionary Statement Regarding Forward-Looking Information

This annual report 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, pricing and product initiatives of competitors, the inability of the company to market existing and new products effectively, interruptions in production, infringements of the company’s intellectual property rights and the adverse outcome of material litigation.

CONTENTS

Special Feature

MAIN PRODUCTS AND PIPELINE

	Indications	Classification	Status
Gastrointestinal			
Gaster®	Peptic ulcers, gastritis	H_2 antagonist	Launched (Japan/Asia)
Gaster® D	Peptic ulcers, gastritis	H_2 antagonist (orally disintegrating tablet)	Launched (Japan)
YM643 (interferon alfacon-1)	Chronic hepatitis C	Consensus interferon (CIFN)	Launched (Europe)
			Filed (Japan)
Cardiovascular			
Lipitor®	Hypercholesterolemia	HMG-CoA reductase inhibitor	Launched (Japan)
Dorner®	Chronic arterial occlusion	PGI_2 derivative	Launched (Japan/Asia)
Perdipine®	Hypertension	Ca antagonist	Launched (Japan/Asia/Europe)
Perdipine® LA	Hypertension	Ca antagonist (long acting)	Launched (Japan/Asia)
Hypoca®	Hypertension	Ca antagonist (once daily)	Launched (Japan/Asia/Europe)
CHOLEBINE®	Hypercholesterolemia	Nonabsorbable anion exchange regin	Launched (Japan)
Frandol®	Angina pectoris	Coronary artery dilator	Launched (Japan)
Milrila®	Acute heart failure	Phosphodiesterase III inhibitor	Launched (Japan)
Pronon®	Arrhythmia	Na channel inhibitor	Launched (Japan)
Solinase®	Acute myocardial infarction	Modified t-PA	Launched (Japan)
YM087 (conivaptan)	Hyponatremia, heart failure	Vasopressin antagonist	P-III/II (Japan/Europe/USA)
YM028	Thrombosis	GPIIb/IIIa antagonist	P-II (Japan)
Urology			
Harnal®	Functional symptoms of benign prostatic hyperplasia	Alpha$_1$ receptor antagonist	Launched (Japan/Asia/Europe)
	Lower urinary tract symptoms*	Alpha$_1$ receptor antagonist	P-III (Japan)
	Functional symptoms of benign prostatic hyperplasia	Alpha$_1$ receptor antagonist (TOCAS)**	P-II (Europe)
YM152 (finasteride)	Benign prostatic hyperplasia	5 alpha-reductase inhibitor	Filed (Japan)
YM905	Urinary frequency, urinary urgency and incontinence	Muscarinic M3 antagonist	P-III (Europe/USA)
YM598	Advanced prostate cancer	Endothelin ETA antagonist	P-II (Europe/USA)
Neurology			
Dormicum®	Sedation, anxiolysis and amnesia	Short-acting benzodiazepine CNS depressant	Launched (Japan)
Solinase®	Acute ischemic stroke*	Modified t-PA	P-II (Japan)
YM992	Depression	Selective 5-HT reuptake inhibitor and noradrenaline augmenting 5HT2A antagonist (SINAS)	P-II (Europe/USA)
YM872	Acute ischemic stroke	AMPA antagonist	P-II (Europe/USA)
YM337	Acute ischemic stroke, high-risk PTCA	GPIIb/IIIa antagonist (monoclonal antibody)	P-II (Europe/USA)
Diabetes			
Starsis®	Diabetes	Insulin secretion enhancer	Launched (Japan)
Euglucon®	Diabetes	Sulfonylureas	Launched (Japan)
Locomotorium/Inflammation			
Bisphonal®	Hypercalcemia	Bisphosphonate	Launched (Japan)
	Osteoporosis*	Bisphosphonate	Filed (Japan)
	Periodontitis*	Bisphosphonate	P-II (Japan)
YM484	Open long bone fracture (Europe)	Bone morphogenetic protein-2 (rhBMP-2)	Filed (Europe)
	Promotion of bone formation (Japan)	Bone morphogenetic protein-2 (rhBMP-2)	P-III (Japan)
YM177 (celecoxib)	Rheumatoid arthritis, osteoarthritis	Cyclooxygenase-2 inhibitor	P-III (Japan)
Oncology			
Nasea®	Emesis due to chemotherapy	5HT3 antagonist	Launched (Japan/Asia)
YM294 (oprelvekin)	Prevention of chemotherapy-induced thrombocytopenia	Thrombocytopoietic factor (rhIL-11)	P-III (Japan)
YM529 (minodronate)	Multiple myeloma, bone metastasis with breast/lung cancer	Bisphosphonate	P-III (Japan)
YM511	Breast cancer, endometriosis, uterine myoma	Aromatase inhibitor	P-II (Japan/Europe)
Other			
Josamycin®	Infections	Macrolide antibiotic	Launched (Japan/Asia/Europe)
Farom®	Infections	Penam-type antibiotic	Launched (Japan)
Optiray®	Contrast medium	Non-ionic contrast medium	Launched (Japan)
YM454	Contrast medium	Ultrasound contrast agent	Filed (Japan)
Nasanyl®	Endometriosis	GnRH agonist	Launched (Japan)
YM670 (multiporous gelatine particles)	Transcatheter arterial embolization therapy	Arterio-embolization particles	P-III (Japan)

Notes:

1. * additional indication
2. ** additional formulation
3. Drug candidates under development that are listed above exclude those in Phase I or preclinical stages.

FINANCIAL HIGHLIGHTS

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000, 1999, 1998 and 1997

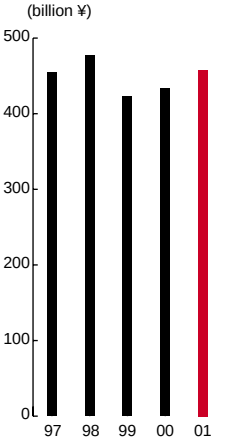
	Millions of yen				
	2001	2000	1999	1998	1997
Net sales	**¥457,913**	¥433,653	¥423,217	¥477,356	¥454,740
Operating income	**97,844**	96,069	89,445	102,845	101,229
Net income	**40,341**	57,175	48,002	6,092	41,866
Total assets	**896,280**	829,286	776,031	802,735	831,899
Shareholders' equity, net	**677,713**	620,221	549,972	507,535	473,199
Research and development expenses	**54,567**	54,821	54,299	43,639	42,309
Capital expenditures	**36,828**	29,831	51,405	57,575	36,112
Depreciation	**30,804**	23,460	29,338	18,454	12,748

	Yen				
Per share:					
Net income:					
Basic	**¥ 111.80**	¥ 162.35	¥ 140.79	¥ 18.18	¥ 129.12
Diluted	**109.95**	155.97	129.21	17.51	116.56
Shareholders' equity	**1,876.54**	1,721.77	1,596.65	1,498.91	1,459.15
Cash dividends applicable to the year	**25.00**	25.00	23.00	25.00	25.00

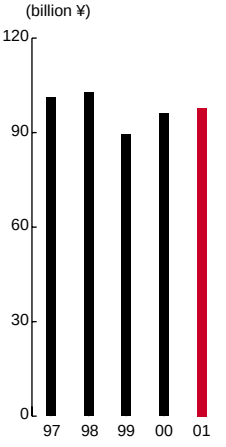
Notes:

1. Effective April 1, 1999, the Company changed its method of accounting for retirement benefits to recognizing the liability for retirement benefits at the present value of the estimated retirement benefits to be paid upon the future termination of its employees' services, less the balance of the plan assets at fair value.The effect of this change was to increase operating income by ¥573 million and to decrease income before income taxes and minority interests by ¥12,587 million for the year ended March 31, 2000.
2. Effective April 1, 1997, the Company changed its methods of accounting for the excess of cost over net assets acquired and for income taxes. The effect of the change in the accounting for the excess of cost over net assets acquired was to increase the amortization of the excess of the cost over net assets acquired by ¥72,730 million and to decrease net income by the same amount for the year ended March 31, 1998. Also, the effect of the change in the accounting for income taxes was to decrease the income tax expense by ¥24,477 million and to increase net income by the same amount for the year ended March 31, 1998.
3. Due to a change effective the year ended March 31, 2000 in the regulations relating to the presentation of translation adjustments, the Company has presented translation adjustments as a component of shareholders' equity instead of as a component of assets or liabilities. Accordingly, the amounts for 1999, 1998 and 1997 were restated in the above table.
4. A new accounting standard for financial instruments, which became effective on April 1, 2000, requires that securities be classified into three categories; trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. The cost of securities sold is determined by the moving average method. The effect of the adoption of the new standard for financial instruments was to decrease net income by ¥1,809 million for the year ended March 31, 2001.

NET SALES



OPERATING INCOME



We have led the top management of Yamanouchi Pharmaceutical Co., Ltd. to tackle a number of issues under the slogan, *"HAYAI,"* which translates into English as *"Speed with Vision."* This means that we must be swift in the preparation, implementation and achievement of business goals.

Results for the Fiscal Year Ended March 31, 2001

An April 2000 revision to the National Health Insurance (NHI) drug prices resulted in an average reduction in drug prices of approximately 7% in the Japanese pharmaceutical market. Moves to restrict growth in drug expenses in Japan also intensified as further progress was made in the ongoing revision of the systems governing medical treatment fees and medical care for elderly people.

In addition to expanded sales both in Japan and overseas of Harnal®, a treatment for the functional symptoms of benign prostatic hyperplasia (BPH), we posted steady sales of another flagship drug, Gaster®, an H_2 antagonist for the treatment of peptic ulcers and gastritis in Japan. Hypercholesterolemia agent Lipitor®, launched in May 2000 in Japan, also contributed to sales growth. Overall, net sales rose 5.6% to ¥457.9 billion, while operating income increased 1.8% to ¥97.8 billion and net income fell 29.4% to ¥40.3 billion.

The drop in our bottom line was due mainly to recognition of ¥36.7 billion in income taxes for prior years. Yamanouchi accepted the result of negotiations between the competent authorities of the Republic of Ireland and Japan regarding transfer pricing tax litigation, which arose from a license transaction for famotidine (sold in Japan under the brand name Gaster®) between Yamanouchi and subsidiary Yamanouchi Ireland Co., Ltd.

Goal: Become a Market-Oriented, R&D-Driven Global Enterprise

Our goal at Yamanouchi is to become a market-oriented R&D-driven global enterprise. This means having our own sales and marketing operations in the world's three major regional markets of Asia (including Japan), the United States and Europe to market new drugs that we have discovered and developed under the Yamanouchi brand name. The key to growth is to reinvest the profits generated by this strategy.

Medium-Term Action Plan

In March 2001, we formulated a five-year, medium-term action plan that sets out precisely what we need to do to achieve further growth over the long term for Yamanouchi. There are three main investment objectives within this plan that hold the key to our future prosperity:

1. Promotion of global clinical development
2. Commencement of independent sales and marketing operations in the United States
3. Reinforcement of genomics-based drug discovery research

At the same time, we will improve earnings.

Expansion of Profits

We have three leading drugs that are our principal earnings drivers.

Harnal® (tamsulosin)

Harnal® is a selective alpha$_1$-blocker that improves the functional symptoms of BPH while exerting a minimal effect on blood pressure. Launched in Japan in 1993, it is now available in 62 countries. Its selective action has earned it a reputation among medical professionals around the world. Total sales revenues in the fiscal year ended March 2001 amounted to ¥73.9 billion, an increase of 9.8% year on year. By region, sales grew 3.1% in Japan and 10.4% in Europe under the brand name Omnic® (32.4% on a local currency basis). Thanks to favorable sales by our U.S. licensee (under the brand name Flomax®), combined bulk sales and royalty income rose 29.4%. Harnal® is now the world's leading treatment for BPH. We are also working to maximize the drug's potential and add value through life cycle management. We are proceeding with clinical development of an additional indication for lower urinary tract symptoms and a new formulation for TOCAS (Tamsulosin Oral Controlled Absorption System), which enables the gradual release of the active drug at a constant rate as the tablet system is absorbed throughout the digestive tract, including the colon.

Gaster® (famotidine)

Sales of Gaster® rose 0.2% compared with the previous fiscal year. Sales of Gaster® in Japan, including sales of OTC Gaster 10®, rose 5.5%. However, due to the expiry of the U.S. patent in October 2000, the exclusivity period for which lasted until April 2001, sales of bulk Gaster® (the drug was sold by our U.S. licensee under the brand name Pepcid®) and royalty income fell 18.1%. After 16 years on the market, Gaster® remains the top-selling drug in Japan for the treatment of peptic ulcers and gastritis, thanks to its wide variety of formulations, broad range of indications, high efficacy and rapid onset of action. We plan to expand sales of Gaster® further in Japan.

Lipitor® (atorvastatin)

Following its launch in May 2000, sales of the blockbuster hypercholesterolemia treatment Lipitor®, in its first year in Japan, reached ¥19.5 billion. This outstanding success can be attributed to the superior characteristics of Lipitor® and powerful marketing activities. Our Medical Representatives, in co-promotion with Pfizer Parmaceuticals Inc., generated more sales calls and thus boosted Lipitor® sales. Although the market for hypercholesterolemia treatments in Japan is expected to become increasingly competitive, we expect to increase our market share by strengthening our promotional efforts while stressing the superior characteristics of Lipitor®.

New Products

As well as these three leading products, we also have several drug candidates with major potential that are in late clinical development in Japan. **Incadronate (YM175),** an oral third-generation bisphosphonate compound for the treatment of osteoporosis, has already been filed for regulatory approval in Japan. We expect to receive approval in 2002. The Japanese market for osteoporosis is estimated at more than ¥110 billion and is expected to grow rapidly over the years. Since there are still few effective medicines available in this field, we expect incadronate to be a leading player.

In Phase III clinical trials in Japan, we have **YM484**, rhBMP-2 (bone morphogenetic protein-2) that promotes bone formation, and **celecoxib (YM177)**, a selective COX-2 inhibitor for the treatment of rheumatoid arthritis and osteoarthritis.

In March 2001, to increase the potential size of the market for celecoxib in Japan, we agreed with U.S.-based Pharmacia Corporation to change the licensing agreement in Japan for celecoxib from a co-marketing to a co-promotion arrangement. Yamanouchi and Pharmacia will co-promote celecoxib under a single brand. Yamanouchi will be the exclusive distributor for celecoxib. The market in Japan for anti-inflammatory painkillers

Chairman of the Board **Masayoshi Onoda** *(left)*

President and Chief Executive Officer

Toichi Takenaka

is approximately ¥100 billion, and we expect celecoxib to penetrate the market and gain market share quickly.

Celecoxib is currently undergoing Phase III clinical trials in Japan with the cooperation of Pharmacia. We expect to file for regulatory approval in 2002.

By launching these major drug candidates as quickly as possible and moving swiftly to maximize sales, we plan to generate the expansion in earnings that will underpin future investment.

Global Business Development and U.S. Independent Sales Network

In our drug pipeline we now have five compounds awaiting regulatory approval, seven in Phase III clinical trials, nine in Phase II, four being developed for additional indications or formulations, and 16 in Phase I or preclinical stages of development.

During the medium-term plan, to maximize the potential of this promising pipeline, we will invest in global development capabilities.

As development progresses, we will begin independent sales and marketing operations in the United States, the world's single largest market for pharmaceuticals. We will focus investments on the fields of urology and emergency medicine so that we can recoup the up-front investments in building a U.S. sales infrastructure in as short a time as possible.

Our most promising drug for developing business in the United States at the moment is **YM905**, a muscarinic M3 antagonist for the treatment of urinary frequency, urinary urgency and incontinence. It is currently in Phase III clinical trials in the United States and Europe. The results obtained in Phase II suggest that YM905 has considerable potential. It is positioned as the lead product in the urological area for our nascent U.S. sales and marketing operation. In June 2000, we took the first steps by establishing Yamanouchi America, Inc. (YAI) as our local sales and marketing subsidiary in the United States. YAI will conduct market surveys and spearhead our sales drive with a view to starting operations quickly.

Investment Focus on Genomics Drug Discovery

Now that the human genome sequences have been elucidated and our knowledge of genes is beginning to expand, we understand that one of the most important challenges we face is how to efficiently use genomics information in R&D to strengthen our new product pipeline. We are enthusiastic about entering into strategic tie-ups with bioventure companies and academia in various fields such as bioinformatics, proteomics (systematic search for target proteins for drug discovery), and single nucleotide polymorphisms (SNPs). We are thus accelerating the development of new drugs through alliances with a wide range of partners.

In May 2001, we reached an agreement with Hitachi, Ltd. to undertake research using its bioinformatics technologies in genomics datamining and analysis. We expect that, based on genomics information and with the help of Hitachi's technology, we will be able to shorten discovery time for human genes which are valued as drug targets and thereby make our drug discovery processes much more efficient.

In June 2001, Yamanouchi entered into an agreement with Celera Genomics of the U.S. that gives us access to all of Celera's genome databases, including mouse and human genome sequence data and SNPs information, over the next five years.

Consumer Products Businesses

Over the past few years, market conditions in both the United States and Japan have been difficult for nutritional products. This has caused growth to falter. On the other hand, the food and roses business has been steady, with sales growing at high single- and low double-digit rates.

In November 2000, we established Yamanouchi Consumer Inc. in the United States as a holding company for our various non-pharmaceutical, consumer products businesses, namely Bear Creek Corporation (specialty retailer of food and roses), Shaklee Corporation

(nutritional and personal care products via multi-level marketing (MLM)), and INOBYS Ltd. (a new venture in the nutritional and personal care products businesses). This move clarified the functional responsibilities of all three companies and afforded us the chance to renew local management.

We realize that the restructuring of Shaklee's MLM business is a priority. We are currently engaged in a thorough rationalization of our operations in this area, which involves focusing on certain parts of the business as well as capturing synergies with Bear Creek Corporation. The aim is to lower selling, general and administrative expenses drastically while cultivating new products and existing product markets to generate steady earnings. On the sales side, we have introduced a new compensation plan to motivate sales leaders to create more business opportunities.

We will review the progress of the business revival plan for the nutritional and personal care products business frequently. Our overall aim remains to improve revenues and earnings in our consumer products businesses.

Creating Corporate Value

We believe that our core mission as management of Yamanouchi is to invest the company's resources effectively so as to create corporate value. That is why we are making strategic investments that will allow us to achieve further growth in the medium and long term. At the same time, we will spend several years on implementing internal reforms to set the stage for improving the value of our assets and to capitalize on our strengths.

Recently, we have established three committees within the parent company to provide inspiration for our ongoing reforms. These are as follows:

1. Business Reform Committee
2. Investor Relations Committee
3. Compliance Committee

The common goal underlying the creation of these committees is to reform our earnings structure and reinforce our corporate strengths.

Business Reform Committee

The brief of this Committee is to achieve higher earnings by reducing costs in order to strike the optimal balance between investments and profits. The Business Reform Committee will conduct reviews of business processes and examine our cost structure. Through these actions, the Committee will contribute to the achievement of the Company's goals in the current and medium term. Over the next few months, we will be examining R&D, manufacturing, marketing and administrative functions. The primary goal is to find cost savings that can help to lower the overall annual cost base.

Investor Relations Committee

The role of this Committee is to ensure that we provide timely disclosure of material information, and that we reflect the opinions and views of shareholders in our management practices. To this end, we are taking steps to improve the quality of our investor-oriented communications while raising the transparency of management decisions. This Committee will play a central role in the strengthening of these various IR activities.

Compliance Committee

As a healthcare-related enterprise, we must uphold the highest social and ethical standards in conducting our activities, from R&D to production and marketing. The role of the Compliance Committee in this task is to set and implement high internal standards of ethical business behavior so that every person in Yamanouchi upholds the laws and regulations governing pharmaceuticals and abides by the principles of fair competition. Our aims are to ensure that all Yamanouchi people have a solid understanding of business ethics, and that our business practices reflect these ideals at all times.

Maximization of Product Potential

New products are the lifeblood of growth in pharmaceutical companies. In order to maximize new drug sales and earnings worldwide, we must plan market-centric and powerful pre-marketing strategies. These plans must be reflected in development strategies from the early stages. This role will be fulfilled by the recently established Global Product Planning Department. We are confident that the Department will give impetus to bringing products to market more quickly through a seamless process from clinical development to sales and marketing.

Reform of Personnel and Remuneration Systems

Key to our reform process will be our people—the driving force behind the creation of corporate value. To create an environment that brings the best out of our employees, we are carrying out a sweeping review of personnel and remuneration systems with a view to implementing a remodeled system in April 2002 within the parent company.

The new system will abandon the uniform promotion-by-seniority philosophy that has traditionally guided our personnel policies. In its place, we shall introduce a system that defines job functions, titles and remuneration purely on the basis of the individual person's role and performance. This new way of thinking is designed to boost the motivation of our employees. We expect this approach to help us become much more competitive, as a company and in terms of our human resources.

In Conclusion

These new reforms and committee-led activities underscore our commitment to change at Yamanouchi. Our desire is to reform ourselves and our organization so that we can generate further growth that will satisfy the expectations of shareholders. As we continue to transform, we hope you will provide us with consistent support and understanding.

Masayoshi Onoda
Chairman of the Board

Toichi Takenaka
President and Chief Executive Officer

August 2001

"Main Priority for the medium-term: Turning profitable by building a powerful sales network in the U.S. using our drug pipeline as a main strategic weapon"

Question: **What are the reasons behind Yamanouchi's drive to invest in the U.S. market?**

Dr. Takenaka: The United States is by far the largest market for pharmaceuticals in the world, and we believe Yamanouchi is now in an excellent position to take its current worldwide knowledge directly into this market. Sales of pharmaceutical products in the North American market grew 14% to US$152.8 billion in 2000, and that growth is expected to remain in double digits until 2005.

In the past, Yamanouchi capitalized on the financial potential of the U.S. market through the successful out-licensing of its own products, including: an antibiotic, Yamatetan® (U.S. name: Cefotan®); a Ca antagonist, Perdipine® (U.S. name: Cardene®); an H_2 blocker, Gaster® (U.S. name: Pepcid®); an alpha$_1$ blocker, Harnal® (U.S. name: Flomax®); and a bronchodilator, Atock® (U.S. name: Foradil®).

Since 1980, through these licensing activities, we have gained extensive knowledge and expertise in clinical development in the United States. Today, we are proud to have a full product pipeline that is supported by an established development organization there. Further, we are building Yamanouchi America, Inc. (YAI), to focus on our own sales and marketing efforts and to better position us for long-term global success. Our full pipeline paves the way for a successful business launch into the U.S. market.

Question: **What points about the U.S. market are attractive to Yamanouchi?**

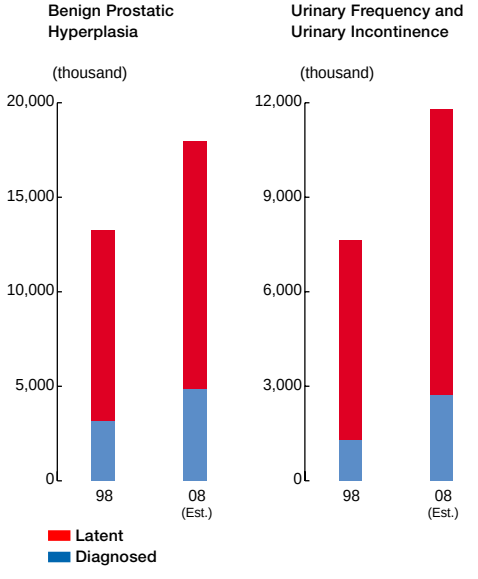
Dr. Takenaka: First, as I mentioned, the U.S. pharmaceutical market is the largest and provides the greatest growth opportunities in the world. Further, the business environment of the U.S. pharmaceutical market is very attractive because of a number of favorable regulatory aspects such as the systems for new drug approvals, drug pricing, distribution and patent extensions. We can also take advantage of the developed industry infrastructure in the United States by outsourcing various functions.

Worth noting is that pharmaceutical products that are successful in the U.S. market often dominate the worldwide market in their therapeutic category. For all these reasons, we plan to invest substantially in the U.S. market, using our drug pipeline as our main strategic weapon.

Question: **What is Yamanouchi's business development strategy for the United States?**

Dr. Takenaka: Our business development strategy is to build an independent sales and marketing organization, maximize our product pipeline and form alliances as appropriate. We currently have six drug candidates in clinical development in the United States: YM905, for the treatment of urinary frequency, urinary urgency and incontinence associated with an overactive bladder; conivaptan (YM087), a treatment for hyponatremia and heart failure; YM992, an antidepressant; YM337, a treatment of acute ischemic stroke and high-risk PTCA (percutaneous transluminal coronary angioplasty); YM872, a treatment for acute ischemic stroke; and YM598, a treatment for advanced prostate cancer. The urology market and the development of YM905 will be our first business development priority.

Estimated Number of Urology Patients (U.S.)



Source: Decision Resources

Question: **Why has Yamanouchi decided to focus on the field of urology?**

Dr. Takenaka: The size of the market for urology medicines in the U.S. in 1999 was approximately US$2.5 billion, and it is projected to expand further. In addition to our current quality compound in development for urinary frequency, urinary urgency and incontinence, we have accumulated expertise and experience in urology. Through the success of Harnal®, we have established our reputation with medical societies in the field. We now enjoy a strong relationship with many urologists in the U.S. and Europe.

Building on this presence, we intend to place considerable emphasis on a range of urological drugs in the United States, positioning YM905 as the leading product. We have examined the business model for YM905 in depth, taking into account factors such as its sales potential, promotional costs, and personnel expenses. On the basis of this internal study, we concluded that it was appropriate to establish our own U.S. urology marketing organization and sales network. This new organization will be committed to maximizing effectiveness and profitability, thereby helping us to recoup our investment quickly.

A treatment for prostate cancer, YM598 is in Phase II clinical trials, and we have other urology-focused compounds in Phase I clinical development. Over the near and long term, we plan to further strengthen our urology product line.

With drugs in development for acute ischemic stroke—YM872 and YM337—and hyponatremia—YM087— we expect to generate favorable in-market sales if we can succeed in their clinical development, simply because there are few effective drugs in these particular areas. Once we have established a base in the urology field, we will study expanding our operations further into such areas.

If we consider our products for other therapeutic areas, the clinical development costs are much higher. YM087 for the treatment of heart failure, and the oral antidepressant YM992 are targeting the primary care markets. We will need a larger number of medical representatives to promote these medicines, which means that the promotional costs will also be greater. Therefore, we may seek joint development opportunities and co-promotion partners or licensees for these programs.

Question: **How is Yamanouchi structuring its U.S. pharmaceutical operations?**

Dr. Takenaka: Today, our pharmaceutical operations in the United States are chiefly represented by Yamanouchi U.S.A. Inc., a clinical development organization, and Yamanouchi Pharma Technologies, Inc. (YPT), a research organization focused on the commercial development of the Company's drug delivery technologies and the manufacture of pharmaceuticals.

We are currently focusing on two important areas: the development of new drugs and the establishment of our own sales and marketing network. In June 2000, we established Yamanouchi America, Inc. (YAI), our local sales and marketing subsidiary. We have recruited a new management team that has extensive experience in the launch and marketing of pharmaceutical products. We will continue to develop our organization, evaluate the market potential of various products and build sales and marketing strategies. We expect that we will submit the application for approval of YM905 to the FDA (Food and Drug Administration) in 2003. At that time, we will begin hiring medical representatives and installing an information systems infrastructure.

Question: **What is Yamanouchi's position on alliances?**

Dr. Takenaka: When it comes to alliances, we are always open to new opportunities and remain flexible. Provided YAI is the prime marketer, we are willing to review co-promotion agreement opportunities to maximize each product's potential in the U.S. market.

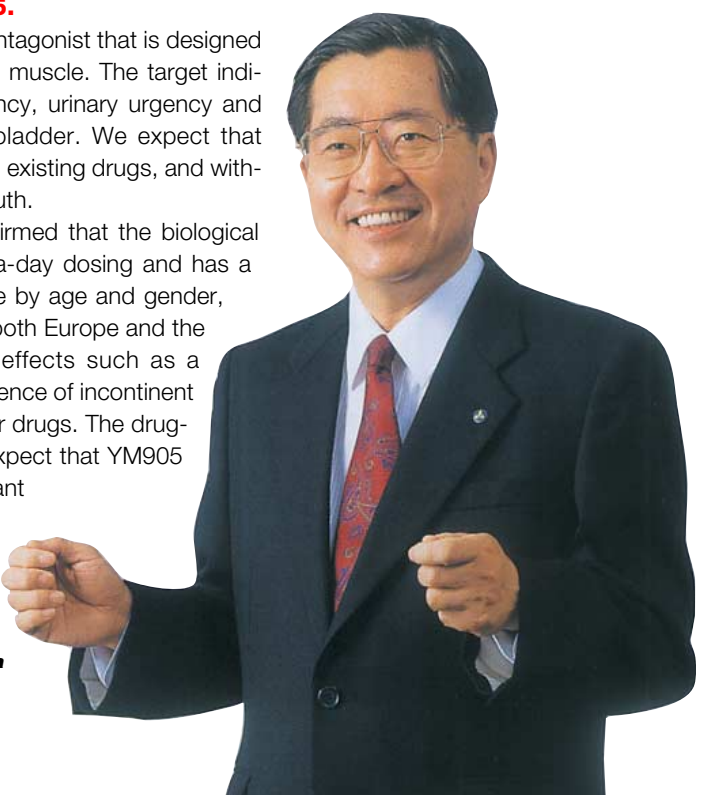
Question: **How do you rate Yamanouchi's future prospects?**

Dr. Takenaka: Our primary goal in the United States is to become one of the leading pharmaceutical companies in the urology field. After we obtain results in our clinical development program, we will make the business decisions to expand our sales franchise into other therapeutic areas. Our near- and long-term goal is to develop YAI into a highly profitable, attractive and successful company from the financial, product and human resources perspectives among U.S. pharmaceutical companies.

Question: **Please tell us more about the profile of YM905.**

Dr. Takenaka: YM905 is a muscarinic M3 antagonist that is designed to act on M3 receptors in the bladder smooth muscle. The target indication is relief of symptoms of urinary frequency, urinary urgency and incontinence associated with an overactive bladder. We expect that YM905 will show higher efficacy compared with existing drugs, and without a similar side-effect profile such as dry mouth.

In Phase I clinical trials in Europe, we confirmed that the biological half-life of YM905 is long enough for a once-a-day dosing and has a good pharmacokinetic profile (i.e. no difference by age and gender, and no food effect). In Phase II clinical trials in both Europe and the United States, we were also able to show effects such as a decrease in urination frequency and lower incidence of incontinent episodes and superior efficacy over comparator drugs. The drug-drug interaction studies are ongoing, but we expect that YM905 will not have any restriction as to the concomitant medication. We are currently in Phase III trials in the United States and Europe. We believe YM905 has much promise.



President and Chief Executive Officer ***Toichi Takenaka***

Market Share

Harnal® (tamuslosin, sold in Europe by Yamanouchi Europe under the brand name Omnic®) is a treatment for the functional symptoms of benign prostatic hyperplasia (BPH) currently marketed in 62 countries around the world. Consolidated net sales of the drug totaled ¥73.9 billion in the fiscal year ended March 31, 2001.

Thanks to its superior characteristics, Harnal® has become the leading treatment in the world BPH market. In the Japanese market, Harnal® commands over a 50% share. Its market shares (which includes sales by licensees) in other countries are: the U.S.A., 21%; France, 33%; Germany, 36%; the Netherlands, 38%; Italy, 22%; and the U.K. 38%.

Potential Increases in Patient Population

BPH is a common syndrome that is believed to affect as many as 20% of men in their 50s. As the populations of developed nations age, the numbers of potential BPH sufferers are likely to increase further. Yamanouchi is therefore making efforts to use the mass media to enhance understanding of BPH. Such a marketing strategy promises to expand the entire market.

Improving the quality of life

HARNAL®

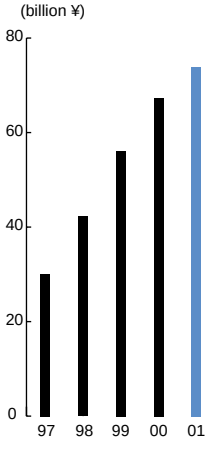
Product Life Cycle Management

To maximize sales of Harnal® and extend its life cycle, Yamanouchi is seeking to add value to the product.

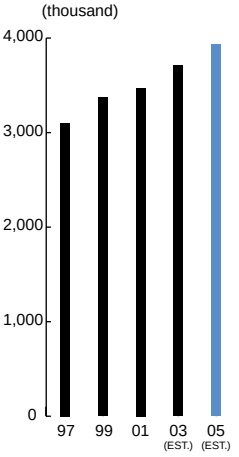
In recent years, there has been a higher incidence of lower urinary tract symptoms in elderly people. Yamanouchi is developing Harnal® for the additional indication of lower urinary tract symptoms among both women and men who do not suffer from BPH. The extension of the potential patient population to include women is expected to expand the market for Harnal® considerably.

Yamanouchi is also developing TOCAS (Tamsulosin Oral Controlled Absorption System), a drug delivery system that applies OCAS® technology developed in-house. TOCAS enables the gradual release of medication as the tablet travels through the digestive tract, including the colon, where drug release is difficult to achieve. TOCAS is expected to reduce side-effects and increase effectiveness.

Consolidated Harnal® Sales



Latent Patient Population in Japan



Switch OTC

In addition, Yamanouchi is considering how to commercialize OTC versions of Harnal®, particularly because Yamanouchi retains OTC development, manufacturing and marketing rights in North America. Yamanouchi hopes to team up with other pharmaceutical companies to ensure successful commercialization of Harnal®.

HARNAL®'S CHARACTERISTICS

- Selective alpha$_1$-blocker against prostate gland and urethral smooth muscle
- Superior efficacy with BPH symptoms such as difficulties with urination, night-time frequency and residual urine
- Safety due to low incidence of side effects such as orthostatic hypotension
- No need for dose titration aimed at reducing side effects

Sales

Sales of the hypercholesterolemia treatment Lipitor®, which Yamanouchi launched in Japan in May 2000, reached ¥19.5 billion in the year ended March 31, 2001. While the drug was expected to become a blockbuster, Lipitor® has achieved the highest first-year sales of any ethical pharmaceutical launched by Yamanouchi.

Product Success

The success of the launch of Lipitor® owes much to a combination of its characteristics. A once-a-day 10mg dose of Lipitor® has a strong cholesterol-lowering effect, reducing total serum cholesterol on average by 30% and LDL-cholesterol by 41%. Its safety and reputation for efficacy are also underscored by its approximately 13 million patients around the world. On the marketing side, the rapid expansion in sales is a result of powerful and fruitful co-promotion between Yamanouchi and Pfizer Pharmaceuticals Inc.

Facing a brighter future

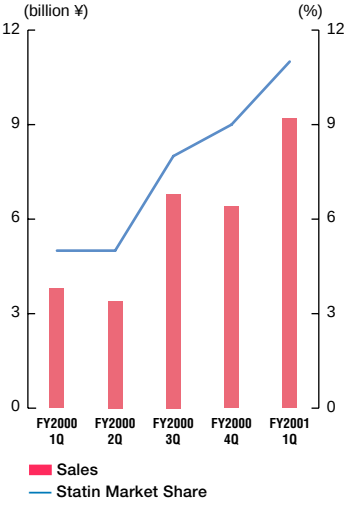
LIPITOR®

Market Trends

Since hypercholesterolemia is a clear risk factor for coronary arterial diseases, proper management of cholesterol levels is critical. In addition, many Type-II diabetes patients suffer hypercholesterolemia complications, which are associated with a strikingly high incidence of coronary arterial diseases. Cholesterol management is therefore particularly important in diabetes patients to mitigate the risk of coronary arterial diseases.

Amid this environment, the market for Lipitor® is expected to continue to expand.

Lipitor® Sales and Market Share in Japan



Notes: 1. Fiscal years ended March 31.
2. Lipitor® was launched in May 2000.

The No. 1 Statin

Over the medium term, Yamanouchi aims to make Lipitor®, the number one statin in the Japanese market, a position that the drug already holds in Europe and the United States. The primary goal in attaining this objective is to make Lipitor® the leading statin in the cardiovascular area, where these kinds of drugs are mostly prescribed. As well as medical promotional activities designed to inform physicians of the drug's powerful lipid-lowering effects, Yamanouchi also plans to promote the importance of proper cholesterol management to the public through the mass media. Internal medicine and gynecology are two other areas with a high number of potential patients where Yamanouchi hopes to increase the number of prescriptions for Lipitor®.

LIPITOR®'S CHARACTERISTICS

- Reliability as the world's leading statin
- Powerful cholesterol-lowering effect twinned with good safety profile
- High success rates in reducing cholesterol level to normalization rate
- Extensive clinical data from overseas markets
- Higher numbers of sales calls due to co-promotion

Sales

Gaster®, an H_2 antagonist, is Yamanouchi's leading product and one of Japan's top-selling pharmaceuticals. Consolidated net sales of the drug totaled ¥108.9 billion in the fiscal year ended March 31, 2001. Sales in Japan (including OTC) rose 5.5% to ¥87.0 billion. Since its launch in 1985, sales of Gaster® have grown steadily, and it now has a market share of over 44% in Japan. Owing to the expiry of the famotidine patent in the United States in October 2000 (the exclusivity period lasted until April 2001), combined bulk sales of the drug and royalty income dropped 18.1% to ¥20.4 billion in the fiscal year ended March 31, 2001. Yamanouchi expects that any decline in overseas sales (bulk sales and royalty revenue) can be made up by growth in Japan, with overall sales continuing to expand.

Product Characteristics

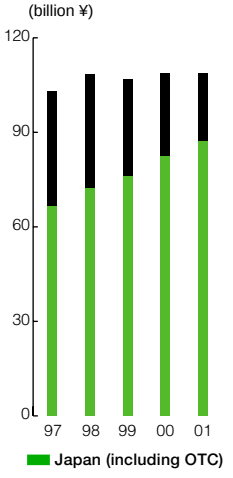
The list of advantages possessed by Gaster® is long. Gaster®'s distinctive characteristics underpin the drug's stable growth prospects. Among them is Gaster®'s wider range of indications than competing drugs. Those indications include peptic ulcers, gastritis, reflux

Enjoying the freedom of life

GASTER®

esophagitis, upper gastrointestinal hemorrhage, invasive stress and preanesthetic administration. Also, it can be prescribed in tablet or powder form or administered by injection. In Japan, in September, Yamanouchi launched Gaster® D, an orally disintegrating tablet that applies second-generation WOWTAB® technology (which was developed in-house) to allow it to be taken without water. Yamanouchi sees Gaster® D as an effective way of growing total sales of Gaster® further.

Consolidated Gaster® Sales



Expansion into Gastritis Area

Although the number of Gaster® prescriptions for gastritis has grown in recent years, the drug's prescription rate of about 10% indicates that there is untapped growth potential in this therapeutic area. Yamanouchi plans to promote the characteristics of Gaster® and Gaster® D for gastritis, such as rapid onset of action and ease of use.

Effective Patent Situation

The substance patent on Gaster® expired in Japan in August, 2001. However, Yamanouchi has acquired exclusive rights, as part of the settlement over patent disputes from Hungarian company Gedeon Richter Ltd. for its patent for famotidine polymorphism in Japan. This will allow Yamanouchi to keep manufacturing and marketing Gaster® in Japan under its patent until August 2007.

GASTER®'S CHARACTERISTICS

- A wide range of indications
- A variety of formulations
- A broad safety window for dosing
- Rapid onset of action
- A high degree of symptomatic relief
- Moderate, persistent suppression of gastric acid secretion
- No inhibitory effect of P.450 enzyme
- Rare instances of drug-drug interaction problems

In 1993, Yamanouchi began to build its own genomics discovery research program.

In 2000, to place increased emphasis on the field, Yamanouchi established Genomics Research, which carries out genomics discovery research. At present, around 30% of Yamanouchi's upstream research projects focus on target identification related to the genomics field.

Through such programs, Yamanouchi has filed a number of patents for useful functions of gene sequences. Research to find novel chemical compounds that have mechanisms of action related to genomics-based target molecules is ongoing. It is expected that such efforts will produce several chemical compounds that can enter clinical development over the course of the next few years.

As of mid-2001, the entire human genome had been sequenced. Based on the heightened realization that genomics-based drug discovery can have a major impact over the next five years on the number of new compounds discovered, Yamanouchi is aggressively investing in related scientific fields such as bioinformatics, proteomics and single nucleotide polymorphisms (SNPs) as well as striking up strategic alliances with bioventures.

Innovation, precision, discovery

GENOMICS DISCOVERY RESEARCH

The efforts and innovativeness of Yamanouchi's researchers in raising the quality and effectiveness of research, as well as the probability of success, will have a major bearing on Yamanouchi's ability to compete with its much larger European and American rivals. To support their work, Yamanouchi has established its own internal bioinformatics system, and developed a proprietary genome database and its own analysis tools. As a result, all of Yamanouchi's researchers have equal access to value-added information on gene functions and available information on relevance to diseases for genes. All information from research through development is shared online in a bid to boost the efficiency of drug discovery programs. Yamanouchi also obtains necessary information for in-house research from Celera Genomics and other external organizations.

Yamanouchi has adopted a uniquely multifaceted approach to genomics-based drug discovery research. As well as the conventional "gene-to-disease" approach, in which drug targets are identified through the analysis of gene function, the company is also deepening its involvement in novel "disease-to-gene" approaches, in which the starting point for analysis is a particular disease.

By compiling its own genome database, Yamanouchi is striving to identify drug target molecules based on information on SNPs derived from both mouse and human genomes. Such methods involve a unique approach called comparative genomics research, which is the study of genetic similarities and differences between humans and animals such as mice that can be used for *in vivo* models for human diseases. Much genomics-based drug discovery research is now being driven by such trends.

BOLSTERING GENOMICS DISCOVERY TO BUILD A LONG-TERM PIPELINE

- Strengthen identification of drug target molecules based on information on SNPs derived from both mouse and human genomes
- Actively use bioinformatics, proteomics and SNPs
- Forge strategic alliances with bioventure companies and academia

Value-Chain Reappraisal

The creation of shareholder value is a major driving force behind Yamanouchi's consumer products businesses. Recently, the Company reassessed the value chain with regard to its consumer products businesses. This reassessment has led to a number of business process reengineering (BPR) initiatives at each of three businesses discussed below. To accelerate and boost the effectiveness of these BPR programs, Yamanouchi, in November 2000, created a holding company, Yamanouchi Consumer Inc. (YCI) in the United States under which lie: 1) the nutritional and personal care products business conducted by Shaklee Corporation; 2) the nutritional and personal care products business outside of the multi-level marketing (MLM) channel being developed by INOBYS Ltd.; and 3) the food and roses specialty retail business of Bear Creek Corporation. This coincided with sweeping organizational reforms and a change of management. The BPR initiatives have been designed to increase operational synergy within the consumer products businesses, to make the financial performance of each business more transparent and to speed up decision-making related to sales and profit growth.

Reassess, reform .... results

CONSUMER PRODUCTS BUSINESSES

A good example of this kind of synergy creation is the know-how and experience at Bear Creek Corporation in information technology, centering on Internet-based marketing, customer service, distribution and logistics. YCI is in the process of capitalizing on this expertise by applying these resources to Shaklee Corporation and INOBYS Ltd. Other valuable elements of the future YCI business infrastructure, particularly in the United States, include the extensive sales network cultivated within the nutritional products business, the multiple sales channel expertise developed by Bear Creek Corporation, (a specialty retailer operating in direct marketing, Internet and store channels), and the know-how gained by INOBYS, a new business venture pursuing the nutritional and personal care market outside of the MLM arena. The organizational reforms and restructuring to date have started to produce additional benefits apart from the greater sharing of IT infrastructure, such as the synergy created in the management of product distribution. We believe the BPR process will lead to the increased corporate value of YCI as a whole.

MAJOR DRIVING FORCES OF YAMANOUCHI'S CONSUMER PRODUCTS BUSINESSES

- Increase synergies in IT and multiple sales channel expertise and execute speedy decision-making through Business Process Reengineering (BPR)
- Restructure distribution and call centers at Shaklee Corporation, diversify sales channels and develop B2C online e-commerce and retail store networks at Bear Creek Corporation

Management Principle

The guiding management principle within non-pharmaceutical, consumer products businesses is that, in terms of growth, profitability, efficiency, and stability, results should not act as a drag on Yamanouchi's financial performance at the consolidated level. In specific terms, this implies a greater focus on generating growth in net sales, operating income and free cash flow. In addition, all consumer products businesses must remain competitively superior to other firms within the same industry and fund growth internally.

Business Reform Themes

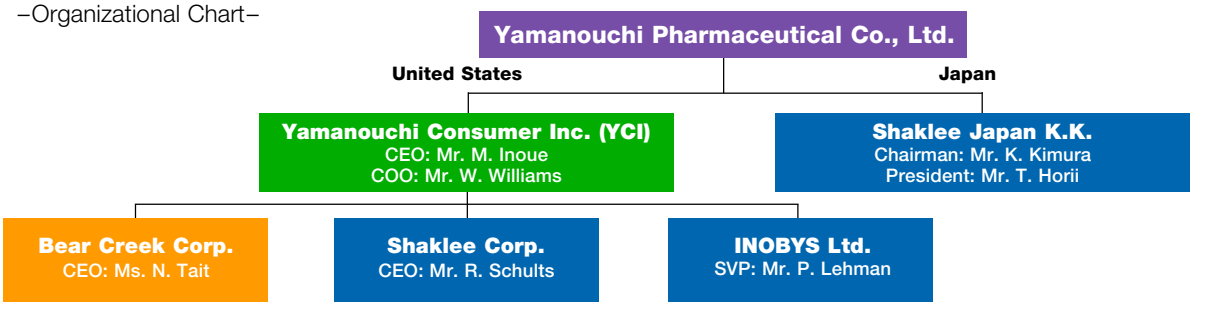
Having recognized that the major challenges we face with regard to the consumer products businesses lie in the nutritional and personal care products business operated by the Shaklee companies, Yamanouchi has placed focus on sweeping reforms in the business since 2000. "Rebirth" is the theme of the reforms at Shaklee Corporation. The restructuring has led to a new senior management team and paved the way for the introduction of a new sales compensation plan in October 2000 for the company's 6,400 sales leaders. It also laid the groundwork for the integration and scheduled closings of distribution and call centers, beginning in May 2001. Shaklee Japan is also undergoing a renewal process, which is driven by regular exchanges of strategic business information with Shaklee Corporation. In October 2000, Shaklee Japan introduced a new sales compensation plan with the aim of providing its 2,700 sales leaders with a greater business building oppurtunity.

At INOBYS Ltd., a nutritional and personal care products company marketing in non-MLM sales channels in the U.S., new business initiatives are targeting a number of specific market segments, including fortified foods for healthy consumers, dieters and patients in specific therapeutic areas, natural foods and diet products. The company has made progress in entering the niche field of healthcare for pets since January 2001. Early next year, INOBYS Ltd. is scheduled to introduce its first fortified pet food products.

Yamanouchi is also actively restructuring Bear Creek Corporation's portfolio of businesses. In addition to its core catalog business, Bear Creek Corporation continues to pursue a strategy of sales-channel diversification, in which it is making use of B2C Internet-based e-commerce, a retail store network and wholesaling of its products. We believe that this strategy will successfully expand the customer base and make the business less vulnerable to economic cycles.

Consumer Products Businesses

–Organizational Chart–



Key: Green denotes a holding company, yellow a food and roses company, and blue a nutritional products company

The Yamanouchi Group is playing an active role in communities through various programs that reflect its philosophy of "Creating and Caring...for Life."

Our Lady of Guadalupe Rose

This year, Bear Creek Corporation's Jackson & Perkins unveiled a commemorative rose named Our Lady of Guadalupe. This rose symbolizes a brighter future and a source of hope for Hispanics across America. Bear Creek will donate a portion of the proceeds from sales of this sweet-smelling, silvery-pink rose to help fund scholarships in Hispanic communities in the United States, in conjunction with the Hispanic College Fund. At ceremonies in Los Angeles, California, Cardinal Roger Mahoney, Archbishop of Los Angeles, blessed the rose at its public showing. To countless millions of people in the Americas and elsewhere, Our Lady of Guadalupe has been a symbol of faith, hope and love for nearly 470 years.

More Vehicles Donated

Yamanouchi has been donating ambulances to local bodies in Japan since 1970. The company donated 4 vehicles in 2000, bringing the total number donated over the years to 180 vehicles.

Yamanouchi European Foundation Makes Generous Donation in Support of OnlineMouse Project in Germany

In February 2001, the Yamanouchi European Foundation donated US$10,000 in support of the Breuninger Foundation's OnlineMouse project, which allows seriously ill children in hospitals to keep in contact with the outside world the interactive way.

"Recycling at Work" Award

Bear Creek Corporation won the eighth annual United States Conference of Mayors "Recycling at Work" award for environmental responsibility presented by Mayor Lindsay Berryman of Medford, OR. The award is given to companies nationwide that demonstrate outstanding environmental responsibility in the workplace and beyond.

Another Plant Gains ISO 14001 Certification

Yamanouchi Europe's Meppel Plant gained ISO 14001 certification during the year, joining Yamanouchi Ireland, the Takahagi Plant and the Nishine Plant in Japan as holders of this internationally recognized certification.

BOARD OF DIRECTORS

Chairman of the Board
Masayoshi Onoda

President and Chief Executive Officer
Toichi Takenaka

Senior Managing Director
Kiyoshi Kawaishi

Senior Managing Director
Hidehiko Ueda

Managing Director
Kaoru Kimura

Managing Director
Toshinari Tamura

Chairman of the Board
Masayoshi Onoda

President and Chief Executive Officer
Toichi Takenaka

Senior Managing Directors
Kiyoshi Kawaishi
Hidehiko Ueda

Managing Directors
Kaoru Kimura
Toshinari Tamura

Directors
Hiroshi Suzuki
Yozo Noura
Masakatsu Inoue
Munetoshi Kakitani
Nobuji Takayama
Kunihide Ichikawa
Shigekazu Takahashi
Kazuyoshi Hatanaka
Yasuo Ishii
Toshio Saba
Isao Kishi
Hiroaki Hiraiwa
Isao Yanagisawa

Corporate Auditors
Hiroyuki Himaki
Norio Sasaki
Toyomichi Ohtani
Shiro Tachikawa*
Hideo Yamada*

*Outside Corporate Auditor

FINANCIAL SECTION

SELECTED FINANCIAL HIGHLIGHTS

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000, 1999, 1998 and 1997

	Millions of yen, except per share amounts				
	2001	2000	1999	1998	1997
Results for the Year:					
Net sales	**¥ 457,913**	¥ 433,653	¥ 423,217	¥ 477,356	¥ 454,740
Cost of sales	**150,107**	125,254	127,513	166,563	158,664
Selling, general and administrative expenses[1]	**209,962**	212,330	206,259	207,948	194,847
Operating income[1]	**97,844**	96,069	89,445	102,845	101,229
Net income[1][2]	**40,341**	57,175	48,002	6,092	41,866
Research and development expenses	**54,567**	54,821	54,299	43,639	42,309
Capital expenditures	**36,828**	29,831	51,405	57,575	36,112
Depreciation	**30,804**	23,460	29,338	18,454	12,748
Per Share:					
Net income[1][2] (basic)	**¥ 111.80**	¥ 162.35	¥ 140.79	¥ 18.18	¥ 129.12
Net income[1][2] (diluted)	**109.95**	155.97	129.21	17.51	116.56
Shareholders' equity[3]	**1,876.54**	1,721.77	1,596.65	1,498.91	1,459.15
Cash dividends applicable to the year	**25.00**	25.00	23.00	25.00	25.00
Financial Position at Year-End:					
Working capital	**¥ 401,567**	¥ 344,937	¥ 273,475	¥ 346,552	¥ 362,557
Property, plant and equipment, net	**188,241**	182,341	185,587	176,739	128,936
Total assets[3]	**896,280**	829,286	776,031	802,735	831,899
Total long-term liabilities	**87,028**	88,887	88,555	136,558	180,564
Shareholders' equity, net[3]	**677,713**	620,221	549,972	507,535	473,199
Number of shares of common stock issued (in thousands)	**361,151**	360,246	344,468	338,605	324,308

Notes:

1. Effective April 1, 1999, the Company changed its method of accounting for retirement benefits to recognizing the liability for retirement benefits at the present value of the estimated retirement benefits to be paid upon the future termination of its employees' services, less the balance of the plan assets at fair value. The effect of this change was to increase operating income by ¥573 million and to decrease income before income taxes and minority interests by ¥12,587 million for the year ended March 31, 2000.
2. Effective April 1, 1997, the Company changed its methods of accounting for the excess of cost over net assets acquired and for income taxes. The effect of the change in the accounting for the excess of cost over net assets acquired was to increase the amortization of the excess of the cost over net assets acquired by ¥72,730 million and to decrease net income by the same amount for the year ended March 31, 1998. Also, the effect of the change in the accounting for income taxes was to decrease the income tax expense by ¥24,477 million and to increase net income by the same amount for the year ended March 31, 1998.
3. Due to a change effective the year ended March 31, 2000 in the regulations relating to the presentation of translation adjustments, the Company has presented translation adjustments as a component of shareholders' equity instead of as a component of assets or liabilities. Accordingly, the amounts for 1999, 1998 and 1997 were restated in the above table.
4. A new accounting standard for financial instruments, which became effective on April 1, 2000, requires that securities be classified into three categories; trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. The cost of securities sold is determined by the moving average method. The effect of the adoption of the new standard for financial instruments was to decrease net income by ¥1,809 million for the year ended March 31, 2001.

MARKET CONDITIONS

During the fiscal year ended March 31, 2001, competition stiffened in the world pharmaceutical market, particularly among major U.S. and European companies. An April 2000 revision to the National Health Insurance (NHI) drug prices resulted in an average price reduction of approximately 7% in the Japanese pharmaceutical market, which is the principal source of revenues and earnings for the Yamanouchi Group. Moves to restrict growth in drug expenses in Japan also intensified during the fiscal year with further progress in the ongoing revision of the systems governing medical treatment fees and medical care for elderly people.

Conditions in Yamanouchi's consumer products businesses also became harsher during the fiscal year.

BUSINESS STRATEGIES

Yamanouchi's business goal is to become a market-oriented, R&D-driven global enterprise. The core strategies established to achieve this goal are as follows:

1) Expand pharmaceutical sales in Japan, Yamanouchi's core market.
2) Quickly commence sales and marketing activities in the United States, the world's largest pharmaceutical market, and make operations in that market profitable as soon as possible.
3) Reinforce R&D, notably genomics-based research, to generate a steady flow of new drug candidates that will ensure the Company's future income streams.
4) In consumer products businesses, boost competitiveness by building brand power to combat harsh market conditions and by implementing further restructuring.

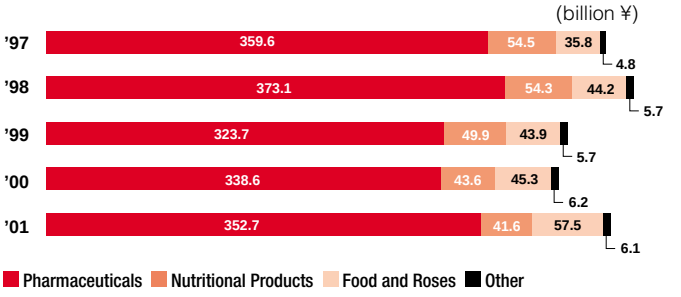
RESULTS FOR FISCAL YEAR ENDED MARCH 31, 2001

Outline

As a result of the NHI drug price revision that came into effect in April 2000 in Japan, Yamanouchi suffered an average reduction in its drug prices of around 6.5%. Despite this, net sales in the fiscal year ended March 31, 2001 rose 5.6% to ¥457.9 billion. Operating income increased 1.8% to ¥97.8 billion, while net income dropped 29.4% to ¥40.3 billion due to special factors.

Sales

Net Sales Breakdown



Note: Fiscal years ended March 31

Sales by Business Segment

Years ended March 31, (billion ¥)

	2001	2000
Pharmaceuticals	**¥352.7**	¥338.6
Nutritional products	**41.6**	43.6
Food and roses	**57.5**	45.3
Other	**6.1**	6.2
Consolidated	**¥457.9**	¥433.7

Pharmaceuticals

Pharmaceuticals sales rose 4.2% year on year. In Japan, an approximately 6.5% reduction in NHI drug prices negatively affected operations, but sales of mainstay products Gaster® and Harnal® increased and Lipitor®, a new product, performed well. Overseas, sales of Harnal® were also strong. Sales by product were as follows:

Sales of Pharmaceuticals

Years ended March 31, (billion ¥)

	2001	2000
Gaster®	**¥108.9**	¥108.7
Harnal®	**73.9**	67.3
Perdipine®/ Perdipine® LA	**17.7**	19.8
Hypoca®	**4.4**	4.6
Frandol® (tablets/tape)	**16.5**	15.9
Dorner®	**12.1**	11.8
Optiray®	**10.6**	10.5
Euglucon®	**6.9**	6.8
Farom®	**6.4**	7.7
Starsis®	**2.1**	1.1
Lipitor® (launched in May 2000)	**19.5**	–

A variety of formulations, a broad range of indications, high efficacy and rapid onset of action have made **Gaster®** the first choice in Japan for the treatment of peptic ulcers and

gastritis. Over a period of 16 years on the market, it has generated consistent growth. Its share of the Japanese ethical pharmaceutical market for this therapeutic area is approximately 44%. Sales in Japan grew steadily during the fiscal year, rising 4.3% to ¥84.7 billion. Launched in September 2000, sales of **Gaster® D**, an orally disintegrating tablet that uses second-generation WOWTAB® technology to allow it to be taken without water, reached ¥4.4 billion.

Sales of the switch OTC formulation **Gaster 10®** rose 91.7% to ¥2.3 billion in Japan, partly as the result of a renewed television advertising campaign that ran from December 2000.

The expiry of the U.S. patent on Gaster® (brand name Pepcid®) in October 2000 (the exclusivity period lasted until April 2001) had a negative impact on bulk Gaster® sales to and royalty revenues from licensee Merck & Co., Inc., and thus dropped 18.1% overall.

Yamanouchi's global strategic drug, **Harnal®**, is a selective alpha$_1$-blocker that improves the functional symptoms of BPH while exerting a minimal effect on blood pressure. Sales of the product in Japan during the fiscal year grew 3.1% to ¥39.6 billion. In Europe, sales of Harnal® under the brand name **Omnic®** by YEU rose a healthy 10.4% to ¥18.0 billion.

Harnal® also performed well at European licensee Boehringer Ingelheim. In the United States, the drug's position was enhanced by successful co-promotional activities by licensee Boehringer Ingelheim Pharmaceuticals, Inc. and its co-promoter Abbott Laboratories. These various factors generated a 29.4% increase in revenues from sales of bulk Harnal® to and royalties from licensees to ¥15.4 billion.

In Germany, Yamanouchi has begun co-promotion with Aventis Pharma for Harnal®. In the United Kingdom, a similar cross-promotional deal with GlaxoSmithKline plc is boosting the competitiveness of Harnal® in this key European market.

To extend the future life cycle of this product, Yamanouchi is also undertaking clinical development of Harnal® to gain an additional indication for lower urinary tract symptoms, in Japan, as well as developing a new TOCAS formulation in Europe, which applies OCAS® (orally controlled absorption system), a drug delivery system developed in-house. This allows for the drug to be absorbed at a constant rate throughout the digestive tract.

Fierce competition in markets for antihypertensive drugs and the effect of the NHI price reduction led to a decline in sales of calcium antagonists in Japan such as **Perdipine®**, which fell 7.8% to ¥9.4 billion. Similarly, sales of **Perdipine® LA** in Japan fell 9.0% to ¥6.1 billion. Sales of bulk Perdipine® and royalty income declined 35.3% to ¥1.1 billion. Sales of **Hypoca®** in Japan declined 4.3% to ¥4.4 billion.

Sales of **Dorner®**, for the treatment of chronic arterial occlusion, increased 2.5% to ¥12.1 billion in Japan.

Despite the NHI price revision, sales of the contrast medium **Optiray®** in Japan increased 1.0% to ¥10.6 billion. Meanwhile, sales of the oral penam-type antibiotic **Farom®** dropped 16.9% to ¥6.4 billion, partly as a result of a lower incidence of influenza during the winter.

And in the diabetes market, sales of the oral antihyperglycemic **Euglucon®** rose 1.5% to ¥6.9 billion, while sales of the rapid-onset insulin secretagogue **Starsis®** jumped 90.9% to ¥2.1 billion.

Sales of the blockbuster hypercholesterolemia treatment **Lipitor®** in its first year in Japan reached ¥19.5 billion. Lipitor® is the second most successful statin launched in Japan, after pravastatin, at today's prices and on the basis of a comparison of sales one year after going on sale. This outstanding success can be attributed to a number of factors: the superior characteristics of Lipitor®, including powerful cholesterol reduction efficacy twinned with a safety profile; the trust it has generated among medical professionals worldwide as the leading statin; its high rate in lowering cholesterol levels to normalization rate; extensive clinical data from its use in overseas markets; and the fruits of co-promotion with Pfizer Pharmaceutiacals Inc. The market share of Lipitor® for statins in Japan stood at approximately 7% on an NHI drug price basis during the fiscal year, and is expected to rise sharply.

Nutritional Products

Sales in this segment decreased 4.7%, primarily a reflection of intensifying competition in the United States and Japan and the increased penetration of low-priced products in these markets. Sales mainly represent nutritional and personal care products manufactured and sold by a Yamanouchi Consumer Inc. subsidiary, Shaklee Corporation in the United States and Shaklee Japan K.K. On a local currency basis, sales in the United States fell 5.9% compared with the prior fiscal year, while those in Japan decreased 1.8%. As a result of a change in accounting standards in the U.S., segment sales were ¥1.0 billion higher than would have been recorded under previous accounting standards at the operating income level.

Yamanouchi has undertaken several restructuring measures during the fiscal year to restore growth in its nutritional and personal care products business. After having invited

Mr. R. Schults to act as CEO in January 2000, Shaklee Corporation introduced, in October 2000, a new compensation plan for sales leaders, designed to increase business opportunity. In November 2000, Shaklee Corporation, which was engaged in the management and promotion of consumer products businesses in the U.S., was renamed Yamanouchi Consumer Inc. At the same time, the organization of the nutritional and personal care products businesses was reformed according to marketing channels. In the new structure, the nutritional and personal care products division (see Note below), which conducts multi-level marketing, and INOBYS Ltd., which markets through non-MLM channels, as well as Bear Creek Corporation, which deals with food and roses, are in parallel positions under the control of Yamanouchi Consumer Inc. INOBYS Ltd., which was created in April 2000 with the mission to cultivate new markets in non-MLM channels, is placing focus on healthcare products for healthy consumers and dieters and nutritional products for patients of specific therapeutic areas and for pets.

Yamanouchi is accelerating the implementation of restructuring measures with ongoing efforts to improve earnings, including the closure and merger of facilities and infrastructure, the outsourcing of various parts of the operation and personnel reductions.

Note:
In April 2001, this business division was incorporated as an independent corporation named Shaklee Corporation, the same as the former superintendent company.

Food and Roses

Sales in this segment are derived from the catalog, store and Internet sales of fruit and other gift items (under the Harry and David brand name) and roses (under the Jackson & Perkins brand name) by Bear Creek Corporation in the United States. Sales during the 2000 Christmas season, which account for most of the annual sales, failed to grow as briskly as we had anticipated because of the slowdown of the U.S. economy, falling stock prices and the protracted U.S. presidential election. However, this result was offset throughout the year by rocketing sales at retail stores and through online marketing channels, which Bear Creek has been eagerly and strategically promoting. As a result, segment sales rose 27.1% from the previous year. Excluding the effects of exchange rate fluctuations and the change in accounting standards, the growth in sales amounted to 9.6%. By sales channel, catalog sales represented 67%, store sales 18% and online sales 8% of total segment sales for the year. This translated into year-on-year increases of 5.8%, 22.7% and 26.5%, respectively.

During the fiscal year, Bear Creek Corporation put special emphasis on expanding non-catalog marketing channels—retail stores and Internet—with the aim of enlarging its customer base. The number of Harry & David retail stores, which Bear Creek Corporation operates, grew from 94 as of the end of March 2000 to 108 at the end of March 2001.

Other

This segment consists of real estate-related business, with commercial rental income representing the main source of revenues. Segment sales declined 0.2% to ¥6.1 billion.

Sales by Geographical Area

Years ended March 31, (billion ¥)

	2001	2000
Japan	**¥291.4**	¥276.7
Europe	**70.4**	72.5
America	**94.3**	82.9
Asia (excluding Japan)	**1.8**	1.6
Consolidated	**¥457.9**	¥433.7

Sales in Japan increased 5.3% compared with the previous fiscal year. Sales of Yamanouchi's two mainstay pharmaceuticals—Gaster®, an H_2 antagonist for the treatment of peptic ulcers and gastritis, and Harnal®, a treatment for the functional symptoms of benign prostatic hyperplasia (BPH)—increased. Growth was also generated by the launch in May 2000 of Lipitor®, a treatment for hypercholesterolemia.

In Europe, although sales of Harnal® (which is marketed locally under the brand name Omnic®) increased, this was offset by the negative effects of the stronger yen against the euro and lower sales of bulk Gaster® to, and royalty income from licensees by Yamanouchi Ireland Co., Ltd. following a patent expiry in the United States in October 2000. As a result, sales in Europe fell 2.9% from the previous fiscal year.

In the United States, sales rose by 13.8%. Sales at the Bear Creek food and roses business increased due to the expansion of retail store sales and Internet sales. Sales from the Shaklee nutritional products business decreased.

In addition, in accordance with a new accounting standard for shipping and handling costs that became effective from the current fiscal year in the United States, shipping and handling costs charged to customers, which had previously been credited to selling, general and administrative expenses, were included as part of sales. This change had the effect of increasing U.S. sales by ¥9.4 billion.

Exchange Rates

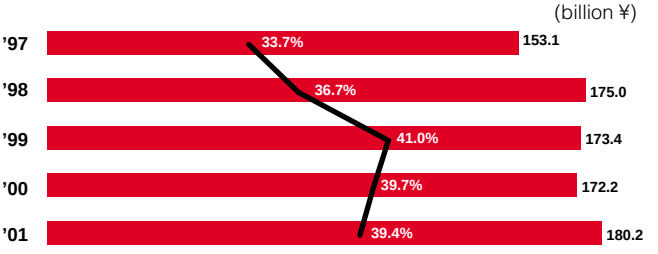
Years ended March 31,		(¥)
	2001	2000
Yen-dollar*	**¥110.58**	¥111.59
Yen-euro*	**99.82**	117.69

*Average rate

The Yamanouchi Group subsidiaries and divisions that trade principally in U.S. dollars are Yamanouchi Ireland Co., Ltd., Shaklee Corporation, a nutritional subsidiary of Yamanouchi Consumer Inc., and Bear Creek Corporation. The subsidiaries that trade principally in euros are Yamanouchi Europe B.V. (YEU) and Yamanouchi U.K. Limited.

Exchange rate fluctuations had a net negative effect on Yamanouchi's performance compared with the prior fiscal year, reducing net sales, operating income and net income by ¥11.7 billion, ¥3.6 billion and ¥1.4 billion, respectively. The effect of the slight appreciation of the yen against the U.S. dollar was to reduce net sales by ¥1.5 billion. The effect of the substantial appreciation of the yen against the euro was to reduce net sales by ¥9.8 billion.

Consolidated Overseas Sales and Ratio of Overseas Sales to Net Sales



Overseas Sales

Years ended March 31,		(billion ¥)
	2001	2000
America	**¥125.0**	¥113.5
Europe	**47.6**	51.6
Asia (except Japan)	**6.1**	5.5
Other	**1.5**	1.6
Consolidated	**¥180.2**	¥172.2
Percent of total sales	**39.4%**	39.7%

Overseas sales rose 4.7% compared with the prior fiscal year. Overseas sales include export sales by Yamanouchi and its domestic consolidated subsidiaries, as well as sales by foreign consolidated subsidiaries other than export sales to Japan.

In Europe, sales of Harnal® (Omnic®) by YEU and sales of bulk Harnal® to and royalty income from licensees all increased. However, due to the negative effect of the depreciation of the euro against the yen, overseas sales in Europe dropped 7.7%, on a local currency basis.

Growth in sales of bulk Harnal® (locally Flomax®) to and royalties from the U.S. licensee, as well as the expansion of the food and roses business, contributed to higher overseas sales in the United States. However, sales of bulk Gaster® and royalty revenues, following a U.S. patent expiry, as well as sales of nutritional products in the United States, declined. The net effect was an increase in sales in the U.S. of 10.1% compared with the prior fiscal year.

Overseas sales in Asia principally consisted of sales by the Taipei Branch of Yamanouchi Pharmaceutical Co., Ltd., sales by Shenyang Yamanouchi Pharmaceutical Co., Ltd. and exports to South Korea and Southeast Asia.

Cost of Sales and SG&A Expenses

Cost of Sales

The cost of sales amounted to ¥150.1 billion, while the cost of sales ratio increased 3.9 percentage points to 32.8%. This increase was mainly attributable to the effects of the NHI drug price reduction in Japan and changes in the pharmaceuticals sales composition at the parent company. The increase also reflected the change in accounting standards that affected the nutritional products and food and roses business segments in the United States.

Selling, General and Administrative (SG&A) Expenses

The ratio of SG&A expenses to net sales improved by 3.1 percentage points to 45.9%.

Total R&D expenses, which accounted for around 26.0% of SG&A expenses, declined 0.5% to ¥54.6 billion, or 11.9% of net sales. Due to a considerably heightened emphasis on drug discovery research, especially genomics-based research, and to steady progress in Yamanouchi's clinical development programs both in Japan and overseas, R&D expenses have risen in recent years. In the fiscal year under review, however, R&D expenses declined slightly as a result of a decrease in contract research costs.

Advertising and sales promotion expenses, which accounted for 25.0% of SG&A expenses, increased 0.9% to ¥52.6 billion. Advertising and sales promotion expenses are mainly accounted for by ethical pharmaceutical-related promotion costs and OTC related TV advertising costs.

Personnel expenses rose 3.5% to ¥57.7 billion, accounting for 27.5% of SG&A expenses. The total number of employees within Yamanouchi's consolidated operations rose by 159 to 9,113, principally as a result of increases in the number of pharmaceutical medical representatives employed by the parent company and by YEU.

Income and Expenses Before Income Taxes and Minority Interests

Operating Income (by Segment)

Operating income in each business segment was recorded as follows.

Operating Income

Years ended March 31,		(billion ¥)
	2001	2000
Pharmaceuticals	**¥87.4**	¥88.1
Nutritional products	**2.6**	2.8
Food and roses	**3.6**	4.7
Other	**3.2**	0.5
Eliminations	**1.0**	0
Total operating income	**¥97.8**	¥96.1

Operating income decreased by 0.7% in the pharmaceuticals business segment, mainly due to an increase in the cost of sales at the parent company. Operating income in the nutritional products segment declined 4.9% due to lower sales despite efforts to constrain selling, general and administrative expenses and to raise operational efficiency. In the food and roses business segment, although sales increased substantially, demand in the run-up to and during the critical Christmas season proved disappointing owing to such factors as the stock market stagnation and the protracted debate over the U.S. presidential election. Operating income in this business segment dropped 24.2%, reflecting sharply increased promotion fees spent ahead of the Christmas season and a higher level of inventories, which was a result of disappointing Christmas sales.

Other Income and Expenses

As a result of profits generated by the management of cash held by Yamanouchi Ireland Co., Ltd., and other factors, interest and dividend income increased by ¥2.4 billion to ¥8.0 billion.

In line with the introduction in Japan of new accounting standards for financial instruments, a loss on devaluation of investment securities of ¥2.7 billion was booked in the fiscal year under review.

An exchange gain resulted in an improvement of ¥3.1 billion to ¥1.9 billion, following an exchange loss in the prior fiscal year.

In the prior fiscal year, an additional provision for retirement benefits of ¥12.0 billion was recorded.

The merger of Roberts Pharmaceutical Corporation of the United States, a company in which Yamanouchi was a major shareholder, with Shire Pharmaceuticals Group plc, of the United Kingdom, generated a ¥11.1 billion gain on sales of investment securities resulting from the exchange of stock, in the prior fiscal year. During the fiscal year under review, the sale of all the Shire Pharmaceuticals Group stock acquired in the merger generated a further gain on sales of investment securities of ¥10.8 billion.

During the fiscal year under review, Yamanouchi amortized intangible assets in the amount of ¥7.7 billion. Within this figure, ¥6.1 billion represented the amortization of a lump sum payment for patent rights as part of a comprehensive R&D alliance that was concluded with G.D. Searle & Co. of the United States, (now Pharmacia Corporation), in December 1997.

Income Taxes and Net Income

Income taxes amounted to ¥64.1 billion, an increase of 90.0% compared with the prior fiscal year.

Current income taxes increased 5.6% to ¥47.2 billion due to improved results during the fiscal year under review.

In June 1998, Yamanouchi received a notice of tax deficiency based on Japanese transfer pricing tax regulations, from the Tokyo Regional Taxation Bureau relating to taxes (for the six-year period ended March 1997) arising from a license transaction for famotidine (sold in Japan under the brand name Gaster®) between the Company and subsidiary Yamanouchi Ireland, which manufactures bulk pharmaceuticals. Following the acceptance of the agreement in January 2001 resulting from competent authority negotiations between Japan and the Republic of Ireland covering this period and the subsequent three years, Yamanouchi recognized ¥36.7 billion in income taxes for prior periods. However, as this amount had already been recognized as suspense payments of income taxes on the balance sheet, there was only a marginal effect on cash flows.

In line with the introduction of new accounting standards for financial instruments, Yamanouchi recognized a devaluation of shares it owned in subsidiary Shaklee Japan, which was recorded as a loss on valuation of a subsidiary of ¥30.2 billion in the parent company's income statement. As a result of the application of tax-effect accounting, including the effects of ¥12.6 billion of this devaluation loss, deferred income taxes were ¥19.8 billion.

The effective tax rates reflected in the consolidated statements of income for the fiscal years ended March 31, 2001 and 2000 differ from the statutory tax rates for the following reasons:

Years ended March 31,	**2001**	2000
Statutory tax rates	**41.7%**	41.7%
Effect of:		
Devaluation loss on investment in a consolidated subsidiary	**(12.0)**	–
Different tax rates applied to income of foreign consolidated subsidiaries	**(5.7)**	(10.6)
Income taxes for prior periods	**35.0**	–
Expenses not deductible for income tax purposes	**2.9**	2.9
Amortization of excess of cost over net assets acquired	**–**	1.1
Other, net	**(0.8)**	1.8
Effective tax rates	**61.1%**	36.9%

Net Income

Years ended March 31,	**2001**	2000 (billion ¥)
Net income	**40.3**	57.2
Net margin	**8.8%**	13.2%
Net income per share	**¥111.80**	¥162.35

Capital Expenditures and Depreciation

Capital Expenditures and Depreciation

Years ended March 31,	**2001**	2000 (billion ¥)
Capital expenditures	**36.8**	29.8
Depreciation	**30.8**	23.5

Capital expenditures increased from ¥29.8 billion to ¥36.8 billion. Of this total, capital investments in tangible fixed assets increased from ¥18.1 billion to ¥27.3 billion. The principal amounts related to tangible fixed assets by business segment were as follows. In the pharmaceuticals business segment, capital expenditures for higher production capacity totaled approximately ¥11.0 billion, while R&D-related capital expenditures amounted to approximately ¥4.0 billion. Total capital expenditures in the nutritional products business segment amounted to approximately ¥2.3 billion. In the food and roses business segment, capital expenditures totaled approximately ¥7.5 billion, most of which was spent on the expansion of the retail store business.

Depreciation relating to tangible fixed assets amounted to ¥15.8 billion, while amortization relating to intangible fixed assets totaled ¥15.0 billion. These figures constitute an increase, the main reason for which was the amortization of a lump sum for the acquisition of patent rights related to the R&D alliance with G.D. Searle & Co., as discussed previously.

Cash Flows

Operating cash flows are Yamanouchi's primary source of funding. During the fiscal year under review, although the increase in sales boosted cash provided by operating activities, this was more than offset by an increase in income taxes paid as a result of an increase in taxable income recorded in the previous fiscal year. As a result, cash provided by operating activities declined by ¥8.1 billion.

Following the agreement of the terms of the transfer pricing tax issue between Japan and the Republic of Ireland, income taxes for prior periods in the amount of ¥36.7 billion were recognized in the consolidated statements of income. As ¥35.9 billion of this total amount had already been paid in 1998 (being recorded in the balance sheet for that fiscal year and after as suspense payments of income taxes), the net effect on cash flows during the fiscal year under review was marginal.

Net cash provided by investing activities totaled ¥44.6 billion, an increase of ¥122.6 billion compared with the previous fiscal year, partly as a result of proceeds from sales of investment securities such as stock in Shire Pharmaceuticals.

As a result of payments of long-term debt totaling ¥1.3 billion and a cash outflow of ¥9.0 billion related to payments of cash dividends, net cash used in financing activities was ¥10.4 billion.

As a result of these factors, cash and cash equivalents increased by ¥109.6 billion to ¥292.7 billion.

Scope of Consolidation

Excluding the parent company, the Yamanouchi Group contains 62 consolidated subsidiaries out of a total of 80 subsidiaries. During the fiscal year under review, two newly established subsidiaries—Yamanouchi America, Inc. (a marketing and sales company) and Yamanouchi Venture Capital LLC (a venture capital concern managing investments in early-stage biotechnology companies)—were included within the scope of consolidation.

The principal companies in each business segment are listed below.

Pharmaceuticals:
Yamanouchi Pharmaceutical Co., Ltd., Tohoku Yamanouchi Pharmaceutical Co., Ltd., Yamanouchi Ireland Co., Ltd., Yamanouchi Europe B.V., Yamanouchi U.K. Limited, Yamanouchi U.S.A. Inc., Yamanouchi Pharma Technologies, Inc., Yamanouchi America, Inc., Yamanouchi Venture Capital LLC, Shenyang Yamanouchi Pharmaceutical Co., Ltd.
Number of consolidated companies: 33

Nutritional Products:
Yamanouchi Consumer Inc., Shaklee Japan K.K.
Number of consolidated companies: 18

Food and Roses:
Bear Creek Corporation
Number of consolidated companies: 10

Other:
Number of consolidated companies: 2

Note:
For details of changes in accounting policies and contingent liabilities, please refer to the Notes to Consolidated Financial Statements.

Progress in U.S. Pharmaceutical Business Entry

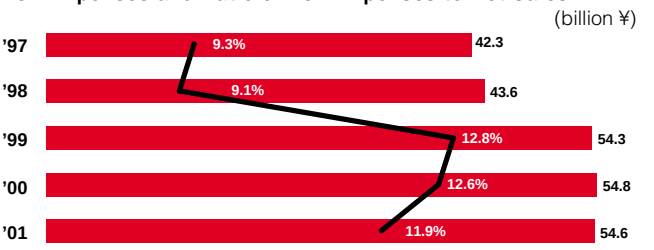
Conducting independent sales in the growing U.S. pharmaceuticals market, the world's largest, is an important corporate goal for Yamanouchi in the development of its overseas operations. To give impetus to this drive, the Company in June 2000 established Yamanouchi America, Inc. The new company aims to put in place a sales structure as soon as possible to stay in step with progress in the clinical development of new drugs in the U.S. Yamanouchi U.S.A. Inc., which has been carrying out clinical drug development, and Yamanouchi Pharma Technologies, Inc., which is responsible for the production and research of drug delivery systems, will combine with Yamanouchi America to form an integrated framework for Yamanouchi's pharmaceuticals business in the United States.

RESEARCH & DEVELOPMENT

Pipeline Status

Yamanouchi has two high-potential drugs at an advanced stage of clinical development that are positioned to follow Lipitor®. One is incadronate (YM175), a third-generation oral bisphosphonate indicated for the treatment of osteoporosis.

R&D Expenses and Ratio of R&D Expenses to Net Sales



The other is interferon alfacon-1 (YM643), a treatment for hepatitis C infections. Both of these drugs have been filed in Japan. Another three compounds are in Phase III clinical trials in Japan: YM484, a BMP-2 (bone morphogenetic protein that promotes bone formation); celecoxib (YM177, discovered by Pharmacia Corporation), an oral nonsteroidal anti-inflammatory drug (NSAID) for the treatment of rheumatoid arthritis and osteoarthritis; and minodronate (YM529), for the treatment of multiple myeloma and breast and lung cancer-associated bone metastasis. YM454, an ultrasound contrast medium, also entered Phase III development during the fiscal year under review (It was filed in July 2001).

With celecoxib, Yamanouchi and Pharmacia Corporation discussed with Japanese drug regulatory authorities the possibility of filing for an NDA utilizing foreign clinical data. It has become clear from the discussions, however, that the comparison of Japanese and U.S. dose response data may not be appropriate because each study was conducted under a different design, with a different comparator drug. Since overseas comparator data may not fully support the clinical positioning of celecoxib in Japan, Yamanouchi and Pharmacia have decided to conduct Phase III studies for NDA filing.

In March 2001, Yamanouchi and Pharmacia agreed to change the licensing agreement in Japan for celecoxib (YM177). Instead of the original co-marketing (where two companies market the drug under separate brand names), the agreement now allows for co-promotion, where celecoxib is marketed through a single distribution channel under a single brand name and will be jointly promoted by the two companies once it gains Japanese regulatory approval. Yamanouchi will exclusively distribute celecoxib. The licensing agreement was amended to enable both companies to

more effectively compete in the anti-inflammatory drug market. This promises to increase the potential size of the market for celecoxib in Japan and generate valuable synergies in promotional activities.

In Europe, Yamanouchi has nine compounds under clinical development. An application for YM484 for the treatment of open long bone fractures has already been filed with the European Medicines Evaluation Agency (EMEA).

In the United States, Yamanouchi has six clinical development compounds, including YM905, a treatment for urinary frequency, urgency, and incontinence; conivaptan (YM087), a treatment for hyponatremia and heart failure; YM992, an oral antidepressant; YM337, a treatment for acute ischemic stroke and high-risk PTCA (percutaneous transluminal coronary angioplasty); and YM872, a treatment for acute ischemic stroke. In addition, YM598, a treatment for advanced prostate cancer, entered Phase II trials during the fiscal year.

During the fiscal year under review, YM905 successfully completed Phase II trials in the United States and Europe. Phase III trials are now under way. YM905 is expected to offer great sales potential.

Yamanouchi also has a total of 16 compounds in various stages of Phase I or preclinical development that have potential to become treatments in the urological, cardiovascular, central nervous system (CNS), inflammation and locomotorium fields.

Yamanouchi has been pursuing joint R&D cooperation with Merck KGaA, of Germany. With YM028, one of the compounds discovered through this work, Phase II clinical trials failed to provide a satisfactory pharmacodynamic profile for the drug for the indication of unstable angina. Although the clinical development of YM028 has now ceased in Europe, Yamanouchi is proceeding with Phase II trials in Japan for a different indication, thrombosis. With YM103, a treatment for acute myocardial infarction, clinical development was discontinued because Phase II trials failed to show sufficient efficacy. The R&D cooperation between Merck KGaA and Yamanouchi still continues in several preclinical projects.

Yamanouchi began the joint clinical development of conivaptan (YM087) for the treatment of hyponatremia and heart failure, with Warner-Lambert Company (which later merged with Pfizer, Inc. in June 2000) in the United States and Europe in 1998. Following a pipeline portfolio reappraisal by Pfizer after the merger, the joint development agreement was ended and Yamanouchi decided to carry on the development of conivaptan using its own resources. Since there are a limited number of specialists and medical institutions that need to be targeted in the case of hyponatremia, the scale of clinical development work is sufficiently small to make this feasible. Once developed, conivaptan should also be a good fit for Yamanouchi's own sales operation in the United States.

Under a comprehensive R&D alliance, with Pharmacia Corporation of the U.S., which was formed in December 1997, Yamanouchi has exercised its right to develop and market drug candidates in Japan, including the second-generation Cox-II inhibitor valdecoxib and the injectable Cox-II inhibitor parecoxib.

Following the establishment in December 1999 of Yamanouchi Pharma Technologies, Inc., Yamanouchi is also making strides in the commercialization of various drug delivery technologies. These include WOWTAB®, an oral disintegrating tablet technology, which can be taken without water, and OCAS®, a technology that allows an orally administered drug to be absorbed at a constant rate through the digestive tract, including the colon. OCAS® technology has already been applied to the leading drug Harnal®, and the clinical development of this new formulation is proceeding in Europe.

Yamanouchi Venture Capital LLC was established in November 2000 and commenced operations at the start of 2001. This subsidiary aims to bolster Yamanouchi's R&D programs through equity investments in bioventures. By supporting the growth of promising bioventures, Yamanouchi Venture Capital hopes to search for projects that can strengthen Yamanouchi's R&D pipeline or aid in the introduction of valuable new technologies. For its first two years, the venture capital organization has an investment fund of approximately US$30 million at its disposal. It is already engaged in negotiations with a number of prospective target bioventure firms.

Genomics-Based Drug Discovery

Yamanouchi places great importance on genomics-based drug discovery in its R&D programs. To place added emphasis on the field, the Company has established a dedicated research organization called Genomics Research. Around 30% of Yamanouchi's entire drug discovery efforts are now based on genomics information, and this proportion is expected to increase in the near future. With the entire human genome having now been sequenced, the Company realizes that this is a critical juncture in the application of genomics information to R&D efforts to add valuable new compounds to its drug pipeline.

Yamanouchi is aggressively striking up strategic R&D and technological alliances with a number of biotechnology firms and universities to deepen the company's expertise in new areas of science such as bioinformatics (the application of

information technology to drug discovery processes), proteomics (exhaustive searches for protein discovery drug targets), and single nucleotide polymorphisms (SNPs: genetic markers that offer the possibility of developing medicines that are tailored to individual patients). In just one example of such collaborative efforts, Yamanouchi has teamed up with GlaxoSmithKline K.K. and Hitachi, Ltd., a pioneer in the field of bioinformatics.

Celera Genomics Agreement Grants Extensive Database Access

In June 2001, Yamanouchi signed an agreement with Celera Genomics that grants the Company access for five years to all of Celera's mouse and human genome databases, which contain extremely precise information on the complete genetic make-up of humans and mice, as well as associated SNPs. This will allow Yamanouchi to undertake comparative genomic analyses of human disease. The agreement promises to help the Company accelerate its search for specific drug targets for diseases with a genetic component, and is expected to provide a substantial boost to Yamanouchi's genomics-based drug discovery research program.

Alliance with Hitachi for Genomic Drug Discovery Datamining Technology

Recognizing that it needs to ally with leading high-tech companies to gain high-quality genomics-related analytical information, Yamanouchi has joined forces with Hitachi to use the latter's technology to add information on gene function to its internal genomics database. This technology will also help Yamanouchi to study the relationships between gene function and disease. These techniques will enable Yamanouchi to quickly narrow the search for human genes that could be used as drug targets. This promises to accelerate the pace of research through dramatic gains in efficiency.

Joint Research Agreement with Taisho Pharmaceutical

In August 2001, Taisho Pharmaceutical Co., Ltd. and Yamanouchi signed an agreement that encompasses joint research in the screening of chemical compounds, synthesis of compounds, and biological evaluation, the ultimate objective of which is new drug discovery.

Under the agreement, the two companies will exchange drug discovery ideas and utilize the compound libraries of both companies to increase the chances of the creation of new compounds and speed up drug discovery.

Initial collaborative efforts between the two companies will focus on the discovery of anti-diabetic agents. However, either company may propose new research targets of collaboration, with the commencement of research contingent upon the approval of the proposal by both companies.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report 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 products effectively, interruptions in production, infringements of the company's intellectual property rights and the adverse outcome of material litigation.

CONSOLIDATED STATEMENTS OF INCOME

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2001	2000	1999	**2001**
Net sales	**¥457,913**	¥433,653	¥423,217	**$3,722,870**
Cost of sales	**150,107**	125,254	127,513	**1,220,382**
Gross profit	**307,806**	308,399	295,704	**2,502,488**
Selling, general and administrative expenses (Note 11)	**209,962**	212,330	206,259	**1,707,008**
Operating income	**97,844**	96,069	89,445	**795,480**
Other income (expenses):				
Interest and dividend income	**7,973**	5,557	6,966	**64,821**
Interest expense	**(623)**	(592)	(2,694)	**(5,065)**
Loss on devaluation of securities	**(2,732)**	(6,565)	(2,075)	**(22,211)**
Exchange gain (loss)	**1,918**	(1,167)	(2,903)	**15,593**
Equity in loss of unconsolidated subsidiaries and affiliates	**(260)**	(1,739)	(226)	**(2,114)**
Additional provision for retirement benefits (Note 4)	**–**	(12,014)	–	**–**
Gain on sales of investment securities	**10,806**	11,096	264	**87,854**
Amortization of intangible assets	**(7,681)**	–	–	**(62,447)**
Other, net	**(2,482)**	705	(1,938)	**(20,179)**
	6,919	(4,719)	(2,606)	**56,252**
Income before income taxes and minority interests	**104,763**	91,350	86,839	**851,732**
Income taxes (Note 9)**:**				
Current	**47,218**	44,707	37,294	**383,886**
Income taxes for prior periods	**36,673**	–	–	**298,155**
Deferred	**(19,841)**	(10,996)	1,236	**(161,309)**
	64,050	33,711	38,530	**520,732**
Income before minority interests	**40,713**	57,639	48,309	**331,000**
Minority interests in earnings of consolidated subsidiaries	**(372)**	(464)	(307)	**(3,024)**
Net income (Note 14)	**¥ 40,341**	¥ 57,175	¥ 48,002	**$ 327,976**

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2001 and 2000

Assets	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Current assets:			
Cash and cash equivalents	**¥292,660**	¥183,035	**$2,379,350**
Short-term investments (Notes 2 (g) and 16)	**40,852**	110,515	**332,130**
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	**263**	225	**2,138**
Trade	**124,900**	103,529	**1,015,447**
	125,163	103,754	**1,017,585**
Allowance for doubtful receivables	**(1,219)**	(1,966)	**(9,910)**
	123,944	101,788	**1,007,675**
Inventories (Note 5)	**47,030**	40,818	**382,358**
Deferred tax assets (Note 9)	**16,266**	14,825	**132,244**
Other current assets	**9,160**	9,138	**74,471**
Total current assets	**529,912**	460,119	**4,308,228**
Property, plant and equipment, at cost:			
Land	**32,596**	31,914	**265,008**
Buildings	**149,133**	148,732	**1,212,463**
Machinery and equipment	**129,902**	126,612	**1,056,114**
Other	**11,891**	13,437	**96,675**
Construction in progress	**17,982**	10,699	**146,195**
Accumulated depreciation	**(153,263)**	(149,053)	**(1,246,040)**
Property, plant and equipment, net	**188,241**	182,341	**1,530,415**
Investments and other assets:			
Investment securities (Notes 2 (g) and 16)	**77,799**	54,040	**632,512**
Investments in and advances to unconsolidated subsidiaries and affiliates	**4,091**	4,000	**33,260**
Intangible assets	**38,889**	39,650	**316,171**
Prepaid expenses	**2,526**	5,461	**20,537**
Suspense payments of income taxes (Note 9)	**–**	35,895	**–**
Deferred tax assets (Note 9)	**31,141**	22,015	**253,179**
Other assets	**23,681**	25,765	**192,527**
Total investments and other assets	**178,127**	186,826	**1,448,186**
Total assets	**¥896,280**	¥829,286	**$7,286,829**

Liabilities and shareholders' equity	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2001
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 900**	¥ 1,930	**$ 7,317**
Current portion of long-term debt (Note 7)	**674**	559	**5,480**
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	**1,063**	812	**8,642**
Trade	**64,689**	51,627	**525,927**
Construction	**2,430**	3,309	**19,756**
Accrued expenses	**27,383**	24,998	**222,626**
Accrued income taxes (Note 9)	**17,952**	17,144	**145,951**
Deferred tax liabilities (Note 9)	**4,262**	3,740	**34,650**
Other current liabilities	**8,992**	11,063	**73,106**
Total current liabilities	**128,345**	115,182	**1,043,455**
Long-term liabilities:			
Long-term debt (Note 7)	**24,139**	26,208	**196,252**
Accrued retirement benefits for employees (Notes 2 (k), 4 and 10)	**41,427**	41,386	**336,805**
Accrued retirement benefits for directors	**1,480**	1,422	**12,032**
Deferred tax liabilities (Note 9)	**3,643**	9,796	**29,618**
Other long-term liabilities	**16,339**	10,075	**132,838**
Total long-term liabilities	**87,028**	88,887	**707,545**
Minority interests	**3,194**	4,996	**25,967**
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized—800,000,000 shares			
Issued—361,150,865 shares in 2001 and 360,245,961 shares in 2000	**99,692**	98,796	**810,504**
Additional paid-in capital (Note 8)	**113,616**	112,720	**923,707**
Retained earnings (Notes 8 and 19)	**469,800**	438,571	**3,819,512**
Unrealized holding gain on securities (Note 2 (g))	**12,207**	–	**99,244**
Translation adjustments	**(17,594)**	(29,736)	**(143,040)**
Total	**677,721**	620,351	**5,509,927**
Treasury stock, at cost:			
2,027 shares in 2001 and 23,386 shares in 2000	**(8)**	(130)	**(65)**
Shareholders' equity, net	**677,713**	620,221	**5,509,862**
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	**¥896,280**	¥829,286	**$7,286,829**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2001	2000	1999	**2001**
Common stock				
Balance at beginning of year (2001 — 360,245,961 shares; 2000 — 344,467,758 shares; 1999 — 338,605,140 shares)	**¥ 98,796**	¥ 80,072	¥ 73,740	**$ 803,220**
Add:				
Shares issued upon conversion of convertible bonds (2001 — 904,904 shares; 2000 — 15,778,203 shares; 1999 — 5,862,618 shares)	**896**	18,724	6,332	**7,284**
Balance at end of year (2001 — 361,150,865 shares; 2000 — 360,245,961 shares; 1999 — 344,467,758 shares)	**¥ 99,692**	¥ 98,796	¥ 80,072	**$ 810,504**
Additional paid-in capital (Note 8)				
Balance at beginning of year	**¥112,720**	¥ 93,996	¥ 87,665	**$ 916,423**
Add:				
Conversion of convertible bonds	**896**	18,724	6,331	**7,284**
Balance at end of year	**¥113,616**	¥112,720	¥ 93,996	**$ 923,707**
Retained earnings (Notes 8 and 19)				
Balance at beginning of year	**¥438,571**	¥389,288	¥350,046	**$3,565,618**
Adjustments to retained earnings at beginning of year for inclusion in or exclusion from consolidation or the equity method of accounting	**–**	238	(148)	**–**
Net income	**40,341**	57,175	48,002	**327,976**
Cash dividends paid	**(9,011)**	(7,983)	(8,469)	**(73,260)**
Bonuses to directors and corporate auditors	**(101)**	(147)	(143)	**(822)**
Balance at end of year	**¥469,800**	¥438,571	¥389,288	**$3,819,512**
Unrealized holding gain on securities (Note 2 (g))				
Balance at beginning of year	**¥ –**	¥ –	¥ –	**$ –**
Net changes during the year	**12,207**	–	–	**99,244**
Balance at end of year	**¥ 12,207**	¥ –	¥ –	**$ 99,244**
Translation adjustments				
Balance at beginning of year	**¥ (29,736)**	¥ (13,331)	¥ (3,906)	**$ (241,756)**
Adjustments arising from translation of foreign currency financial statements	**12,142**	(16,405)	(9,425)	**(98,716)**
Balance at end of year	**¥ (17,594)**	¥ (29,736)	¥ (13,331)	**$ (143,040)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2001	2000	1999	**2001**
Operating activities				
Income before income taxes and minority interests	**¥104,763**	¥ 91,350	¥ 86,839	**$ 851,732**
Depreciation and amortization	**31,234**	25,969	30,243	**253,935**
Provision for retirement benefits, net of payments	**(609)**	8,964	1,134	**(4,951)**
Gain on sales of investment securities (Note 15)	**(10,806)**	(11,096)	(264)	**(87,854)**
Loss on devaluation of securities	**2,732**	6,565	2,075	**22,211**
Equity in loss of unconsolidated subsidiaries and affiliates	**260**	1,739	226	**2,114**
Interest expense	**623**	592	2,694	**5,065**
Notes and accounts receivable	**(10,728)**	(6,427)	13,920	**(87,220)**
Inventories	**(4,346)**	(5,541)	696	**(35,333)**
Other current assets	**(8,071)**	(53)	(466)	**(65,618)**
Suspense payments of income taxes	**–**	–	(35,895)	**–**
Notes and accounts payable	**8,738**	967	(14,979)	**71,041**
Accrued expenses	**251**	(1,859)	2,958	**2,041**
Other current liabilities	**7,584**	3,139	(1,392)	**61,659**
Other	**3,708**	5,813	(1,609)	**30,146**
Subtotal	**125,333**	120,122	86,180	**1,018,968**
Interest paid	**(528)**	(1,227)	(1,875)	**(4,293)**
Income taxes paid	**(53,528)**	(39,496)	(43,338)	**(435,187)**
Net cash provided by operating activities	**71,277**	79,399	40,967	**579,488**
Investing activities				
Additions to property, plant and equipment	**(24,439)**	(23,989)	(29,139)	**(198,691)**
Proceeds from sales of property, plant and equipment	**10,940**	1,875	2,352	**88,943**
Decrease (increase) in investments in and advances to unconsolidated subsidiaries and affiliates	**179**	(18)	3,297	**1,455**
Decrease (increase) in short-term investments	**36,741**	(44,337)	100,350	**298,707**
Decrease in investment securities	**32,866**	1,280	6,973	**267,203**
Increase in other assets	**(9,486)**	(11,706)	(18,750)	**(77,122)**
Other	**(2,247)**	(1,117)	(506)	**(18,267)**
Net cash provided by (used in) investing activities	**44,554**	(78,012)	64,577	**362,228**
Financing activities				
(Decrease) increase in short-term bank loans	**(1,030)**	1,055	388	**(8,374)**
Proceeds from issuance of long-term debt	**1,023**	1,744	100	**8,317**
Repayment of long-term debt	**(1,307)**	(5,342)	(39,019)	**(10,626)**
Cash dividends	**(9,011)**	(7,983)	(8,469)	**(73,260)**
Other	**(51)**	(267)	(217)	**(415)**
Net cash used in financing activities	**(10,376)**	(10,793)	(47,217)	**(84,358)**
Effects of exchange rate changes on cash and cash equivalents	**4,170**	(10,754)	(1,266)	**33,902**
Increase (decrease) in cash and cash equivalents	**109,625**	(20,160)	57,061	**891,260**
Cash and cash equivalents at beginning of year	**183,035**	203,195	146,134	**1,488,090**
Cash and cash equivalents at end of year	**¥292,660**	¥183,035	¥203,195	**$2,379,350**

See accompanying notes to consolidated financial statements.

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2001

1. Basis of Presentation

Yamanouchi Pharmaceutical Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied 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 and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

Until the year ended March 31, 1999, the consolidated financial statements included the accounts of the Company and its significant subsidiaries (owned more than 50%), and investments in certain unconsolidated subsidiaries and significant affiliates (owned 20% to 50%) were accounted for by the equity method.

In accordance with the revised accounting standard for consolidation which became effective the year ended March 31, 2000, the accompanying consolidated financial statements for the years ended March 31, 2001 and 2000 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 have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation. The adoption of this revised standard had no impact on the scope of consolidation of the Company for the year ended March 31, 2000.

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

Certain foreign subsidiaries are consolidated on the basis of fiscal periods ending December 31, January 31 or the end of February, which differ from that of the Company; however, the effect of the difference in fiscal periods is immaterial.

The excess of cost over underlying net assets at fair value at the date of acquisition is amortized over a period of 5 years on a straight-line basis except that when the excess is immaterial, it is fully charged to income in the year of acquisition. Such amortization is included in selling, general and administrative expenses.

(b) Foreign currency translation

Revenue and expense accounts of the foreign consolidated subsidiaries are translated using the average rate during the year (the exchange rates in effect at the balance sheet date until the year ended March 31, 1999) 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 and minority interests in the accompanying consolidated financial statements.

A revised accounting standard for foreign currency translation became effective April 1, 2000. The effect of the adoption of this revised standard on the consolidated financial statements for the year ended March 31, 2001 was immaterial.

(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 semifinished goods, and raw materials and supplies are stated principally at cost by the first-in, first-out method and the average method, respectively. However, inventories of the foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.

(e) Depreciation and amortization

Depreciation of property, plant and equipment is calculated principally by the declining-balance method at rates based on the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are summarized as follows:

Buildings	2 to 60 years
Machinery and equipment	2 to 20 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

Until the year ended March 31, 2000, marketable equity and debt securities were stated principally at the lower of cost or market, cost being determined by the moving average method. Securities other than marketable equity and debt securities are stated at cost by the moving average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories; trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, directly included in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is determined by the moving average method.

The effect of the adoption of the new standard for financial instruments was to decrease income before income taxes by ¥3,100 million ($25,203 thousand) for the year ended March 31, 2001.

As of April 1, 2000, the Company and consolidated subsidiaries assessed their intent to hold their investments in securities and classified their investments as "held-to maturity securities" or "other securities" and accounted for those securities in accordance with the new standard referred to above. As a result, marketable securities of ¥23,084 million ($187,675 thousand), which had been included in short-term investments, were reclassified to investment securities as of April 1, 2000.

(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.

A new accounting standard for research and development expenses became effective the year ended March 31, 2000. However, the adoption of this new standard had no effect on the consolidated statement of income for the year ended March 31, 2000.

(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

Until the year ended March 31, 2000, accrued retirement benefits for employees were stated at the present value of the estimated retirement benefits to be paid upon future termination of the Company's employees' services, less the balance of the plan assets at fair value. See Note 4.

A new accounting standard for employees' retirement benefits became effective April 1, 2000. In accordance with the new standard, accrued retirement benefits for employees' at March 31, 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at March 31, 2001, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition of ¥13 million ($106 thousand) was fully credited to income for the year ended March 31, 2001. Actuarial gain and loss are being amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees (12 years through 17 years). Certain foreign consolidated subsidiaries have adopted the corridor approach for the amortization of actuarial gain or loss. Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of service of the employees (11 years through 15 years).

The effect of the adoption of the new standard for employees' retirement benefits on the consolidated financial statements for the year ended March 31, 2001 was immaterial.

In addition, directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement benefits plans. The provision for retirement benefits for these officers has been made at an estimated amount.

(l) Derivative financial instruments

The Company has entered into various derivative financial instruments in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. In accordance with the new accounting standard for financial instruments which became effective April 1, 2000, derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(m) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 19.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥123=U.S.$1.00, the approximate rate of exchange on March 31, 2001. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Accounting Change

Effective April 1, 1999, the Company changed its method of accounting for retirement benefits to recognizing the liability for employees' retirement benefits at the present value of the estimated retirement benefits to be paid upon the future termination of its employees' services, less the balance of the plan assets at fair value. Up to the year ended March 31, 1999, the liability was stated at the amount which would be required to be paid if all eligible employees terminated their employment at the balance sheet date, less the balance of the funds in the pension plan. This change was made in order to reflect the liability and expenses related to employees' retirement benefits more accurately in the consolidated financial statements and to establish a solid financial position, taking into account the future increase in the retirement benefits resulting from the increase in the compensation level and the return on the pension assets and considering the increased materiality of retirement benefit obligation due to the lower interest rates. The effect of this change was to increase operating income by ¥573 million and to decrease income before income taxes and minority interests by ¥12,587 million for the year ended March 31, 2000.

5. Inventories

Inventories at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Merchandise	**¥14,742**	¥ 6,112	**$119,854**
Finished goods	**9,005**	16,313	**73,211**
Work in process and semifinished goods	**10,509**	12,026	**85,439**
Raw materials and supplies	**12,774**	6,367	**103,854**
	¥47,030	¥40,818	**$382,358**

6. Short-Term Bank Loans

Short-term bank loans consisted mainly of unsecured loans at interest rates ranging from 1.00% to 1.375% and from 0.660% to 1.375% per annum at March 31, 2001 and 2000, respectively.

7. Long-Term Debt

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Yamanouchi Pharmaceutical Co., Ltd.:			
1.14% unsecured loans from an insurance company, payable in yen, due through 2004	**¥ 62**	¥ 100	**$ 504**
2.75% unsecured convertible bonds, payable in U.S. dollars, due 2001	**–**	1	**–**
1.50% unsecured convertible bonds, payable in yen, due 2003	**14,921**	14,921	**121,309**
1.25% unsecured convertible bonds, payable in yen, due 2014	**6,600**	8,390	**53,659**
	21,583	23,412	**175,472**
Consolidated subsidiaries:			
Unsecured loans from banks and others, at rates from 1.375% to 7.38%, due through 2017	**3,230**	3,355	**26,260**
	24,813	26,767	**201,732**
Less current portion	**(674)**	(559)	**(5,480)**
	¥24,139	¥26,208	**$196,252**

The conversion prices and periods of the convertible bonds are summarized as follows:

	Conversion price per share at March 31, 2001	Period (up to and including)
1.5% convertible bonds due 2003	¥3,620.60	December 30, 2002
1.25% convertible bonds due 2014	1,979.00	March 24, 2014

At March 31, 2001, if all the outstanding convertible bonds had been converted at the then current conversion prices, 7,456 thousand new shares would have been issuable.

Under the indentures and trust deeds of the convertible bonds, each 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, 2001 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥ 674	$ 5,480
2003	15,559	126,496
2004	1,076	8,748
2005	470	3,821
2006	44	358
2007 and thereafter	6,990	56,829
	¥24,813	$201,732

8. Additional Paid-in Capital and Retained Earnings

In accordance with the Commercial Code of Japan, the Company has provided a legal reserve, which is included in retained earnings. This reserve amounted to ¥9,876 million ($80,293 thousand) and ¥8,965 million as of March 31, 2001 and 2000, respectively, as appropriations of retained earnings. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

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 42% for 2001 and 2000, and 47% for 1999. 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, 2001, 2000 and 1999 differ from the statutory tax rates for the following reasons:

	2001	2000	1999
Statutory tax rates	**41.7%**	41.7%	47.4%
Effect of:			
Devaluation loss on investment in a consolidated subsidiary	**(12.0)**	–	–
Different tax rates applied to income of foreign consolidated subsidiaries	**(5.7)**	(10.6)	(5.2)
Income taxes for prior periods	**35.0**	–	–
Expenses not deductible for income tax purposes	**2.9**	2.9	2.8
Amortization of excess of cost over net assets acquired	**–**	1.1	–
Net effect of tax rate changes on deferred taxes	**–**	–	3.6
Other, net	**(0.8)**	1.8	(4.2)
Effective tax rates	**61.1%**	36.9%	44.4%

The significant components of the deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Devaluation loss on investment in a consolidated subsidiary	**¥14,279**	¥ –	**$116,089**
Accrued retirement benefits	**12,479**	13,043	**101,455**
Depreciation and amortization	**10,176**	8,392	**82,732**
Accrued expenses	**6,809**	6,362	**55,358**
Inventories	**4,901**	2,993	**39,846**
Accrued enterprise and other taxes	**3,367**	3,072	**27,374**
Other	**12,925**	8,191	**105,081**
Gross deferred tax assets	**64,936**	42,053	**527,935**
Valuation allowance	**(2,420)**	(1,338)	**(19,675)**
Total deferred tax assets	**62,516**	40,715	**508,260**
Deferred tax liabilities:			
Unrealized holding gain on securities	**8,668**	–	**70,472**
Gain on sales of investment securities	**–**	6,634	**–**
Depreciation and amortization	**5,972**	3,730	**48,553**
Deferred income	**4,407**	2,760	**35,829**
Inventories	**1,818**	–	**14,780**
Prepaid expenses	**–**	1,221	**–**
Accrued pension costs	**982**	1,003	**7,983**
Other	**1,167**	2,063	**9,488**
Total deferred tax liabilities	**23,014**	17,411	**187,105**
Net deferred tax assets	**¥39,502**	¥23,304	**$321,155**

New legislation was enacted in 1999 which changed the aggregate statutory tax rate from approximately 47% to 42% effective the fiscal year beginning after March 31, 1999. The net effect of this tax rate change on deferred tax assets and liabilities was to increase income tax expense by ¥3,130 million for the year ended March 31, 1999.

On June 29, 1998, the Company received a tax deficiency notice from the Tokyo Regional Taxation Bureau ("TRTB") adjusting its taxable income upwards by ¥54,158 million in the aggregate for the six-year period ended March 31, 1997. This adjustment was made because TRTB concluded that royalty received based on a license agreement with Yamanouchi Ireland Co., Ltd. (a subsidiary, "YICL") for the drug Famotidine had been understated as compared with that calculated based on prices derived from arm's-length transactions. The Company paid additional income taxes of ¥35,895 million and accounted for this amount as suspense payments in the accompanying consolidated balance sheet at March 31, 2000. The Company filed an appeal with the TRTB against this deficiency assessment and requested competent authority negotiations on this issue between the governments of Japan and the Republic of Ireland. The Company also filed an advance price agreement with TRTB and requested competent authority negotiations between the governments of Japan and Ireland with respect to the royalty paid by YICL for the years ended March 31, 2000, 1999 and 1998.

During the year ended March 31, 2001, the Company accepted a settlement proposed by the governments of Japan and the Republic of Ireland and recognized income taxes for prior periods of ¥36,673 million ($298,155 thousand). In this connection the Company charged suspense payments of income taxes of ¥35,895 million ($291,829 thousand) to income for the year ended March 31, 2001.

10. Retirement Benefit Plans

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

Certain foreign consolidated subsidiaries have defined benefit pension plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation	¥(96,917)	$(787,943)
Plan assets at fair value	51,368	417,626
Unfunded retirement benefit obligation	(45,549)	(370,317)
Unrecognized actuarial gain or loss	6,796	55,252
Unrecognized prior service cost	739	6,008
Net retirement benefit obligation	(38,014)	(309,057)
Prepaid pension cost	3,413	27,748
Accrued retirement benefits	¥(41,427)	$(336,805)

The components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 4,399	$ 35,764
Interest cost	3,362	27,333
Expected return on plan assets	(1,822)	(14,813)
Amortization of net retirement benefit obligation at transition	(13)	(106)
Amortization of actuarial gain or loss	12	98
Amortization of prior service cost	45	366
Total	¥ 5,983	$ 48,642

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

Discount rates	3.0%–7.75%
Expected return on plan assets	1.6%–10.0%

The charges to income for retirement benefits and pension costs for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen	
	2000	1999
Provision for retirement benefits	¥15,004	¥3,866
Pension costs	4,369	2,362

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, 2001, 2000, and 1999, were ¥54,567 million ($443,634 thousand), ¥54,821 million and ¥54,299 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, 2001 and 2000, 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:

	March 31, 2001					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥4,946**	**¥2,435**	**¥2,511**	**$40,211**	**$19,797**	**$20,414**

	March 31, 2000		
	Millions of yen		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥5,107	¥2,877	¥2,230

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,138 million ($9,252 thousand), ¥1,212 million and ¥1,249 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, 2001, 2000 and 1999, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2001 on noncancelable 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
2002	¥1,014	¥ 9	$ 8,244	$ 73
2003 and thereafter	1,497	11	12,171	90
Total	¥2,511	¥20	$20,415	$163

13. Contingent Liabilities

At March 31, 2001, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of the Company's employees and an affiliate in the aggregate amount of ¥11,695 million ($95,081 thousand).

14. Amounts Per Share

	Yen			U.S. dollars
	2001	2000	1999	**2001**
Net income:				
Basic	**¥ 111.80**	¥ 162.35	¥ 140.79	**$ 0.91**
Diluted	**109.95**	155.97	129.21	**0.89**
Cash dividends	**25.00**	25.00	23.00	**0.20**
Net assets	**1,876.54**	1,721.77	1,596.65	**15.26**

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of common stock to be issued upon the conversion of convertible bonds.

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

Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.

15. Supplementary Cash Flow Information

The conversion of convertible bonds for the years ended March 31, 2001, 2000 and 1999 amounted to ¥1,792 million ($14,568 thousand), ¥37,448 million and ¥12,663 million, respectively.

Gain on sales of investment securities of ¥11,096 million included a non-cash gain on the exchange of securities resulting from the merger of the investee in the amount of ¥10,696 million for the year ended March 31, 2000.

16. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2001 is as follows:

	Millions of yen			Thousands of U.S. dollars		
Marketable held-to-maturity debt securities	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Others	**¥299**	**¥300**	**¥1**	**$2,431**	**$2,439**	**$8**
Total	**¥299**	**¥300**	**¥1**	**$2,431**	**$2,439**	**$8**

	Millions of yen			Thousands of U.S. dollars		
Marketable other securities	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥35,271**	**¥ 57,154**	**¥21,883**	**$286,756**	**$464,667**	**$177,911**
Debt securities	**9,572**	**9,580**	**8**	**77,821**	**77,886**	**65**
Other	**2,985**	**4,117**	**1,132**	**24,268**	**33,471**	**9,203**
Subtotal	**¥47,828**	**¥ 70,851**	**¥23,023**	**$388,845**	**$576,024**	**$187,179**
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 7,051**	**¥ 6,314**	**¥ (737)**	**$ 57,325**	**$ 51,333**	**$ (5,992)**
Debt securities	**31,371**	**31,244**	**(127)**	**255,049**	**254,017**	**(1,032)**
Other	**305**	**217**	**(88)**	**2,480**	**1,764**	**(716)**
Subtotal	**¥38,727**	**¥ 37,775**	**¥ (952)**	**$314,854**	**$307,114**	**$ (7,740)**
Total	**¥86,555**	**¥108,626**	**¥22,071**	**$703,699**	**$883,138**	**$179,439**

Sales of securities classified as other securities amounted to ¥30,252 million ($245,951 thousand) with aggregate gain and loss of ¥11,250 million ($91,463 thousand) and ¥445 million ($3,618 thousand), respectively, for the year ended March 31, 2001.

The redemption schedule for securities with maturities classified as other securities and held-to-maturity debt securities as of March 31, 2001 is 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	Due after one year through five years	Due after five years through ten years
Government bonds	–	–	–	–	–	–
Corporate bonds	**¥33,942**	**¥6,000**	**¥1,000**	**$275,951**	**$48,780**	**$8,130**
Other debt securities	**499**	**1**	**–**	**4,057**	**8**	**–**
Others	**58**	**65**	**–**	**472**	**529**	**–**
Total	**¥34,499**	**¥6,066**	**¥1,000**	**$280,480**	**$49,317**	**$8,130**

The carrying value and related fair value of current and noncurrent marketable securities at March 31, 2000 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Net unrealized gain (loss)	Carrying value	Estimated fair value	Net unrealized gain (loss)
(1) Current:						
Stock	¥21,661	¥ 28,685	¥ 7,024	$204,349	$270,613	$ 66,264
Bonds	–	–	–	–	–	–
Others	1,368	1,359	(9)	12,906	12,821	(85)
Subtotal	23,029	30,044	7,015	217,255	283,434	66,179
(2) Noncurrent:						
Stock	44,469	69,308	24,839	419,519	653,849	234,330
Bonds	–	–	–	–	–	–
Others	1,877	2,036	159	17,708	19,208	1,500
Subtotal	46,346	71,344	24,998	437,227	673,057	235,830
Total	¥69,375	¥101,388	¥32,013	$654,482	$956,491	$302,009

17. Derivative Transactions

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuations 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.

As of March 31, 2001, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding at March 31, 2000:

1) Currency-related transactions

	Millions of yen		
	Notional amounts	Fair value	Unrealized loss
Forward exchange contracts:			
Buy (US$)	¥1,360	¥1,357	¥(3)

Note: The notional amounts of the forward exchange contracts presented above exclude those entered into in order to hedge receivables and payables denominated in foreign currencies which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheet as of March 31, 2000.

2) Interest-related transactions

	Millions of yen		
	Notional amounts	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive/floating and pay/fixed	¥1,486	¥(2)	¥(2)
Receive/fixed and pay/floating	1,486	7	7

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, in three major segments: the pharmaceuticals segment conducted principally by the Company, the nutritional products segment conducted principally by the Shaklee Group, and the food and roses segment conducted principally by the Bear Creek Group.

The business and geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2001, 2000, and 1999 is outlined as follows:

Business segments

	Year ended March 31, 2001						
	Millions of yen						
	Pharma-ceuticals	Nutritional products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	**¥352,655**	**¥41,563**	**¥57,508**	**¥ 6,187**	**¥457,913**	**–**	**¥457,913**
Intergroup sales and transfers	**67**	**26**	**–**	**5,091**	**5,184**	**¥ (5,184)**	**–**
Total sales	**352,722**	**41,589**	**57,508**	**11,278**	**463,097**	**(5,184)**	**457,913**
Operating expenses	**265,316**	**38,966**	**53,957**	**8,050**	**366,289**	**(6,220)**	**360,069**
Operating income	**¥ 87,406**	**¥ 2,623**	**¥ 3,551**	**¥ 3,228**	**¥ 96,808**	**¥ 1,036**	**¥ 97,844**
II. Assets, depreciation and capital expenditures							
Total assets	**¥807,271**	**¥47,836**	**¥44,695**	**¥51,298**	**¥951,100**	**¥(54,820)**	**¥896,280**
Depreciation	**24,023**	**1,836**	**2,654**	**2,291**	**30,804**	**–**	**30,804**
Capital expenditures	**26,102**	**2,310**	**7,474**	**942**	**36,828**	**–**	**36,828**

	Year ended March 31, 2001						
	Thousands of U.S. dollars						
	Pharma-ceuticals	Nutritional products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	**$2,867,114**	**$337,910**	**$467,545**	**$ 50,301**	**$3,722,870**	**–**	**$3,722,870**
Intergroup sales and transfers	**545**	**211**	**–**	**41,390**	**42,146**	**$ (42,146)**	**–**
Total sales	**2,867,659**	**338,121**	**467,545**	**91,691**	**3,765,016**	**(42,146)**	**3,722,870**
Operating expenses	**2,157,041**	**316,796**	**438,675**	**65,447**	**2,977,959**	**(50,569)**	**2,927,390**
Operating income	**$ 710,618**	**$ 21,325**	**$ 28,870**	**$ 26,244**	**$ 787,057**	**$ 8,423**	**$ 795,480**
II. Assets, depreciation and capital expenditures							
Total assets	**$6,563,179**	**$388,911**	**$363,374**	**$417,056**	**$7,732,520**	**$(445,691)**	**$7,286,829**
Depreciation	**195,309**	**14,927**	**21,577**	**18,626**	**250,439**	**–**	**250,439**
Capital expenditures	**212,211**	**18,781**	**60,764**	**7,659**	**299,415**	**–**	**299,415**

In accordance with a new accounting standard for shipping and handling costs which became effective the year ended March 31, 2001 in the United States, shipping and handling costs charged to customers, which had previously been credited to selling, general and administrative expenses, have been recognized as sales. As a result of this change, sales for "Nutritional products" and "Food and roses" increased by ¥1,084 million ($8,813 thousand) and ¥8,344 million ($67,837 thousand), respectively, during the year ended March 31, 2001. However, as operating expenses for "Nutritional products" and "Food and roses" also increased by the same amounts, this change had no impact on operating income for either segment.

	Year ended March 31, 2000						
	Millions of yen						
	Pharma-ceuticals	Nutritional products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	¥338,563	¥43,630	¥45,259	¥ 6,201	¥ 433,653	–	¥433,653
Intergroup sales and transfers	70	27	–	5,052	5,149	¥ (5,149)	–
Total sales	338,633	43,657	45,259	11,253	438,802	(5,149)	433,653
Operating expenses	250,578	40,900	40,572	10,685	342,735	(5,151)	337,584
Operating income	¥ 88,055	¥ 2,757	¥ 4,687	¥ 568	¥ 96,067	¥ 2	¥ 96,069
II. Assets, depreciation and capital expenditures							
Total assets	¥869,836	¥49,663	¥29,910	¥61,504	¥1,010,913	¥(181,627)	¥829,286
Depreciation	16,250	2,307	2,125	2,778	23,460	–	23,460
Capital expenditures	18,713	5,455	4,490	1,173	29,831	–	29,831

As a result of the change in the method of accounting for retirement benefits explained in Note 4, operating income for "Pharmaceuticals" decreased by ¥573 million for the year ended March 31, 2000.

	Year ended March 31, 1999						
	Millions of yen						
	Pharma-ceuticals	Nutritional products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	¥323,706	¥49,892	¥43,934	¥ 5,685	¥423,217	–	¥423,217
Intergroup sales and transfers	171	24	–	4,397	4,592	¥ (4,592)	–
Total sales	323,877	49,916	43,934	10,082	427,809	(4,592)	423,217
Operating expenses	242,235	48,248	40,101	7,780	338,364	(4,592)	333,772
Operating income	¥ 81,642	¥ 1,668	¥ 3,833	¥ 2,302	¥ 89,445	¥ –	¥ 89,445
II. Assets, depreciation and capital expenditures							
Total assets	¥828,088	¥63,131	¥37,760	¥64,532	¥993,511	¥(204,149)	¥789,362
Depreciation	21,094	3,573	2,057	2,614	29,338	–	29,338
Capital expenditures	33,583	10,451	5,077	2,294	51,405	–	51,405

Geographical areas

	Year ended March 31, 2001						
	Millions of yen						
	Japan	Europe	America	Asia	Total	Eliminations	Consolidated
Sales to third parties	**¥291,390**	**¥ 70,362**	**¥ 94,303**	**¥1,858**	**¥457,913**	**–**	**¥457,913**
Intergroup sales and transfers	**24,269**	**2,151**	**6,503**	**127**	**33,050**	**¥(33,050)**	**–**
Total sales	**315,659**	**72,513**	**100,806**	**1,985**	**490,963**	**(33,050)**	**457,913**
Operating expenses	**231,248**	**58,309**	**98,888**	**1,997**	**390,442**	**(30,373)**	**360,069**
Operating income (loss)	**¥ 84,411**	**¥ 14,204**	**¥ 1,918**	**¥ (12)**	**¥100,521**	**¥ (2,677)**	**¥ 97,844**
Total assets	**¥702,229**	**¥141,499**	**¥100,371**	**¥5,343**	**¥949,442**	**¥(53,162)**	**¥896,280**

	Year ended March 31, 2001						
	Thousands of U.S. dollars						
	Japan	Europe	America	Asia	Total	Eliminations	Consolidated
Sales to third parties	**$2,369,024**	**$ 572,049**	**$766,691**	**$15,106**	**$3,722,870**	**–**	**$3,722,870**
Intergroup sales and transfers	**197,309**	**17,488**	**52,870**	**1,032**	**268,699**	**$(268,699)**	**–**
Total sales	**2,566,333**	**589,537**	**819,561**	**16,138**	**3,991,569**	**(268,699)**	**3,722,870**
Operating expenses	**1,880,065**	**474,057**	**803,967**	**16,236**	**3,174,325**	**(246,935)**	**2,927,390**
Operating income (loss)	**$ 686,268**	**$ 115,480**	**$ 15,594**	**$ (98)**	**$ 817,244**	**$ (21,764)**	**$ 795,480**
Total assets	**$5,709,179**	**$1,150,398**	**$816,025**	**$43,439**	**$7,719,041**	**$(432,212)**	**$7,286,829**

In accordance with a new accounting standard for shipping and handling costs which became effective the year ended March 31, 2001 in the United States, shipping and handling costs charged to customers, which had previously been credited to selling, general and administrative expenses, have been recognized as sales. As a result of this change, sales and operating expenses for "America" increased by ¥9,428 million ($76,650 thousand) during the year ended March 31, 2001. This change, however, had no impact on operating income for "America" for the year ended March 31, 2001.

	Year ended March 31, 2000						
	Millions of yen						
	Japan	Europe	America	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥276,716	¥ 72,495	¥ 82,862	¥1,580	¥433,653	–	¥433,653
Intergroup sales and transfers	15,022	2,385	2,469	87	19,963	¥ (19,963)	–
Total sales	291,738	74,880	85,331	1,667	453,616	(19,963)	433,653
Operating expenses	219,060	54,435	82,371	1,613	357,479	(19,895)	337,584
Operating income	¥ 72,678	¥ 20,445	¥ 2,960	¥ 54	¥ 96,137	¥ (68)	¥ 96,069
Total assets	¥734,704	¥134,266	¥113,448	¥4,735	¥987,153	¥(157,867)	¥829,286

As a result of the change in the method of accounting for retirement benefits explained in Note 4, operating income for "Japan" decreased by ¥573 million for the year ended March 31, 2000.

	Year ended March 31, 1999						
	Millions of yen						
	Japan	Europe	America	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥269,469	¥66,611	¥85,725	¥1,412	¥423,217	–	¥423,217
Intergroup sales and transfers	8,316	2,434	1,643	–	12,393	¥ (12,393)	–
Total sales	277,785	69,045	87,368	1,412	435,610	(12,393)	423,217
Operating expenses	211,212	48,572	84,160	2,000	345,944	(12,172)	333,772
Operating income (loss)	¥ 66,573	¥ 20,473	¥ 3,208	¥ (588)	¥ 89,666	¥ (221)	¥ 89,445
Total assets	¥676,577	¥144,254	¥96,329	¥5,438	¥922,598	¥(133,236)	¥789,362

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, 2001, 2000 and 1999 are summarized as follows:

	Year ended March 31, 2001				
	Millions of yen				
	America	Europe	Asia	Other	Total
Overseas sales	**¥124,957**	**¥47,646**	**¥6,057**	**¥1,579**	**¥180,239**
Consolidated net sales					**457,913**
	Thousands of U.S. dollars				
Overseas sales	**$1,015,911**	**$387,366**	**$49,244**	**$12,837**	**$1,465,358**
Consolidated net sales					**3,722,870**
Overseas sales as a percentage of consolidated net sales	**27.3%**	**10.4%**	**1.3%**	**0.4%**	**39.4%**

	Year ended March 31, 2000				
	Millions of yen				
	America	Europe	Asia	Other	Total
Overseas sales	¥113,490	¥51,625	¥5,453	¥1,615	¥172,183
Consolidated net sales					433,653
Overseas sales as a percentage of consolidated net sales	26.1%	11.9%	1.3%	0.4%	39.7%

	Year ended March 31, 1999				
	Millions of yen				
	America	Europe	Asia	Other	Total
Overseas sales	¥115,551	¥49,982	¥7,119	¥ 757	¥173,409
Consolidated net sales					423,217
Overseas sales as a percentage of consolidated net sales	27.3%	11.8%	1.7%	0.2%	41.0%

19. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2001, were approved at a shareholders' meeting held on June 28, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥15.00=$0.12 per share)	¥5,417	$44,041
Bonuses to directors and corporate auditors	92	748
	¥5,509	$44,789

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Yamanouchi Pharmaceutical Co., Ltd.

We have examined the consolidated balance sheets of Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2001, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the method of accounting for retirement benefits as described in Note 4 to the consolidated financial statements.

As described in Note 2 to the consolidated financial statements, Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation and research and development expenses effective the year ended March 31, 2000 and for employees' retirement benefits, financial instruments and foreign currency translation effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Century Ota Showa & Co.

Osaka, Japan
June 28, 2001

See Note 1 to the consolidated financial statements which explains the basis of presentation of the consolidated financial statements of Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

PRINCIPAL SUBSIDIARIES AND AFFILIATES

PHARMACEUTICALS

Tohoku Yamanouchi Pharmaceutical Co., Ltd.
154-13, Dai-2 Chiwari, Obuke, Nishinecho, Iwate-gun, Iwate 028-7111, Japan

Yamanouchi U.K. Limited
Yamanouchi House, Pyrford Road, West Byfleet, Surrey KT14 6RA, U.K.

- **Yamanouchi Research Institute (U.K.)**
  Littlemore Park, Oxford OX4 4SX, U.K.

Yamanouchi U.S.A. Inc.
Mack Centre IV, 4th Floor, S.61 Paramus Road, Paramus, NJ 07652, U.S.A.

Yamanouchi America, Inc.
Mack Centre IV, 4th Floor, S.61 Paramus Road, Paramus, NJ 07652, U.S.A.

Yamanouchi Venture Capital LLC
1050 Arastradero Road, Palo Alto, CA, 94304, U.S.A.

Yamanouchi Ireland Co., Ltd.
Damastown, Mulhuddart, Dublin 15, Ireland

Yamanouchi Europe B.V. European Headquarters
Elisabethhof 19, 2353 EW Leiderdorp, The Netherlands

- **Yamanouchi Europe B.V., Research & Development Facilities**
  Elisabethhof 1, 2353 EW Leiderdorp, The Netherlands
- **Yamanouchi Europe B.V., Manufacturing Meppel**
  Hogemaat 2, 7942 JG Meppel, The Netherlands
- **Yamanouchi Europe B.V., International Department**
  Haagse Schouwweg 6b, 2332 KG Leiden, The Netherlands
- **Yamanouchi Pharma B.V.**
  Haagse Schouwweg 6b, 2332 KG Leiden, The Netherlands

Yamanouchi Pharma GmbH
Im Breitspiel 19, 69126 Heidelberg, Germany

Yamanouchi Pharma S.A.
10, Place de La Coupole, 94223 Charenton-Le-Pont, Cedex, France

Yamanouchi Pharma Ltd.
Yamanouchi House, Pyrford Road, West Byfleet, Surrey KT14 6RA, U.K.

Paines & Byrne, Limited
Yamanouchi House, Pyrford Road, West Byfleet, Surrey KT14 6RA, U.K.

Yamanouchi Pharma S.p.A.
Via delle Industrie, 2, 20061 Carugate (MI), Italy

Yamanouchi Pharma B.V., Belgian Branch Office
Riverside Business Park, Internationalelaan 55, 1070 Brussels, Belgium

Yamanouchi Pharma a/s
Naverland 3, 2600 Glostrup, Denmark

Yamanouchi Pharma AB
Hans Michelsengatan 1B, 21120 Malmö, Sweden

Yamanouchi Pharma, S.A.
Centro Empresarial, El Plantio, Calle Ochandiano 6, 28023 Madrid, Spain

Yamanouchi Pharma Lda.
Rue José Fontana Edifico, Cinema, No-1, 2780-605 PAÇO D'ARCOS, Portugal

Yabrofarma LDA
Avenida Ferreira Godinho, 1495-690 Cruz Quebrada Oeiras, Portugal

Yamanouchi Europe B.V., Moscow Representative Office
Marksistskaya Ulitsa 16, Moscow, Russia

Yamanouchi Pharma Sp. z o. o.
ul. Poleczki 21, 02-822 Warsaw, Poland

Yamanouchi Europe B.V., Prague Branch Office
Radimova 36/2257, 160-00 Praha 6, Czech Republic

Yamanouchi Pharma Technologies, Inc.
Stanford Research Park, 1050 Arastradero Road, Palo Alto, CA 94304, U.S.A.

Shenyang Yamanouchi Pharmaceutical Co., Ltd.
No. 3 Jia 6 Road 10, Shenyang Economic & Technological Development Zone, Shenyang,Liaoning Province, 110141, People's Republic of China

Taiwan Yamanouchi Pharmaceutical Co., Ltd.*
Shin Kong World Commercial Bldg., 6th Floor, No. 287, Sec. 3, Nanking East Road, Taipei, Taiwan

Korea Yamanouchi Pharmaceutical Co., Ltd.*
Hansung Plaza Bldg., 11th Floor, #13-1, Heungin-dong, Chung-ku, Seoul 100-430, Republic of Korea

Yamanouchi Philippines, Inc.*
17B, Multinational Bancorporation Centre, 6805 Ayala Avenue, Makati City, Metro Manila, The Philippines

Yamanouchi (Thailand) Co., Ltd.*
10th Floor, Wave Place, 55 Wireless Road, Lumpini, Patumwan, Bangkok 10330, Thailand

Consumer Products Businesses

(Nutritional Products, Food and Roses)

Yamanouchi Consumer Inc.
4747 Willow Road, Pleasanton, CA 94588, U.S.A.

NUTRITIONAL PRODUCTS

Shaklee Japan K.K.
2-6, Nishiazabu 3-chome, Minato-ku, Tokyo 106-8601, Japan

Shaklee Corporation (a subsidiary of Yamanouchi Consumer Inc.)
4747 Willow Road, Pleasanton, CA 94588, U.S.A.

- **Shaklee U.S.**
  4747 Willow Road, Pleasanton, CA 94588, U.S.A.
- **Shaklee Research Center**
  1992 Alpine Way, Hayward, CA 94545, U.S.A.
- **Shaklee Manufacturing Center**
  3300 Marshall Avenue, P.O. Box 1550, Norman, OK 73069, U.S.A.
- **Shaklee Canada, Inc.**
  952 Century Drive, Burlington, Ontario L7L 5P2, Canada
- **Shaklee Mexico, S.A. de C.V.**
  Boulevard Avila Camacho No. 40, Desp. 615, Col. El Parque C.P. 53390, Naucalpan, Mexico
- **Shaklee Products (Malaysia) Sdn. Bhd.**
  7 Jalan USJ 10/1, UEP Subang Jaya, 47620 Petaling Jaya, Selangor, Darul Ehsan, Malaysia

INOBYS, Ltd. (a subsidiary of Yamanouchi Consumer Inc.)
475 14th Street, Suite 650, Oakland, CA 94612, U.S.A.

FOOD AND ROSES

Bear Creek Corporation (a subsidiary of Yamanouchi Consumer Inc.)
2518 South Pacific Highway, P.O. Box 299, Medford, OR 97501, U.S.A.

- **Harry and David**
  2518 South Pacific Highway, P.O. Box 712, Medford, OR 97501, U.S.A.
- **Jackson & Perkins**
  2518 South Pacific Highway, P.O. Box 1028, Medford, OR 97501, U.S.A.
- **Jackson & Perkins Wholesale**
  2518 South Pacific Highway, P.O. Box 9100, Medford, OR 97501, U.S.A.
- **Bear Creek Stores**
  2518 South Pacific Highway, P.O. Box 712, Medford, OR 97501, U.S.A.

OTHER

Lotus Estate Co., Ltd.
3-11, Nihonbashi-Honcho 2-chome, Chuo-ku, Tokyo 103-8411, Japan

*Unconsolidated company

(As of July 2001)

CORPORATE DATA AND AFFILIATES

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

Seoul Office
Hansung Plaza Bldg., 11th Floor, #13-1 Heungin-dong,
Chung-ku, Seoul 100-430, Republic of Korea

Beijing Office
20/F, A-7-10, East Wing, Hanwei Plaza, No. 7,
Guanghua Road, Chaoyang District,
Beijing 100004, People's Republic of China

Taipei Branch
Shin Kong World Commercial Bldg., 6th Floor, No. 287,
Sec. 3, Nanking East Road,
Taipei, Taiwan

Domestic Branches
Sapporo, Sendai, Tokyo 1, Tokyo 2, Tokyo 3, Yokohama,
Nagoya, Osaka, Kyoto, Hiroshima, Takamatsu, Fukuoka

Plants
Azusawa, Yaizu, Takahagi, Nishine

Research Laboratories
Tsukuba, Azusawa, Takahagi, Yaizu

CORPORATE INFORMATION

Annual Meeting
The annual meeting of shareholders was held at 10 a.m.
on Thursday, June 28, 2001, at: Royal Park Hotel
1-1, Nihonbashi-Kakigaracho 2-chome, Chuo-ku,
Tokyo, Japan

Stock Trading Information
Yamanouchi stock is listed on:
Tokyo Stock Exchange (code number 4503)
Osaka Securities Exchange Co., Ltd.
Nagoya Stock Exchange
Sapporo Stock Exchange
Paris Stock Exchange

Independent Certified Public Accountants
Shin Nihon & Co.
Osaka Kokusai Bldg., 3-13, Azuchi-machi 2-chome,
Chuo-ku, Osaka 541-0052, Japan
Effective July 1, 2001, Century Ota Showa has changed its
name to Shin Nihon & Co.

Transfer Agent
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

Shareholder Services
Shareholders with questions on such stock-related matters
as proxy voting should write to:
Finance & Accounting Dept.
Yamanouchi Pharmaceutical Co., Ltd.
3-11, Nihonbashi-Honcho 2-chome, Chuo-ku,
Tokyo 103-8411, Japan

Investor Relations
Securities analysts and investors with business-related
questions should write to:
Investor Relations
Corporate Communications Dept.
Yamanouchi Pharmaceutical Co., Ltd.
3-11, Nihonbashi-Honcho 2-chome, Chuo-ku,
Tokyo 103-8411, Japan

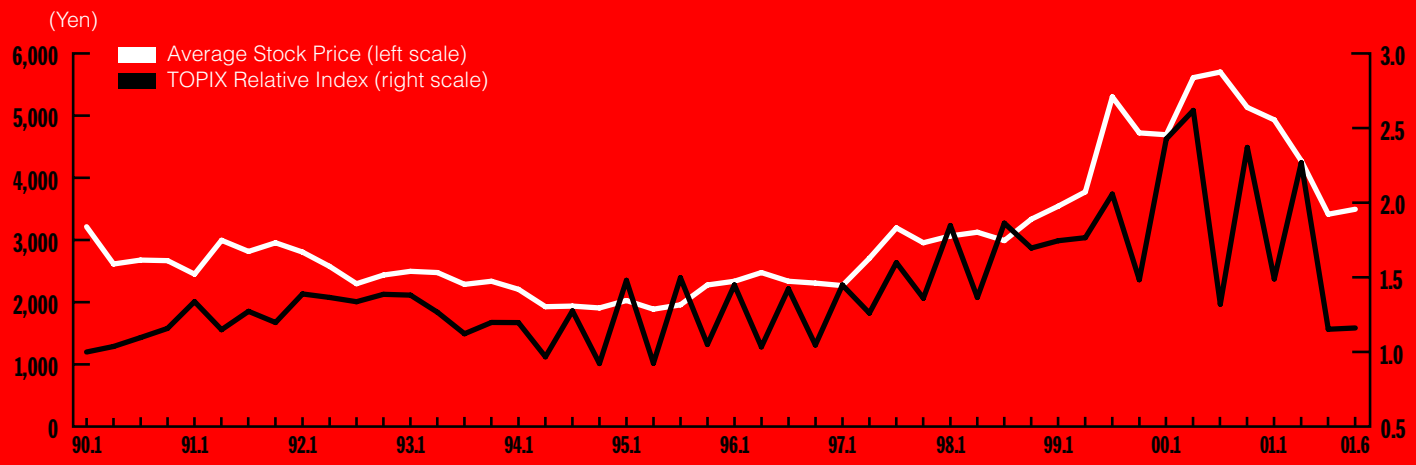
Yamanouchi on the Internet
Our home page is: http://www.yamanouchi.com

(As of July 2001)

STOCK PRICE INFORMATION

	Yen									
Years ended March 31,	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992
Common stock price:										
High	**¥6,280**	¥5,990	¥4,030	¥3,280	¥2,610	¥2,410	¥2,080	¥2,580	¥2,750	¥3,170
Low	**4,060**	3,370	2,750	2,520	2,160	1,830	1,830	1,950	2,220	2,510
Average for the year	**5,024**	4,684	3,300	2,982	2,374	2,135	1,940	2,247	2,477	2,806
Year-end	**4,320**	5,620	3,750	3,060	2,560	2,380	1,900	2,030	2,320	2,720

Average Stock Price and TOPIX Relative Index



COMMON STOCK

	Thousands									
As of March 31,	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992
Number of shares outstanding	**361,151**	360,246	344,468	338,605	324,308	323,338	323,338	323,113	322,923	322,369

	Billions of Yen									
As of March 31,	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992
Market value	**¥1,560**	¥2,025	¥1,292	¥1,036	¥830	¥770	¥614	¥656	¥749	¥877

Note: Market value=Number of shares outstanding × Stock price at year-end

As of March 31,	2001
Principal shareholders	
State Street Bank and Trust Company	6.70%
Nippon Life Insurance Company	5.91
The Chuo Mitsui Trust and Banking Co., Ltd.	5.04
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	4.22
Japan Trustee Services Bank, Ltd. (trust accounts)	4.17
Number of shareholders	**9,308**

Transfer agent: The Chuo Mitsui Trust and Banking Co., Ltd.

Yamanouchi Pharmaceutical Co., Ltd.

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