Former Fujisawa Part

1. BUSINESS RESULTS AND FINANCIAL CONDITION

(a) Outline of Operations in the Fiscal Year Ended March 31, 2005:

(1) Overview

Consolidated business results

(Unit: millions of yen)

	Results	Change*	Change* in %
Net sales	414,959	+19,558	+4.9
Operating income	83,349	+26,646	+47.0
Ordinary income	84,079	+24,604	+41.4
Net income	25,815	-15,653	-37.7

*:from the previous year.

Sales

In Japan there was growth in sales of mainstay ethical pharmaceuticals products, buoyed by an increase in sales of leading products and by the year-end extra shipment for a temporary stop of ordering/distribution system in April following the merger of Fujisawa and Yamanouchi. This extra shipment are estimated to have had a positive impact on sales of about ¥2.5 billion.

Meanwhile, responsibility for the over-the-counter pharmaceuticals business (“OTC drugs business”) was transferred to Zepharma Inc., formed jointly by Yamanouchi and Fujisawa and Fujisawa effectively withdrew from the Chemicals business during the previous term. As a result of these and other factors, total sales in Japan declined.

Overseas, the sales of U.S. subsidiary Fujisawa Healthcare, Inc. recorded strong growth owing to buoyant sales of its three main products: Prograf, Adenoscan, and Protopic. In consequence, in spite of the yen's appreciation against the U.S. dollar, sales grew substantially even in yen terms. In Europe, sales of Prograf and Protopic by local subsidiary Fujisawa GmbH increased strongly, and the weakness of the yen against the euro caused sales in yen terms to show a sharp increase.

As a result of all these factors there was an overall increase in overseas sales.

Operating income

Factors such as the sales growth and improved gross margin resulting from changes in product mix led to an increase of ¥22.3 billion in gross profit. SG&A expenses and R&D expenses declined by ¥4.3 billion from the previous year, with the result that operating income registered a substantial year-on-year increase of ¥26.6 billion. Within this total, ¥1.4 billion was accounted for by the extra shipment above mentioned.

By geographical region, operating income rose by ¥19.0 billion in Japan, and there were also increases in North America, Europe and other regions.

R&D expenses totaled ¥68,780 million, representing a decline of ¥4.9 billion from the previous year, and their ratio to consolidated net sales was 16.6%.

Ordinary income

Non-operating income/expense underwent a net decline of ¥2.0 billion, but as a result of the large increase in operating income, ordinary income rose by ¥24.6 billion year-on-year.

Net income

A total of ¥39.4 billion of expenses incurred in relation to the merger of Yamanouchi and Fujisawa was posted as an extraordinary loss. The principal components of this were the cost relating to the implementation of an early retirement plan, the withdrawal from home care business and the information system integration.

In consequence, the net of extraordinary gains/losses decreased by ¥49.1 billion from the previous year, substantially exceeding the amount of the increase in ordinary income, and thereby caused net income to decline by ¥15.7 billion.

Return on equity (ROE) was 6.6%, representing a year-on-year decline of 5.1 of a percentage point.

Segment Information

Segments by business category

In the pharmaceuticals business, sales (excluding intra-group sales, the same hereinafter) increased to ¥398,508 million, 6.7% increase from the previous year, while R&D expenses fell substantially. As a result, operating income recorded a strong increase to ¥82,688 million, 47.6% increase from the previous year, before intercompany adjustments.

In other business, sales fell by 24.8% from the previous year, to ¥16,451 million yen, and operating income increased by 300.3%, to ¥440 million, before intercompany adjustments.

Pharmaceuticals business

Sales of ethical pharmaceuticals increased to ¥392,796 million, 8.6% increase from the previous year.

In the ethical pharmaceutical products market in Japan, products generating robust sales included the candin antifungal agent Funguard, the antipsychotic agent Seroquel, the anti-allergic Intal, and the hypnotic Myslee, and sales of drugs such as Prograf and the antidepressant Luvox were also brisk. However, competitive pressures led to a decline in sales of such products as the oral cephalosporin antibiotic Cefzon and the antihypertensive Nivadil, and sales of Rescula Eye Drops also fell after sales were suspended at the end of the first half. In addition to the above, since the extra shipment above mentioned also boosted the sales, total sales in Japan recorded a year-on-year increase.

Overseas, sales of Prograf and Protopic increased in both the U.S. and Europe, and there was growth in sales of Adenoscan in the U.S. As a result, there was an overall increase in sales.

OTC drugs business was transferred to Zepharma Inc. in October 2004, and therefore sales declined to ¥5,711 million, 51.5% decrease from the previous year.

Other business

Medical supplies and systems performed well overall and recorded the sales of ¥3,492 million, 0.1% increase from the previous year.

In home care business, sales rose to ¥7,896 million, 9.0% increase from the previous year. Fujisawa decided to withdraw substantially from this business, and an announcement to that effect was made in March 2005.

Segments by geographical area

In Japan there was growth in sales of mainstay ethical pharmaceuticals products, but sales of OTC drugs and chemicals declined. As a result, total sales fell slightly to ¥219,251 million, 1.1% decrease year-on-year. In contrast, operating income increased to ¥54,466 million, 53.7% increase, before intercompany adjustments.

In North America, sales of Prograf, Adenoscan and Protopic grew strongly, and in spite of the yen's appreciation against the U.S. dollar, sales in yen terms rose to 121,034 million, 11.6% increase from the previous year. Operating income was up to ¥24,460 million, 18.7% increase, before intercompany adjustments.

In Europe there were increases in sales of Prograf and Protopic, and since the yen weakened modestly against the euro, yen sales rose to 65,929 million, 14.4% increase from the previous year. Operating income increased to ¥7,932 million, 433.2% increase, before intercompany adjustments.

In other regions, sales grew to ¥8,743 million, 15.3% increase from the previous year, and operating income rose to ¥1,332 million, 27.2% increase, before intercompany adjustments.

Research and Development

Research and development, particularly in the field of ethical pharmaceuticals, continued to be given maximum priority both within Japan and overseas. R&D expenditure during the term under review totaled ¥68,780 million, down by 6.6% from the previous year, and their ratio to sales was 16.6% on a consolidated basis. In research activity, priority was given to two domains, namely inflammation and immunity and infectious diseases, and three disorders, namely cerebral disorders, metabolic disorders and urinary disorders, and Fujisawa sought to increase its capabilities for the creation of new drugs by stepping up networking both domestically and overseas.

With respect to the current state of development, products developed in-house are undergoing clinical development in Japan, Europe and the U.S., and Fujisawa has also been strengthening its product portofolio through inlicensing and product acquisition. Set out below are the principal products under development whose development status has changed since interim results of Fujisawa for the term under review were announced (November 4, 2004). The development of all other products currently being developed is progressing, with the aim of obtaining regulatory approvals for them at the earliest possible date.

In March 2005 the candin antifungal agent micafungin (generic name) received regulatory approval in the U.S. for prophylaxis of *Candida* infections in patients undergoing hematopoietic stem cell transplantation and the treatment of esophageal candidiasis and launched in May 2005.

The development of the immunosuppressant tacrolimus (generic name) as a new oral formulation to suppress the rejection of transplanted organs reached the stage of Phase III clinical trials in Europe and the U.S., and Phase II in Japan.

In addition, approval of the new indication for tacrolimus (generic name) for the treatment of rheumatoid arthritis was granted in Japan in April 2005. With respect to the eye drop formulation, exclusive rights in Japan were granted to Senju Pharmaceutical Co., Ltd. in January 2005, and therefore this formulation has been removed from the list of products under development. In Europe, Fujisawa plans SPC harmonization of Prograf across the European Union. All indications currently approved in the European Union, including the primary heart claim along with the available clinical data relating to this indication, will be reviewed by

EMEA/CHMP.

Capital Investment

Capital expenditures during the term under review totaled ¥12,664 million (up by 7.3% year-on-year on the basis of occurrence of the events). These investments included the expansion of Funguard production facilities at the Takaoka plant.

(b) Financial Condition

(1) Overview

Assets, liabilities and shareholders' equity

Liabilities showed a year-on-year increase owing to factors such as rises in accounts payable and accrued expenses, and shareholders' equity also increased. In consequence, total assets rose to ¥56.5 billion.

Shareholders' equity ratio

The growth rate of total assets exceeded that of shareholders' equity, with the result that the shareholders' equity ratio declined by 1.5 percentage points from the previous year, to 73.7%.

Consolidated Cash Flows

Cash flow from operating activities

Cash flow from operating activities totaled ¥75,676 million, an increase of ¥61,281 million, or 425.7%, from the previous year. Income before income taxes and minority interests was ¥44,640 million, well below its year-earlier level, but cash flow from operating activities recorded a substantial year-on-year rise, primarily because most merger-related expenses posted as extraordinary losses are to be disbursed in the following year, and because less income taxes compared to the previous term.

Cash flow from investing activities

Expenditure on purchases of fixed assets during the term totaled ¥18,860 million, which represented an increase from the previous year. In addition, income from sales of investment securities was lower than in the previous year. As a result of factors such as these, cash used in investing activities in the term under review totaled ¥39,435 million, up by ¥12,324 million, or 45.5%, from the previous year.

Cash flow from financing activities

The aggregate total of short and long-term borrowings during the term declined by ¥2,809 million. In addition, dividends of ¥7,981 million were paid out, representing an increase of ¥1,716 million from the previous year.

As a result, cash used in financing activities totaled ¥10,945 million, up by ¥1,482 million, or 15.7%, from the previous year.

As a net result of these flows, the balance of cash and cash equivalents at March 31, 2005, totaled ¥65,323 million, representing an increase of ¥26,219 million from the end of the previous fiscal year.

Cash Flow Indicators

For the year ended Mar. 31 of	2001	2002	2003	2004	2005
Shareholders' equity ratio (%)	60.3	67.0	65.6	75.2	73.7
Shareholders' equity ratio on a fair market value basis (%)	185.7	195.5	153.7	165.0	155.6
Years to redeem debt (years)	1.1	0.4	0.3	0.4	0.0
Interest coverage ratio (times)	19.2	48.5	127.2	97.2	513.1

Shareholders' equity ratio (%): Total shareholders' equity / Total assets

Shareholders' equity ratio on a fair market value basis (%): Total amount of market value of shares / Total assets

Years to redeem debt: Interest-bearing liabilities / Cash flows from operating activities (before eliminating interests and income taxes)

Interest coverage ratio (times): Cash flows from operating activities (before eliminating interests and income taxes) / Interest payment

(Notes)

1. Each indicator is calculated using financial data on a consolidated basis.
2. The total market value of shares is calculated by using the closing price of shares at the end of the fiscal year x the number of shares outstanding at the end of the fiscal year (after eliminating treasury stock).
3. Cash flows from operating activities (before eliminating interest and income taxes) equate with the cash flows from operating activities in the consolidated statement of cash flows (before eliminating interest paid and income taxes paid).
4. Interest-bearing liabilities include all liabilities on which Fujisawa pays interest from among the liabilities stated in the consolidated balance sheet.
5. Payments of interest equate with "Interest paid" in the consolidated statement of cash flows.

Sales of Top 15 Ethical Pharmaceutical Products

(Unit: Billion Yen)

Product Name	Generic Name	FY03/2003	FY03/2004	FY03/2005	Remarks
1. ***Prograf***	Tacrolimus	**89.7**	**104.4**	**122.9**	Immunosuppressant
2. ***Adenoscan***	Adenosine	**24.5**	**28.3**	**33.1**	Pharmacologic stress imaging agent
3. ***Cefzon***	Cefdinir	**29.4**	**27.8**	**23.6**	Oral cephalosporin
4. ***Protopic***	Tacrolimus	**13.0**	**17.3**	**21.5**	For atopic dermatitis
5. ***Myslee***	Zolpidem	**10.0**	**12.2**	**14.7**	Hypnotic
6. ***Funguard***	Micafungin	**2.5**	**11.1**	**13.8**	Candin antifungal agent
7. ***Seroquel***	Quetiapine	**9.8**	**10.4**	**13.1**	Antipsychotic
8. ***Intal***	Sodium cromoglycate	**12.9**	**9.2**	**11.9**	Anti-asthmatic and anti-allergic
9. ***Luvox***	Fluvoxamine maleate	**7.0**	**7.8**	**8.8**	Antidepressant
10.***AmBisome***	Liposomal Amphotericin B	**12.5**	**8.9**	**8.8**	Antifungal
11. ***Vaccines***		**6.0**	**7.5**	**8.3**	
12. ***Nivadil***	Nilvadipine	**11.3**	**9.6**	**7.8**	Antihypertensive
13. ***Dogmatyl***	Sulpiride	**7.8**	**7.4**	**7.6**	Anti-ulcer and neuroleptic
14. ***Cefamezin***	Cefazolin	**10.0**	**8.0**	**7.5**	Injectable cephalosporin
15. ***Cefspan***	Cefixime	**8.8**	**7.4**	**6.9**	Oral cephalosporin
Average ¥ / US $		124.82	-	-	(January – December)
Average ¥ / Euro		118.25	-	-	(January – December)
Average ¥ / US $		121.20	112.73	107.59	(April– March)
Average ¥ / Euro		121.46	132.57	135.70	(April– March)

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

Accounts	(B) As of March 31, 2004		(A)As of March 31, 2005		Fluctuation (A) - (B)
	Amounts	Ratio	Amounts	Ratio	
Assets		%		%	
I. Current assets					
Cash on hand and in banks	¥ 25,129		¥ 31,322		
Trade notes and accounts receivable	85,030		92,496		
Marketable securities	56,854		86,589		
Inventories	49,771		50,145		
Deferred tax assets	20,958		28,256		
Other	19,237		15,682		
Allowance for doubtful receivables	(221)		(189)		
Total current assets	256,759	51.4	304,314	54.7	¥47,554
II. Fixed assets					
Property, plant and equipment					
Buildings and structures	43,701		41,779		
Machinery, equipment and vehicles	20,984		21,459		
Land	14,498		13,480		
Construction in progress	3,932		3,965		
Other	8,249		7,242		
Total property, plant and equipment	91,367		87,926		
Intangible fixed assets					
Goodwill	6		6		
Excess of cost over net assets acquired	1,264		1,041		
Proprietary technologies	10,888		9,211		
Other	13,516		10,704		
Total intangible fixed assets	25,676		20,963		
Investments and other assets					
Investment securities	102,117		123,464		
Long-term loans receivable	144		120		
Deferred tax assets	3,874		3,561		
Other	19,759		15,894		
Allowance for doubtful receivables	(6)		(11)		
Total investments and other assets	125,890		143,029		
Total fixed assets	242,934	48.6	251,920	45.3	8,986
Total assets	¥499,693	100.0	¥556,234	100.0	¥56,541

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

Accounts	(B) As of March 31, 2004		(A) As of March 31, 2005		Fluctuation (A) - (B)
	Amounts	Ratio	Amounts	Ratio	
Liabilities		%		%	
I. Current liabilities					
Trade notes and accounts payable	¥ 19,899		¥ 21,556		
Short-term loans payable	3,734		2,087		
Current portion of convertible bonds	11,440		–		
Other accounts payable	25,619		40,867		
Accrued income taxes	2,980		6,882		
Accrued expenses	–		31,300		
Accrued bonus for employees	8,768		9,299		
Allowance for sales rebates	1,447		1,546		
Allowance for sales returns	436		83		
Other	20,371		10,626		
Total current liabilities	94,699	19.0	124,250	22.3	¥29,551
II. Long-term liabilities					
Long-term loans payable	1,474		422		
Deferred tax liabilities	567		4,992		
Accrued retirement benefits for employees	21,487		11,480		
Accrued retirement benefits for directors	1,154		34		
Other	3,814		5,009		
Total long-term liabilities	28,498	5.7	21,939	3.9	(6,559)
Total liabilities	123,197	24.7	146,190	26.3	22,992
Minority interests					
Minority interests	550	0.1	130	0.0	(420)
Shareholders' equity					
I. Common stock	38,594	7.7	44,291	8.0	
II. Capital surplus	57,237	11.5	62,933	11.3	
III. Retained earnings	280,508	56.1	298,294	53.6	
IV. Unrealized holding gain on securities	13,553	2.7	13,919	2.5	
V. Translation adjustments	(12,667)	(2.5)	(8,171)	(1.5)	
VI. Treasury stock	(1,281)	(0.3)	(1,354)	(0.2)	
Total shareholders' equity	375,944	75.2	409,914	73.7	33,969
Total liabilities, minority interests and shareholders' equity	¥499,693	100.0	¥556,234	100.0	¥56,541

Note; Effective the year ended March 31, 2005, "Accrued expenses" are separately presented since such account has exceeded 5% of total liabilities, minority interests and shareholders' equity. In the year ended March 31, 2004, "Other" in current liabilities includes ¥17,154 million of "Accrued expenses".

(2) Consolidated Statements of Income

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

Accounts	(B) For the year ended March 31, 2004		(A) For the year ended March 31, 2005		Fluctuation (A) - (B)
	Amounts	Ratio	Amounts	Ratio	
		%		%	
I. Net sales	¥395,401	100.0	¥414,959	100.0	¥ 19,558
II. Cost of sales	141,075	35.7	138,257	33.3	(2,817)
Net reversal of allowance for sales returns	(158)	(0.0)	(117)	(0.0)	41
Gross profit	254,484	64.4	276,819	66.7	22,334
III. Selling, general and administrative expenses	197,781	50.0	193,469	46.6	(4,311)
Operating income	56,702	14.3	83,349	20.1	26,646
IV. Non-operating income	6,634	1.7	7,229	1.7	594
Interest income	923		977		
Dividend income	398		391		
Equity in earnings of affiliates	899		970		
Other	4,412		4,889		
V. Non-operating expenses	3,862	1.0	6,499	1.6	2,636
Interest expense	403		124		
Exchange loss	843		–		
Loss on disposal of fixed assets	–		3,063		
Loss on disposal of inventories	893		1,271		
Other	1,721		2,038		
Ordinary income	59,475	15.0	84,079	20.3	24,604
VI. Special gains	16,008	4.0	–	–	(16,008)
Gain on sales of fixed assets	1,563		–		
Gain on return of substitutional portion of the welfare pension fund plan	13,933		–		
Gain on sale of cleaning and hygiene product business for the food and beverage industry	511		–		
VII. Special losses	6,344	1.6	39,438	9.5	33,093
Expenses for business integration	–		39,438		
Loss on withdrawal of chemicals business in the U.S.	3,443		–		
Expenses related to transfer of OTC drugs business	1,624		–		
Expenses related to closure of Kuanyin plant	1,276		–		
Income before income taxes and minority interests	69,138	17.5	44,640	10.8	(24,497)
Income taxes – current	18,372	4.6	21,319	5.1	
Income taxes – deferred	9,424	2.4	(2,562)	(0.6)	
Minority interests	(126)	(0.0)	68	0.0	195
Net income	¥ 41,468	10.5	¥ 25,815	6.2	¥(15,653)

Note; Effective the year ended March 31, 2005, "Exchange loss" is included in "Other" in non-operating expenses since such account has not exceeded 10% of total non-operating expenses. In the year ended March 31, 2005, "Other" in non-operating expenses includes ¥407 million of "Exchange loss".

(3) Consolidated Statements of Capital Surplus and Retained Earnings

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

Accounts	For the year ended March 31, 2004	For the year ended March 31, 2005
Capital surplus		
I. Capital surplus at beginning of the year	¥ 57,231	¥ 57,237
II. Increase in capital surplus		
Conversion of convertible bonds	5	5,695
III. Capital surplus at end of the year	57,237	62,933
Retained earnings		
I. Retained earnings at beginning of the year	242,350	280,508
II. Increase in retained earnings		
Net income	41,468	25,815
Increase due to the change in the fiscal year end of subsidiaries	3,008	–
III. Decrease in retained earnings		
Cash dividends	6,264	7,981
Bonuses to directors and corporate auditors	55	47
IV. Retained earnings at end of the year	¥280,508	¥298,294

(4) Consolidated Statements of Cash Flows

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

Accounts	For the year ended March 31, 2004	For the year ended March 31, 2005
I. Cash flows from operating activities		
Income before income taxes and minority interests	¥ 69,138	¥ 44,640
Depreciation and amortization	19,996	19,258
Amortization of excess of cost over net assets acquired	343	223
Decrease in accrued retirement benefits	(7,695)	(10,615)
Decrease in allowance for doubtful receivables	(159)	(36)
Interest and dividend income	(1,322)	(1,368)
Interest expense	403	124
Exchange loss	679	417
Equity in earnings of affiliates	(899)	(970)
Dividends received from affiliates accounted for by the equity method	502	501
Gain on sales of fixed assets	(1,563)	–
Gain on return of substitutional portion of the welfare pension fund plan	(13,933)	–
Gain on sale of cleaning and hygiene product business for the food and beverage industry	(511)	–
Expenses for business integration	–	28,077
Loss on disposal of fixed assets	–	3,063
Loss on disposal of inventories	893	1,271
Loss on withdrawal of chemicals business in the U.S.	3,443	–
Expenses related to transfer of OTC drugs business	1,624	–
Expenses related to closure of Kuanyin plant	1,276	–
Decrease (increase) in trade receivables	3,357	(9,330)
Decrease (increase) in inventories	3,391	(2,687)
(Decrease) increase in trade payables	(3,687)	6,081
Payments of bonuses to directors	(55)	(47)
Other	(32,138)	10,529
Subtotal	43,085	89,133
Interest and dividends received	1,310	1,354
Interest paid	(456)	(176)
Income taxes paid	(29,543)	(14,634)
Net cash provided by operating activities	14,395	75,676
II. Cash flows from investing activities		
Acquisition of fixed assets	(13,950)	(18,860)
Decrease in marketable securities	4,352	4,662
Proceeds from sales of investment securities	12,002	5,794
Purchases of investment securities	(35,719)	(33,789)
Proceeds from sales of shares of subsidiaries' stock resulting in changes in the scope of consolidation	3,415	–
Other	2,787	2,757
Net cash used in investing activities	(27,111)	(39,435)
III. Cash flows from financing activities		
Net decrease in short-term loans payable	(3,058)	(3,231)
Increase in long-term loans payable	–	490
Repayment of long-term loans payable	–	(67)
Redemption of convertible bonds	–	(47)
Cash dividends paid	(6,264)	(7,981)
Cash dividends paid to minority shareholders	(47)	(34)
Other	(91)	(72)
Net cash used in financing activities	(9,462)	(10,945)
IV. Effects of exchange rate changes on cash and cash equivalents	(2,037)	922
V. (Decrease) increase in cash and cash equivalents	(24,215)	26,219
VI. Cash and cash equivalents at beginning of the year	69,140	39,104
VII. Decrease in cash and cash equivalents due to exclusion from consolidation	(38)	–
VIII. Decrease in cash and cash equivalents due to the change in the fiscal year end of subsidiaries	(5,782)	–
IX. Cash and cash equivalents at end of the year	¥ 39,104	¥ 65,323

(Retirement Benefits)

Prior fiscal year (For the year ended March 31, 2004)	Current fiscal year (For the year ended March 31, 2005)
1. Description of retirement benefit plans The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plan, tax-qualified plans (closed type) and lump-sum payment plans. In addition, certain employees may be entitled to additional special retirement benefits upon early termination of employment based on the conditions under which termination occurs. Such benefits are not subject to the actuarial calculation required by the accounting standard for retirement benefits. Certain foreign consolidated subsidiaries have defined benefit plans or defined contribution plans. On March 1, 2004, the Company and certain domestic consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to their application for exemption from the obligation for benefits related to future employee services under the substitutional portion of the welfare pension fund plan.	1. Description of retirement benefit plans The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plan, tax-qualified plans (closed type) and lump-sum payment plans. In addition, certain employees may be entitled to additional special retirement benefits upon early termination of employment based on the conditions under which termination occurs. Such benefits are not subject to the actuarial calculation required by the accounting standard for retirement benefits. Certain foreign consolidated subsidiaries have defined benefit plans or defined contribution plans. On March 1, 2005, the Company and certain domestic consolidated subsidiaries received approval from the Minister of Health, Labor and Welfare with respect to their application for exemption from the obligation for benefits related to past employee services under the substitutional portion of the welfare pension fund plan.
2. Funded status of retirement benefit obligation (As of March 31, 2004)	2. Funded status of retirement benefit obligation (As of March 31, 2005)

(Millions of yen)

	March 31, 2004	March 31, 2005
(1) Retirement benefit obligation	¥(72,120)	¥(78,952)
(2) Plan assets at fair value	41,536	54,082
(3) Unfunded retirement benefit obligation (1)+(2)	(30,583)	(24,870)
(4) Unrecognized actuarial gain or loss	12,028	17,473
(5) Unrecognized prior service cost	(1,388)	(1,234)
(6) Net retirement benefit obligation recognized in the consolidated balance sheet (3)+(4)+(5)	(19,944)	(8,631)
(7) Prepaid pension costs	1,543	2,849
(8) Accrued retirement benefits (6)-(7)	¥(21,487)	¥(11,480)

Prior fiscal year (For the year ended March 31, 2004)	Current fiscal year (For the year ended March 31, 2005)
(Notes) 1. Certain subsidiaries adopted a simplified method in the calculation of their retirement benefit obligation. 2. In accordance with the transition provision prescribed by Article 47-2 of "Practical Guidelines for Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13) issued by the Accounting Committee of the Japanese Institute of Certified Public Accountants, the Company recognized a gain from the return of substitutional portion of the welfare pension fund plan by reducing the retirement benefit obligation and the pension plan assets related to such substitutional portion as of the date when the Company received the permission. The pension plan assets calculated to be returned as of March 31, 2004 amounted to ¥18,186 million.	(Note) 1. Certain subsidiaries adopted a simplified method in the calculation of their retirement benefit obligation.
3. Components of retirement benefit expenses *(Millions of yen)* (1) Service cost ¥ 5,072 (2) Interest cost 2,635 (3) Expected return on plan assets (1,042) (4) Amortization of actuarial gain or loss 2,621 (5) Amortization of prior service cost 154 (6) Additional retirement benefits paid 25 (7) Retirement benefit expenses ¥ 9,467 (8) Gain on return of substitutional portion of the welfare pension fund plan ¥13,933 (Notes) 1. The contributions made by the employees to the welfare pension fund plans have been excluded from the amounts shown in the above table. 2. Retirement benefit expenses for consolidated subsidiaries adopting the simplified method are included in "Service cost." 3. In addition to the retirement benefit expenses shown above, the Company has paid additional retirement benefits in the amount of ¥1,332 million to employees who transferred to a newly established affiliate to engage in the over-the-counter drug business and those early terminated their employment. Such payments were accounted for as a special loss during the year ended March 31, 2004.	3. Components of retirement benefit expenses *(Millions of yen)* (1) Service cost ¥ 4,174 (2) Interest cost 2,087 (3) Expected return on plan assets (1,034) (4) Amortization of actuarial gain or loss 1,269 (5) Amortization of prior service cost 154 (6) Additional retirement benefits paid 469 (7) Retirement benefit expenses ¥ 7,120 (Notes) 1. Retirement benefit expenses for consolidated subsidiaries adopting the simplified method are included in "Service cost." 2. In addition to the retirement benefit expenses shown above, the Company has paid additional retirement benefits in the amount of ¥15,663 million to employees who transferred to affiliates and those early terminated their employment as a result of the merger with Yamanouchi. Such payments were accounted for as a special loss during the year ended March 31, 2005.
4. Assumptions used in accounting for the retirement benefit obligation (As of March 31, 2004) (1) Attribution of retirement benefit obligation Straight-line method over the estimated years of services of the eligible employees (2) Discount rates Mainly 2.5%	4. Assumptions used in accounting for the retirement benefit obligation (As of March 31, 2005) (1) Attribution of retirement benefit obligation Same as left. (2) Discount rates Mainly 2.0%

Prior fiscal year (For the year ended March 31, 2004)	Current fiscal year (For the year ended March 31, 2005)
(3) Expected rates of return on plan assets Mainly 2.5%	(3) Expected rates of return on plan assets Same as left.
(4) Amortization period of prior service cost Prior service cost is being amortized mainly over the period of 10 years.	(4) Amortization period of prior service cost Same as left.
(5) Amortization period of actuarial gain or loss Actuarial gain or loss is being amortized mainly over the period of 10 years.	(5) Amortization period of actuarial gain or loss Same as left.

(Tax-Effect Accounting)

Prior fiscal year (As of March 31, 2004)

1. Significant components of deferred tax assets and liabilities

	(Millions of yen)
Deferred tax assets	
Inventories (unrealized profit and devaluation loss)	¥ 8,724
Accrued expenses	7,548
Amortization of deferred assets for tax purposes	5,853
Retirement benefits and pension expenses	4,949
Prepayments for research and development expenses	3,182
Loss on devaluation of investment securities and others	2,259
Depreciation of fixed assets	1,333
Tax loss carryforwards	485
Other	2,479
Total gross deferred tax assets	36,817
Valuation allowance	(295)
Total deferred tax assets	36,522
Deferred tax liabilities	
Unrealized holding gain on securities	(9,202)
Undistributed earnings of foreign subsidiaries	(1,376)
Reserve for advanced depreciation of fixed assets	(728)
Reserve for special depreciation	(685)
Depreciation	(143)
Other	(119)
Total deferred tax liabilities	(12,256)
Net deferred tax assets	¥ 24,265

2. The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate is summarized as follows:

	(%)
Domestic statutory tax rate	41.8
(Reconciliation)	
Permanently nondeductible expenses	5.4
Permanently nontaxable income	(0.2)
Change in valuation allowance	(1.0)
Tax deduction for research expenses	(3.4)
Undistributed earnings of foreign subsidiaries	0.1
Different tax rates applied to foreign subsidiaries	(0.9)
Deduction of deferred tax assets resulting from change in tax rate (from 41.8% to 40.4%)	0.1
Other	(1.7)
Effective tax rate after adoption of tax-effect accounting	40.2

Current fiscal year (As of March 31, 2005)

1. Significant components of deferred tax assets and liabilities

	(Millions of yen)
Deferred tax assets	
Accrued expenses	¥ 11,273
Inventories (unrealized profit and devaluation loss)	10,719
Amortization of deferred assets for tax purposes	5,205
Prepayments for research and development expenses	3,916
Loss on devaluation of investment securities and others	2,236
Depreciation of fixed assets	2,093
Tax loss carryforwards	1,187
Accrued enterprise tax	918
Other	2,604
Total gross deferred tax assets	40,156
Valuation allowance	(785)
Total deferred tax assets	39,371
Deferred tax liabilities	
Unrealized holding gain on securities	(9,336)
Undistributed earnings of foreign subsidiaries	(1,627)
Reserve for advanced depreciation of fixed assets	(684)
Reserve for special depreciation	(619)
Depreciation	(185)
Other	(104)
Total deferred tax liabilities	(12,558)
Net deferred tax assets	¥ 26,812

2. The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate is summarized as follows:

	(%)
Domestic statutory tax rate	40.4
(Reconciliation)	
Permanently nondeductible expenses	8.4
Permanently nontaxable income	(0.4)
Change in valuation allowance	1.5
Tax deduction for research expenses	(7.4)
Undistributed earnings of foreign subsidiaries	0.6
Different tax rates applied to foreign subsidiaries	(0.5)
Other	(0.4)
Effective tax rate after adoption of tax-effect accounting	42.0

Prior fiscal year (As of March 31, 2004)	Current fiscal year (As of March 31, 2005)
3. ______________________	3. Due to the merger with Yamanouchi Pharmaceutical Co., Ltd. effective April 1, 2005, a tax rate of 41.0% was used for the current year instead of 40.4% for the prior year in the calculation of deferred tax assets and liabilities. However, the impact of the tax rate change on the consolidated financial statements is immaterial.

(Segment Information)

Business segment information

Current fiscal year (For the year ended March 31, 2005)

(Millions of yen)

	Pharmaceuticals	Other	Total	Eliminations	Consolidated
1. Sales and operating income					
Sales					
(1) Sales to third parties	¥398,508	¥16,451	¥414,959	–	¥414,959
(2) Intergroup sales and transfers	4	9,549	9,554	¥ (9,554)	–
Total	398,512	26,001	424,514	(9,554)	414,959
Operating expenses	315,823	25,560	341,384	(9,773)	331,610
Operating income	¥ 82,688	¥ 440	¥ 83,129	¥ 219	¥ 83,349
2. Assets, depreciation and capital expenditures					
Total assets	¥375,904	¥21,357	¥397,261	¥158,972	¥556,234
Depreciation	18,475	1,006	19,482	–	19,482
Capital expenditures	12,623	705	13,328	–	13,328

Prior fiscal year (For the year ended March 31, 2004)

(Millions of yen)

	Pharmaceuticals	Other	Total	Eliminations	Consolidated
1. Sales and operating income					
Sales					
(1) Sales to third parties	¥373,511	¥21,889	¥395,401	–	¥395,401
(2) Intergroup sales and transfers	8	10,042	10,051	¥ (10,051)	–
Total	373,520	31,932	405,452	(10,051)	395,401
Operating expenses	317,492	31,822	349,314	(10,616)	338,698
Operating income	¥ 56,027	¥ 110	¥ 56,138	¥ 564	¥ 56,702
2. Assets, depreciation and capital expenditures					
Total assets	¥372,461	¥17,151	¥389,612	¥110,080	¥499,693
Depreciation	18,891	1,449	20,340	–	20,340
Capital expenditures	24,603	1,238	25,841	–	25,841

(Notes) 1. Major products in each business segment are as follows:

Business segment	Major products
Pharmaceuticals	Ethical pharmaceuticals, over-the-counter drugs for drugstores
Other	Medical supplies and systems (research reagents, reagents for clinical trials) Home care business (rental service of products for home care business)

2. There are no operating expenses which could not be allocated to each segment and were included in “Eliminations.”

3. Corporate assets were included in "Eliminations." Those assets consisting mainly of excess cash (cash and cash equivalents, marketable securities and others) of the Company amounted to ¥163,748 million and ¥113,802 million at March 31, 2005 and 2004, respectively.

4. Amounts for depreciation and capital expenditures include those for amortization and acquisition of long-term prepaid expenses.

Geographical segment information

Current fiscal year (For the year ended March 31, 2005)

(Millions of yen)

	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
1. Sales and operating income Sales (1) Sales to third parties	¥219,251	¥121,034	¥65,929	¥ 8,743	¥414,959	–	¥414,959
(2) Intergroup sales and transfers	63,350	1,300	4,028	6	68,687	¥ (68,687)	–
Total	282,602	122,335	69,958	8,750	483,647	(68,687)	414,959
Operating expenses	228,135	97,875	62,025	7,417	395,454	(63,843)	331,610
Operating income	¥ 54,466	¥ 24,460	¥ 7,932	¥ 1,332	¥ 88,192	¥ (4,843)	¥ 83,349
2. Total assets	¥290,062	¥ 76,722	¥56,335	¥10,307	¥433,427	¥122,807	¥556,234

Prior fiscal year (For the year ended March 31, 2004)

(Millions of yen)

	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
1. Sales and operating income Sales (1) Sales to third parties	¥221,739	¥108,435	¥57,639	¥7,585	¥395,401	–	¥395,401
(2) Intergroup sales and transfers	49,777	2,826	2,927	13	55,544	¥(55,544)	–
Total	271,517	111,262	60,567	7,599	450,946	(55,544)	395,401
Operating expenses	236,089	90,648	59,079	6,551	392,367	(53,669)	338,698
Operating income	¥ 35,427	¥ 20,614	¥ 1,487	¥1,048	¥ 58,578	¥ (1,875)	¥ 56,702
2. Total assets	¥287,461	¥ 76,287	¥52,677	¥6,095	¥422,521	¥77,172	¥499,693

(Notes) 1. Countries and areas are segmented based on their geographical proximity.

2. Major countries and areas which belong to segments other than Japan are as follows:
   (1) North America -- The United States, Canada
   (2) Europe ----------- Germany, The United Kingdom, France, Spain, Italy, The Republic of Ireland
   (3) Other ------------- The Peoples' Republic of China, Taiwan, Korea

3. There are no operating expenses which could not be allocated to each segment and were included in "Eliminations."

4. Corporate assets were included in "Eliminations." Those assets consisting mainly of excess cash (cash and cash equivalents, marketable securities and others) of the Company amounted to ¥163,748 million and ¥113,802 million at March 31, 2005 and 2004, respectively.

(Overseas Sales)

Current fiscal year (For the year ended March 31, 2005)

	North America	Europe	Other	Total
1. Overseas sales *(Millions of yen)*	¥130,145	¥66,274	¥17,445	¥213,864
2. Consolidated net sales *(Millions of yen)*				¥414,959
3. Overseas sales as a percentage of consolidated net sales	31.4%	16.0%	4.2%	51.5%

Prior fiscal year (For the year ended March 31, 2004)

	North America	Europe	Other	Total
1. Overseas sales *(Millions of yen)*	¥117,345	¥59,064	¥15,738	¥192,148
2. Consolidated net sales *(Millions of yen)*				¥395,401
3. Overseas sales as a percentage of consolidated net sales	29.7%	14.9%	4.0%	48.6%

(Notes) 1. Countries and areas are segmented based on their geographical proximity.

2. Major countries and areas which belong to segments other than Japan are as follows:

(1) North America -- The United States, Canada

(2) Europe ----------- Germany, The United Kingdom, France, Spain, Italy, The Republic of Ireland

(3) Other ------------- The Peoples' Republic of China, Taiwan, Korea

3. Overseas sales consist of export sales of the Company and sales (other than exports to Japan) of its foreign consolidated subsidiaries (except for intergroup sales).

(Significant subsequent event)

<table>
<tr><th>Prior fiscal year
(As of March 31, 2004)</th><th>Current fiscal year
(As of March 31, 2005)</th></tr>
<tr><td>On May 24, 2004, the Company entered into a basic agreement to merge with Yamanouchi Pharmaceutical Co., Ltd. and the Board of Directors of the Company approved a resolution concerning the merger on the same day. This agreement was subsequently approved at the general shareholders' meeting held on June 24, 2004.

1. Objectives of the merger

With the growing pressure to control medical expenses in the major developed countries, intensifying global competition for the development of new drugs and rising R&D expenditures, the business environment surrounding the pharmaceutical industry has become increasingly challenging. Competition in the domestic market has intensified as well, characterized by the further implementation of medical cost control policies such as drug price cuts and market penetration by global pharmaceutical companies.

Under these circumstances, in order to compete globally and achieve sustainable growth, it is necessary to increase R&D expenditures to create innovative new drugs, as well as to develop a stable global platform from which ever-increasing investment costs can be recouped.

Based on this common understanding, the Company and Yamanouchi have reached an agreement on the basic terms of their merger to enhance their core ethical pharmaceutical business and to succeed in a global arena where competition continues to intensify.

The Combined Company aims to achieve economies of scale through the integration of R&D as well as through the synergies of the sales and marketing capabilities of both companies. Together they will stand as a completely new entity, neither Yamanouchi nor Fujisawa, achieving profitability through the establishment of more efficient operational structures. The Combined Company will strive to contribute to health of people all over the world, earning their respect as a global pharmaceutical company with excellent R&D, and sales and marketing capabilities of its own.

2. Structure of merger and the contents of the merger agreement

(1) Yamanouchi will be designated as the surviving company and the Company will be dissolved.

(2) Effective date of the merger will be April 1, 2005. However, this schedule may be changed, due to the necessity of concluding merger proceedings after discussion by both companies.

(3) Name of the combined company will be "Astellas Pharma Inc."

(4) One share of common stock of the Company will be exchanged for 0.71 shares of the New Company.</td><td>Pursuant to the resolution made by general shareholders' meeting of the Company and Yamanouchi Pharmaceutical Co., Ltd. ("Yamanouchi") held on June 24, 2004 to approve the merger agreement, the Company merged with Yamanouchi effective April 1, 2005 and all assets, liabilities, rights ad obligations were transferred to Yamanouchi, which changed its name to Astellas Pharma Inc. on April 1, 2005.</td></tr>
</table>

<table>
<tr><th>Prior fiscal year
(As of March 31, 2004)</th><th>Current fiscal year
(As of March 31, 2005)</th></tr>
<tr><td>(5) The New Company will pay shareholders of the Company as of the day prior to the effective date of merger, 11 yen per share as a cash payment upon the merger, in lieu of the dividend to be paid for the fiscal year ending March 31, 2005. However, the amount to be paid may differ, subject to any changes in the assets, liabilities, or the financial conditions of the Company or to economic environment.

3. Profile of Yamanouchi Pharmaceutical Co., Ltd.

(1) Location of head office:
2-3-11, Nihonbashihoncho, Chuo-ku, Tokyo

(2) Representative: Toichi Takenaka President and CEO

(3) Capital: ¥99,760 million, (as of March 31, 2004)

(4) Main business: Manufacturing, marketing and import/export of pharmaceuticals, medical supplies, food and medical equipment, etc.

(5) Consolidated operating results for the year ended March 31, 2004
Net sales: ¥511.2 billion
Net income: ¥60.0 billion

(6) Consolidated balance sheet as of March 31, 2004
Total assets: ¥902.6 billion
Total liabilities: ¥174.8 billion
Total shareholders’ equity: ¥725.3 billion

(7) Number of employees (as of March 31, 2004)
Consolidated basis: 9,062
Non-consolidated basis: 4,088</td><td></td></tr>
</table>