Yamanouchi

Speed with Vision

Yamanouchi Pharmaceutical Co., Ltd.

Annual Report 2004

Speed with Vision

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-based discovery research

Growing Profits

- Expand sales of mainstay products and quickly launch new products

Raising Corporate Value

- Aim for continuous growth
- Raise management transparency
- Uphold the highest ethical standards
- Raise employee motivation

Table of Contents

1 Financial Highlights
2 Message From Management
6 Structural Reforms to Yield a Stronger Operating Base
12 From Yamanouchi to Astellas
16 Corporate Citizenship and Environmental Protection
17 Financial Section
51 Main Products and Pipeline
52 Corporate Data / Corporate Information
53 Stock Price Information / Common Stock
54 Principal Subsidiaries and Affiliates
55 Board of Directors

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.

Financial Highlights

	Millions of yen				
	2004	2003	2002	2001	2000
Net sales	**¥511,208**	¥506,603	¥481,328	¥457,913	¥433,653
Operating income	**100,960**	105,698	94,291	97,844	96,069
Net income*	**60,058**	59,858	55,160	40,341	57,175
Total assets*	**902,698**	898,170	896,949	896,280	829,286
Shareholders' equity, net*	**725,392**	678,773	666,067	677,713	620,221
Research and development expenses	**70,080**	66,874	65,169	54,567	54,821
Capital expenditures	**16,159**	27,171	29,730	36,828	29,831
Depreciation and amortization	**25,118**	25,482	26,342	30,804	23,460
		Yen			
Per share:					
Net income:					
Basic*	**¥ 181.09**	¥ 177.43	¥ 154.73	¥ 111.80	¥ 162.35
Diluted*	**179.46**	174.69	152.07	109.95	155.97
Shareholders' equity*	**2,190.69**	2,054.17	1,952.47	1,876.54	1,721.77
Cash dividends applicable to the year	**31.00**	28.00	25.00	25.00	25.00

* 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 debt 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.

Message From Management

Toichi Takenaka, Ph.D.
President and Chief Executive Officer

Amid increasingly harsh operating conditions in the pharmaceuticals industry both in Japan and overseas markets, we have taken a bold step in pursuit of our goal of being a market-oriented, R&D-driven global enterprise. On April 1, 2005, we plan to merge with Fujisawa Pharmaceutical Co., Ltd. to start over as a new company, Astellas Pharma Inc. We have received shareholder approval for this move. The merger with Fujisawa will create a global player capable of competing with the pharmaceutical majors of Europe and the United States. Our objective is to make this merger a success so we can generate greater corporate value through sustained future growth and development.

Results for Fiscal Year Ended March 2004

During the past fiscal year, competition grew among pharmaceutical firms worldwide in the development of new drugs and sales amid increasing curbs on medical expenses, mainly in developed countries. Under these circumstances, our consolidated net sales edged up 0.9% year on year to ¥511.2 billion, boosted by higher sales of mainstay products.

Looking at the performance of individual products, Harnal®, a leading treatment for the functional symptoms of benign prostatic hyperplasia, posted another year of higher sales in Japan and overseas. We also generated good sales growth from Micardis®, a long-acting angiotensin-II receptor antagonist that we launched in Japan in December 2002. Lipitor®, a treatment for hypercholesterolemia, recorded steady growth, raising its

share of the statin market in Japan to the 30% range. We also successfully minimized the decline in sales of Gaster®, a leading treatment for peptic ulcers and gastritis, in the face of stiff competition from rival drugs through the promotion of the product's superior profile and an ongoing switch from the conventional tablet formulation to Gaster® D, an orally disintegrating tablet. Although we made assiduous efforts to keep selling, general and administrative expenses down, profits suffered a slight negative impact as we raised R&D spending and made preparations for the commencement of independent marketing and sales activities in the U.S. market. Operating income thus slipped 4.5% to ¥101.0 billion. Net income for the year totaled ¥60.1 billion, a year-on-year increase of 0.3%.

Medium-Term Issues

Under our current medium-term business plan, we have positioned the three years through to March 2005 as a period for structural reforms to ensure Yamanouchi can prevail against global competition in the years ahead. We are implementing four core strategies in this respect: strengthen the pharmaceutical business, optimize the business structure, strengthen the financial position, and improve corporate governance.

Strengthening the Pharmaceutical Business

Our objective is to build a highly competitive position in Japan, the world's second-largest pharmaceuticals market, since this serves as the base for all Yamanouchi operating activities. While expanding and maintaining sales of our mainstay products, notably Harnal®, Lipitor®, Micardis® and Gaster®, we aim to bring to market quickly new products with high potential such as YM177 (celecoxib).

The most important theme in our medium-term business plan is to start independent marketing and sales in the United States, the world's largest pharmaceuticals market. The first product that we plan to market under this structure is YM905 (proposed brand name: Vesicare®), a treatment for urinary frequency, urinary incontinence or urgency associated with overactive bladder. In October 2003, we received an approvable letter from the U.S. Food and Drug Administration (FDA) for YM905. Now that we have supplied additionally requested data, we expect to receive FDA regulatory approval for Vesicare® at the end of 2004. To ensure quick, effective market penetration with YM905, we signed in August 2003 a co-promotion agreement with GlaxoSmithKline plc covering the U.S. market. Soon we will begin our own full-scale operations in the United States. In Europe, we gained regulatory approval in June 2004 for Vesicare® in 17 leading European markets. Plans call for launches to begin progressively from fall 2004 onwards. We hope to solidify our presence in the urology therapeutic area with Vesicare®.

A promising long-term product pipeline is the key to remaining globally competitive in the pharmaceuticals industry. We continue to invest in R&D, with a stronger emphasis on genomics-based drug discovery research to generate valuable new drug candidates. In clinical development, we have focused on global integration of our programs in Japan, the United States and Europe. At the same time, we have continued to enhance the efficiency of our R&D processes through the strategic application of IT, creating a highly integrated process from drug discovery and preclinical research to clinical development and regulatory approval.

A final aspect of our strategy has been to use resources effectively through a policy of selection and concentration and to make business processes more efficient and rationalized. The aim is to raise profitability and improve the return on assets. In this vein, we decided to completely outsource our logistics operations in Japan. On the production side, we closed a plant in Taiwan in June 2004 and we plan to spin off two drug formulation plants in Japan into a separate company in April 2005. These moves are important elements of a broader initiative to consolidate and rationalize Yamanouchi Group manufacturing

facilities in Japan to raise productivity. In parallel with these measures, we are working on developing our global quality assurance systems, partly in light of the upcoming start of independent marketing and sales activities in the United States.

Optimizing the Business Structure

The Yamanouchi Group consisted of three business segments: the pharmaceuticals business, the nutritional and personal care products business, and the food and roses business. With a view to maximizing the corporate value of the entire group, we made strict evaluations of the value and potential of each business while looking at multiple approaches to raising value in each area. As a result of these deliberations, we adopted a basic policy of concentrating resources on our core operations in ethical pharmaceuticals and implemented the following business restructuring.

In the area of over-the-counter (OTC) medicines, which is one part of our pharmaceuticals business, we plan to create a joint venture with Fujisawa into which both firms will merge their OTC operations. The new company, Zepharma Inc., is due to commence operations on October 1, 2004. It will be an autonomous entity, run independently of its parent companies. By creating a new corporate culture, developing a highly competitive approach, and providing products that raise customer satisfaction to even higher levels, Zepharma aims to fulfill its latent potential in the field of self-medication.

Having decided to sell our businesses in the nutritional and personal care products business and food and roses business segments, we completed transactions for the former (which was operated by Shaklee Japan K.K., Shaklee Corporation and INOBYS Ltd.) in May 2004 and for the latter (which was operated by Bear Creek Corporation) in June 2004.

Strengthening the Financial Position

Since the law was amended in 2001 to allow Japanese companies to hold their own shares, we have bought around 33.5 million shares in the market as treasury stock, including 3.5 million shares in May and June this year. We plan to use 29 million shares of treasury stock in lieu of issuing new equity for some of the shares to be allotted under the merger with Fujisawa. We intend to maintain a proactive financial policy directed at higher capital efficiency and increased shareholder value. Effective use of cash liquidity and share buybacks will play a prominent role.

Improving Corporate Governance

As part of our efforts to improve corporate governance and management of the company so as to enhance corporate value, in the year ended March 2004 we introduced stock options for directors of the Board and key employees. In addition, in June 2004 we introduced a system of corporate officers and having obtained shareholders' approval, appointed an outside director. The former move served to clarify the separation of management oversight and operational execution roles within top management, while also promoting speedier and more effective decision-making.

The Board of Directors now comprises five members, including one outside director. The new composition brings a greater breadth of experience to top-level decision-making processes, thereby reinforcing oversight of policy execution. The appointment of an outside director, the first in Yamanouchi's history, will bring a greater level of transparency and objectivity to management. The appointment of executive officers with enhanced authority to execute measures in line with business policies decided by the Board will also help to speed up implementation.

Overall management of policy execution is my responsibility as president and CEO. I would like to promote management that is transparent and expeditious.

Realizing the Vision Through Astellas

The year ended March 2004 was an historic one for Yamanouchi. Besides marking the 80th anniversary of the company's establishment, it constituted a major turning point for us. As operating conditions in the pharmaceutical industry worldwide continue to become increasingly harsh and intensely competitive, our merger with Fujisawa to form Astellas on April 1, 2005 is expected to be a major step toward our goal of being a market-oriented, R&D-driven global enterprise.

With another round of M&A-driven consolidation among the leading U.S. and European pharmaceutical firms in prospect, it became imperative for us to consider the option of a merger as a means of attaining a sufficient scale of operations to be competitive at the global level and achieve our vision. This strategic choice is now on track to become a reality.

The fit between Yamanouchi and Fujisawa in terms of areas of product strength is highly complementary. The merger is also expected to augment the scale of our operations, generating considerable synergy in terms of R&D and sales and marketing. Merger of our drug pipelines will create an extremely strong pipeline spanning a broad range of therapeutic areas. In addition, the merger stands to enhance our global competitiveness in R&D terms, because we will have greater scope to invest more heavily in drug development. In Japan, we expect to be even more competitive due to the establishment of a powerful sales framework, with both quantitative and qualitative benefits. Moreover, by effectively using existing business bases, we expect to expand business in the United States, across Europe and in Asia. Finally, at the operating performance level, we expect these gains to translate into increased sales and cost reductions through synergies, leading to higher profitability.

Aiming for Global Player Status

We took the decision to merge with Fujisawa to create an entirely new company backed by sophisticated R&D capabilities and its own marketing and sales network with the ability to compete in world pharmaceuticals markets. We believe that the merger will elevate us toward the rank of global player, one that is able to compete head to head with major U.S. and European pharmaceuticals companies.

Yamanouchi and Fujisawa share a key aspect of corporate philosophy — the notion that the mission of a pharmaceuticals company is to develop products that contribute to the well-being of people all over the world. This idea will occupy a central part in the philosophy of Astellas, and the basic thinking will not change. Our ultimate goal will also remain the same: to create higher corporate value through sustained growth and development.

In closing, I ask shareholders for their continued support and understanding as Yamanouchi embarks on its transformation into Astellas.

July 2004

Toichi Takenaka, Ph.D.
President and Chief Executive Officer

Structural Reforms to Yield a Stronger Operating Base

Yamanouchi's long-term vision is to maximize corporate value by becoming an R&D-driven global enterprise. In the fiscal year ended March 2004, Yamanouchi worked to bolster its operating base so as to prevail against global competition. The company continued an efficiency and streamlining drive across its operations. At the same time, Yamanouchi rebuilt its operations with the view to optimizing the business structure, putting in place a framework for concentrating resources in its core ethical pharmaceuticals business. By executing various reforms with a sense of urgency, Yamanouchi aims to increase the corporate value of the group.

Domestic Pharmaceuticals Business

Expanding Leading Products, Achieving Rapid Market Penetration of New Products

Amid increasingly intense competitive conditions for domestic pharmaceuticals companies, Yamanouchi is leveraging its outstanding sales capabilities to maximize the value of leading products, including Harnal®, Lipitor®, Gaster® and Micardis®, as well as to achieve early market penetration of new products. In this way, Yamanouchi is establishing a competitive edge in the Japanese pharmaceuticals market.

Harnal®

Harnal® currently dominates the market for treatments of benign prostatic hyperplasia (BPH) in Japan, with a share of approximately 56%. Although introduced about 10 years ago, Harnal® continues to post steady growth in sales. In the year ended March 2004, sales of Harnal® in Japan rose 6.8% to ¥46.7 billion. Given that 1 in 5 men over the age of 55 is believed to experience BPH symptoms, Japan represents a market with huge latent demand. Through patient education programs using the media and other forms of communication, Yamanouchi is working to expand the market and raise sales of Harnal® even more. Furthermore, to maximize Harnal®'s product value, Yamanouchi is making progress with an additional indication for lower urinary tract symptoms and an additional formulation, an orally disintegrating tablet (WOWTAB®), as part of the drug's lifecycle management program.

Lipitor®

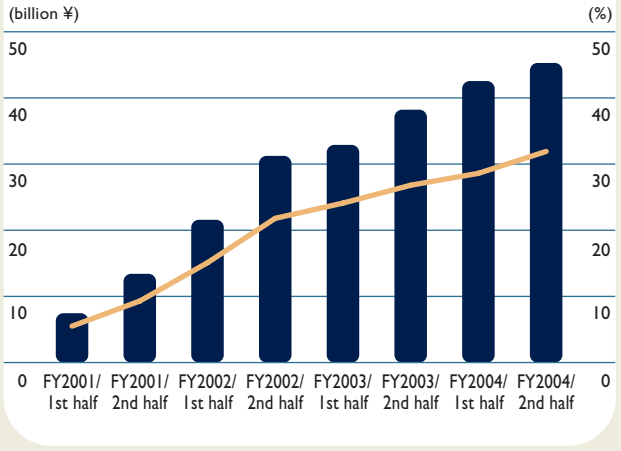
Lipitor®, a treatment for hypercholesterolemia that was launched in Japan in May 2000, continues to record steady sales growth as a result of its outstanding efficacy and safety profile. Sales in Japan in the year ended March 2004 climbed 22.4% year on year to ¥77.6 billion, raising the share of Lipitor® in the statin market from 25% in the previous fiscal year to 30%.

Looking ahead, under co-promotion with Pfizer Japan Inc., Yamanouchi intends to bolster sales activities with the strategic goal of making Lipitor® the number-one statin in Japan. This will be achieved by using a broad range of clinical data gathered in Japan and overseas to conduct promotional activities.

Gaster®

Although Gaster®, a treatment for gastritis and peptic ulcers, has been on the market for 19 years, a broad range of indications, proven record of safety and efficacy, and substantial usage in clinical settings, have made it an established brand in this area in Japan. In the year ended March 31, 2004, while Gaster® D, an orally disintegrating tablet formulation launched in September 2000, recorded

Sales and Market Share of Lipitor®



Notes: 1. Fiscal years ended March 31.
2. NHI drug price basis.

steady sales growth, total sales of Gaster® declined 4.6% year on year to ¥78.9 billion amid a strong challenge by rival product Proton Pump Inhibitors, or PPIs. Outstanding drug delivery technology and convenience are behind the higher sales of Gaster® D, which now accounts for around 60% of total sales of Gaster® tablets.

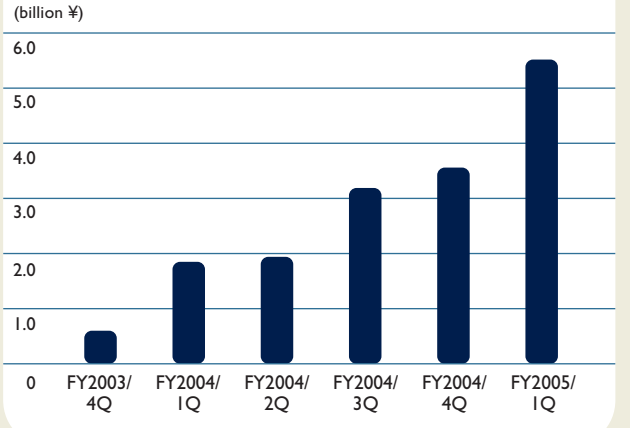
Yamanouchi's aim moving forward is to preserve its market share in peptic ulcer treatments, while expanding sales from prescriptions for gastritis, an area with a large number of prescriptions and where rival products do not have an indication, to minimize sales declines.

Micardis®

Micardis®, a long-acting angiotensin-II receptor antagonist launched in Japan in December 2002, saw sales continue to rise in the year ended March 2004 due to its unique advantages. Because of its sustained action, Micardis® is especially useful in offering greater control in the morning, when rising blood pressure often poses a higher risk of ischemic events. It also offers considerable advantages for patients with renal dysfunction, since it is eliminated virtually 100% via biliary excretion. Sales have been boosted since the January 2004 lifting of the mandatory two-week maximum prescribing limit for this drug, enabling longer prescriptions to be written. Sales in the year ended March 2004 were ¥8.6 billion, compared with sales of ¥3.1 billion for 4 months in the previous fiscal year.

Through continued active co-promotion with Nippon Boehringer Ingelheim Co., Ltd., Yamanouchi aims to further expand sales of Micardis®.

Sales of Micardis®



Notes: 1. Fiscal years ended March 31.
2. NHI drug price basis.

New Products

In December 2002, Yamanouchi filed for regulatory approval for YM177 (celecoxib), a drug for the treatment of rheumatoid arthritis and osteoarthritis that selectively inhibits the COX-II (cyclooxygenase-2) enzyme. In Japan, YM177 was developed jointly with Pfizer Japan. Annual sales in the Japanese anti-inflammatory drugs market are around ¥100 billion at present, but no selective COX-II inhibitor is yet on the market. Yamanouchi's aim is to quickly penetrate the market with YM177 through co-promotion with Pfizer Japan.

Regarding YM905, a treatment for urinary frequency, urinary urgency and incontinence, Yamanouchi is making preparations to file a regulatory application as soon as possible in Japan. The development process is more advanced in Europe and the United States. Given the large number of potential patients afflicted by these ailments and Yamanouchi's strengths in the field of urology, the company aims to grow YM905 into a blockbuster drug soon after regulatory approval is forthcoming.

Overseas Development

Start of Independent Marketing and Sales in the U.S.

Global business development is necessary for Yamanouchi to achieve continuous growth in corporate value. For this, Yamanouchi must solidify its operating base in Europe and, at the same time, establish an independent marketing and sales network in the United States, the world's largest pharmaceuticals market and one with significant growth potential. Yamanouchi's strategy for establishing a sustainable competitive position in the U.S. is to first build a beachhead in urology, a field where the company is strong and prospects for growth are excellent.

Vesicare®, a treatment for urinary frequency, urinary urgency and incontinence associated with an overactive bladder (OAB), is the first product that Yamanouchi expects to market in the U.S. using its independent marketing and sales network. Having received an approvable letter from the U.S. Food and Drug Administration (FDA) in October 2003, Yamanouchi is poised to begin sales of Vesicare® by the end of 2004.

To quickly and efficiently penetrate the market with Vesicare®, Yamanouchi signed an agreement in August 2003 for the co-promotion of Vesicare® with the U.S. subsidiary of GlaxoSmithKline plc. (GSK) in the U.S. Yamanouchi Pharma America, Inc. (YPA) will concentrate on specialists while GSK will conduct promotional activities targeted at primary care physicians (PCPs). Urologists and gynecologists, although relatively small in number, write around one-third of all prescriptions for OAB medications in the U.S. Furthermore, the leading 40% of these specialists account for approximately 90% of such prescriptions. Consequently, YPA expects to be able to conduct efficient promotional activities with relatively few MRs at the start of sales of Vesicare®. Where PCPs are concerned, while the number of prescriptions per PCP is a mere one-eighth of those written by urologists, because their number is large, PCPs account for more than 50% of all prescriptions for OAB. By having GSK, with its powerful sales network, cover PCPs, Yamanouchi expects Vesicare® to quickly penetrate the market.

YPA has already hired 135 MRs for promotional activities targeted at specialists and is striving to smoothly launch independent marketing and sales of Vesicare®, which holds the key to development of operations in the U.S., to strengthen its base in the market for prescriptions issued by urologists.

Yamanouchi's prime objective in the U.S. is to develop a strong and competitive profile through targeted business development activities in the urology field and the establishment of an efficient marketing and sales organization. However, a key to successful development in the U.S. is expansion of business to the huge general practitioner market. Yamanouchi is determined to seize opportunities to make inroads in this market.

A Strong Product Pipeline in the U.S.

YM087, a treatment for hyponatremia, is an inhouse product following Vesicare® in the U.S. Yamanouchi filed a new drug application (NDA) for YM087 with the FDA in January 2004. While around 1-6% of the roughly 30 million inpatients every year in the U.S. are said to suffer from hyponatremia, there is presently no effective treatment for this condition on the market. If approved, YM087 would be the world's first drug for the treatment of hyponatremia.

Aiming for Leadership in Urology in Europe

Yamanouchi has already built its own integrated clinical development, manufacturing and marketing and sales network in Europe. Today, the company owns 14 operating bases across Europe and has a sales force of approximately 860 MRs. The success of Harnal® (Omnic®) firmly established Yamanouchi's reputation in European urology.

In Europe, besides continuing to maximize sales of Harnal®, Yamanouchi is developing a TOCAS (Tamsulosin Oral Controlled Absorption System) formulation. This formulation applies OCAS, or Oral Controlled Absorption System, an exclusive Yamanouchi drug delivery system. In February 2004, Yamanouchi filed an application for regulatory approval under the mutual recognition process with the Netherlands as the reference member state.

Vesicare® is expected to follow in Harnal®'s footsteps as a fulcrum of Yamanouchi's operations in the urology therapeutic area in Europe. In June 2004, Yamanouchi obtained regulatory approval for this drug in 17 European countries, including France, Germany, Italy and the U.K. Yamanouchi plans to launch sales progressively in these countries from the fall of 2004. To expand its product lineup in the urology therapeutic area, in January 2004 Yamanouchi acquired sales rights in Europe from MediGene AG for Eligard®, a treatment for advanced prostate cancer. Eligard® was launched in Germany in May 2004.

By ensuring that the competitive edge developed with Harnal® is successfully applied to the launch of Vesicare® and other products, Yamanouchi aims to enhance its position in the field of urology in Europe.

Co-promotion Agreement for Flomax® in the U.S.

On August 16, 2004, Yamanouchi announced an agreement for co-promoting Flomax® (Harnal®) in the U.S. with Boehringer Ingelheim Pharmaceuticals, Inc. (BIPI). In accordance with this agreement, Yamanouchi will recruit an additional 200 MRs for promotion to primary care physicians (PCPs) with the view to expanding sales beginning in October 2004 from the specialists market to the PCP market. These newly hired MRs will also be deployed to conduct co-promotional sales activities with GSK for Vesicare®, which Yamanouchi expects to launch at the end of 2004.

Product Portfolio in the U.S.

	Specialist	PCP	Launch/start of promotion*
Flomax® (tamsulosin)	BIPI and Yamanouchi	BIPI and Yamanouchi	October 2004
Vesicare® (solifenacin succinate)	Yamanouchi	GSK and partly Yamanouchi	End of CY 2004
VALTREX®–GSK (Vesicare® QPQ)	Yamanouchi (partly)	—	August 2004
YM087	Yamanouchi	—	2005 or later

*Schedule

Yamanouchi MRs: 135 for urology specialists and 200 for PCPs

Optimize the Business Structure

For many years, the Yamanouchi Group's businesses were divided into three business segments: the pharmaceuticals business, the nutritional and personal care products business, and the food and roses business. With a view to maximizing the corporate value of the entire group, Yamanouchi conducted exhaustive evaluations of the value and potential of each business while examining multiple approaches to raising value. This process led to the adoption of a basic policy of concentrating resources on ethical pharmaceuticals and the implementation of the following business restructuring program.

Divestment of the Consumer Business

In April 2004, Yamanouchi decided to divest its businesses in the nutritional and personal care products and food and roses segments. Based on this decision, in May 2004, all shares held in Shaklee Japan K.K., Shaklee Corporation and INOBYS Ltd., entities connected with the former segment, were sold to a partnership established by Activated Holdings LLC and RHJ Industrial Partners, an affiliate of Ripplewood Holdings LLC. The following month, Bear Creek Corporation, the company handling food and roses operations, was sold to Wasserstein & Co., LP. With the completion of these transactions, resources can now be concentrated on ethical pharmaceuticals, the core business of the Yamanouchi Group.

Integration of OTC Business with Fujisawa —the Establishment of Zepharma

Yamanouchi has decided to merge its OTC pharmaceuticals business with that of Fujisawa in a new joint venture, Zepharma Inc., on October 1, 2004. The overriding goal of this business integration is to cement a strong base for growth. The intention is to increase competitiveness in the OTC market and raise profitability through gains in efficiency. With prospects for an increasing number of opportunities driven by advances in self-medication and deregulation, Zepharma will capture synergies for the business integration to win even greater trust from consumers and enhance its presence in the OTC pharmaceuticals market.

From Yamanouchi to Astellas

Yamanouchi will start afresh as Astellas Pharma Inc. on April 1, 2005 upon its merger with Fujisawa Pharmaceutical Co., Ltd. Astellas will aim to prevail as a global player in pharmaceuticals markets, backed by a more resilient business platform that integrates the two companies' R&D and marketing and sales capabilities. Astellas aims to raise corporate value through the continuous growth and development of its businesses, continually creating new products as an R&D-driven global pharmaceuticals company.

An Interview with the President

Q1 What is the background behind the merger with Fujisawa?

The dearth of new drugs worldwide, burgeoning costs for investment in drug discovery and moves by some global pharmaceuticals companies to become even bigger are all sparking fierce competition, increasing the difficulty of succeeding in the pharmaceuticals industry. This comes at a time when more curbs are being placed on medical expenses, particularly in developed nations. No-holds-barred reform, not merely an extension of previous actions, is essential if Japanese pharmaceuticals companies are to compete on the same footing as major Western drug companies, many of which have been restructuring their operations, and to achieve continuous growth.

Q2 Why did you decide to merge with Fujisawa?

We have executed various reforms and overcome many hurdles in our quest to realize our vision of growing as an R&D-driven global enterprise. However, realizing this vision was expected to take a long time based on our present size. And given the speed at which major Western pharmaceuticals firms are growing, we had a limited amount of time to catch up. Management examined various options, but through the course of candid discussions with my counterpart at Fujisawa, Dr. Hatsuo Aoki, I became convinced that our companies could share a common vision for the future. Furthermore, we decided that merging to establish a more powerful business platform was the best option for both companies to prevail as a global player.

Q3 What are your aspirations for Astellas?

I believe that Yamanouchi and Fujisawa are an ideal match as we have a highly complementary relationship. There is virtually no overlap in terms of the strengths of our products. With a rich product portfolio and the largest and most proficient corps of MRs of any Japanese pharmaceuticals company in Japan, Astellas is well placed to establish a competitive edge in marketing and sales activities. In the U.S., we expect to quickly expand by effectively utilizing Fujisawa's existing business platform to provide broad coverage for both specialists and primary care physicians (PCP). Astellas will also be able to make sufficient investments in R&D to compete with Western heavyweights and broaden the new product pipeline.

Astellas will thus boast a solid operating base in the major pharmaceuticals markets of Japan, the U.S. and Europe, and growth-driving R&D capabilities to compete on the global playing field.

The merger is the starting point for us to prevail as a global player. As a global pharmaceuticals company with outstanding R&D capabilities and its own marketing and sales networks, Astellas will be well positioned to contribute to the health and well-being of people worldwide.

The Management Team

The chairman of Astellas will be Dr. Hatsuo Aoki, currently president of Fujisawa, and the president and CEO will be Yamanouchi president Dr. Toichi Takenaka. Astellas will adopt the corporate officer system to separate management and operational execution and clarify responsibilities for those roles. This will promote speedier and more effective decision-making as well as enhance management transparency. The Board of Directors will determine group strategy and policies as well as other important matters, whereas corporate officers will be responsible for executing operations in accordance with these decisions. The chairman will preside over the Board of Directors while the president's role is to control the overall business operations. There will be eight directors on the Board, two from outside the company, and four corporate auditors, two of whom will be outside auditors.

Left: Hatsuo Aoki, President of Fujisawa
Right: Toichi Takenaka, President of Yamanouchi

astellas

"Astellas" expresses the idea of "aspired stars" and "advanced stars" based on the Latin "stella," Greek "aster," and English "stellar," which all refer to "stars." In Japanese, "Astellas" also sounds like "a-su wo te-ra-su," which means "to shine on tomorrow." The name signifies the two founding companies' aim to deliver hope for the future through state-of-the-art pharmaceuticals to all those who wish for good health, and to develop into a global, mega pharmaceuticals company that originates in Japan.

Business Prospects

A Dominant Presence in Japan

Yamanouchi has one of the leading sales forces in the Japanese pharmaceuticals market. The merger with Fujisawa is expected to create an even greater presence in Japan. Astellas will have one of the highest market shares in Japan as well as one of the largest corps of MRs of any pharmaceuticals company. Astellas will aim to expand sales in two main ways. One is by concentrating sales resources on targeted therapeutic areas and products. The other is by continually bringing to market and nurturing new products. Looking further ahead, the goal is to have the leading sales capabilities in Japan in terms of both quality and volume. The new company will do this by creating an effective and efficient sales framework that can maximize product value.

An Expanding Global Presence

Success in the U.S. pharmaceuticals market, the world's largest, is critical to prevailing as a player on the global stage. Yamanouchi is striving to establish a franchise in the therapeutic area of urology in the U.S. that is about to be built around Vesicare®, which is expected to be launched by the end of 2004. Fujisawa, on the other hand, has already established an operating platform in the U.S. as evidenced by the sale of a number of original products. Astellas will aim to make the most of a rich portfolio of existing products while quickly penetrating the market with and generating profits from new products.

In Europe, both Yamanouchi and Fujisawa already have strong operating bases supported by integrated R&D, production and marketing systems. Plans call for leveraging the existing mainstay products and for launching and achieving rapid market penetration with Vesicare®, micafungin and other products to build a greater presence in Europe. At the same time, Astellas will improve its profitability to build a stable earnings platform in Europe by pursuing efficiency gains in operations.

More Powerful and Efficient R&D

Astellas will have a powerful new drug pipeline with promising drug candidates in a wide range of therapeutic areas. Furthermore, Yamanouchi believes that the merger will give Astellas the R&D budget required to be competitive in the global market. The merger will facilitate large investments in drug discovery research, as well as make possible large-scale clinical trials and alliances for licensing-in products, among other options not previously open to either company. It will thus bolster R&D capabilities across the board.

Increased productivity and speed in R&D is one more benefit. The fusion of the two companies' strengths in terms of therapeutic areas and technologies will lead to greater diversity in drug discovery approaches. In addition, the quality of drug discovery research is expected to improve. Another advantage stemming from the merger will be accelerated drug discovery research due to the prioritization of resources on certain therapeutic targets and areas.

Corporate Citizenship and Environmental Protection

80th Anniversary Marked With More Vehicle Donations to Welfare Facilities

Every year, Yamanouchi donates wheelchair-compatible vehicles to relatively small welfare facilities using funds collected by The Three-Nine Fund, a program through which the company matches donations made by Yamanouchi employees. In 2003, Yamanouchi commemorated the 80th anniversary of its founding by donating 80 such vehicles to 80 welfare facilities throughout Japan, thanks to additional voluntary contributions by employees and the company. These vehicles were well received by the facilities, while many employees around the country who attended the presentation ceremonies said how satisfying it was to participate in activities that contribute to their communities.

Environmental e-Learning Introduced

Since formulating its Basic Policy for the Environment in 1994, Yamanouchi has positioned environmental protection as an important corporate theme, given its deep involvement with peoples' health. In the past, Yamanouchi has conducted environmental education programs at laboratories and production facilities. However, in March 2004, it introduced an environmental e-learning program. Using the company's intranet, this online program is targeted at all employees in Japan, including sales and corporate staff. The program tackles the issues of environmental problems and sustainability and is based on a step-by-step approach, beginning with a basic introduction.

Yamanouchi expects this approach to learning to raise employees' awareness with respect to environmental measures, and hopes it will inspire them to act in more environmentally conscious ways in the workplace, at home and in society at large.

An Award-Winning Environmental Report

In 2003, an environmental report published by Yamanouchi Ireland Co., Ltd. won an award from the Association of Chartered Certified Accountants (ACCA). This award is given to companies that prepare outstanding environmental reports in terms of transparency, detail and credibility in accordance with the EU Eco Management and Audit Scheme (EMAS). Reports are judged by an independent panel of experts who are acknowledged specialists in environmental and sustainability reporting. Yamanouchi Ireland's award-winning report gives a detailed and objective account of the company's environmental performance in plain terms, and outlines its environmental commitments for the future.

Selected Financial Highlights

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen, except per share amounts				
	2004	2003	2002	2001	2000
Operating Results for the Year:					
Net sales	**¥511,208**	¥506,603	¥481,328	¥457,913	¥433,653
Cost of sales	**173,791**	175,249	167,535	150,107	125,254
Selling, general and administrative expenses	**236,457**	225,656	219,502	209,962	212,330
Operating income	**100,960**	105,698	94,291	97,844	96,069
Net income*	**60,058**	59,858	55,160	40,341	57,175
Research and development expenses	**70,080**	66,874	65,169	54,567	54,821
Capital expenditures	**16,159**	27,171	29,730	36,828	29,831
Depreciation and amortization	**25,118**	25,482	26,342	30,804	23,460
Per Share:					
Net income* (basic)	**¥ 181.09**	¥ 177.43	¥ 154.73	¥ 111.80	¥ 162.35
Net income* (diluted)	**179.46**	174.69	152.07	109.95	155.97
Shareholders' equity*	**2,190.69**	2,054.17	1,952.47	1,876.54	1,721.77
Cash dividends applicable to the year	**31.00**	28.00	25.00	25.00	25.00
Financial Position at Year-End:					
Working capital	**¥468,915**	¥411,330	¥395,022	¥401,567	¥344,937
Property, plant and equipment, net	**174,120**	190,574	197,119	188,241	182,341
Total assets*	**902,698**	898,170	896,949	896,280	829,286
Total long-term liabilities	**64,697**	69,417	71,676	87,028	88,887
Shareholders' equity, net*	**725,392**	678,773	666,067	677,713	620,221
Number of shares of common stock issued (in thousands)	**361,216**	361,216	361,203	361,151	360,246

* 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 debt 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.

Management's Discussion and Analysis

MANAGEMENT PHILOSOPHY & POLICIES

Yamanouchi's corporate philosophy is "Creating and Caring … for Life." Based on this thinking, the mission of the company is to contribute to the improved health of people worldwide by discovering new products and by pursuing enhanced customer satisfaction. These efforts represent a sincere attempt to fulfill responsibilities to all stakeholders—shareholders, customers, employees, and society. From the starting point of the hopes of patients for a better life promised by new medicines, Yamanouchi leverages the combined creativity of its work force to deliver sustained growth in corporate value. This is a common philosophy shared by all who work in the Yamanouchi Group worldwide. The business approach is summed up in the following phrase: new product-driven value-creation management. As a company concerned with peoples' lives and well-being, Yamanouchi recognizes its duty in ensuring all its business practices comply with relevant laws and regulations and are conducted with a high regard for business ethics. The company has recently instituted internal measures to upgrade its compliance systems further. Yamanouchi also maintains longstanding programs that aim to protect the environment and make various contributions to society as a corporate citizen.

On May 24, 2004, as part of the drive to reinforce the business base amid increasingly fierce global competition, Yamanouchi finalized an agreement to merge with Fujisawa Pharmaceutical Co., Ltd. of Japan. The merger will take effect on April 1, 2005, following its approval at the ordinary annual meeting of shareholders on June 24, 2004.

The merger aims to achieve economies of scale through the integration of both companies' R&D and marketing and sales capabilities while raising profitability through increased efficiency. The merger will be an opportunity to create a completely new company, one whose superior R&D expertise combined with independent marketing and sales capabilities in all the world's major pharmaceuticals markets will result in a global player dedicated to contributing to human health.

BUSINESS STRATEGY

Guided by a long-term vision of being an R&D-driven global enterprise, the Yamanouchi Group conducts its business activities with the aim of maximizing corporate value. In September 2002, Yamanouchi announced a medium-term business plan for the three years through to March 2005, which is positioned as a period for structural reforms to ensure Yamanouchi can prevail against global competition in the years ahead. There are four core strategies: strengthen the pharmaceutical business, optimize the business structure, strengthen the financial position, and improve corporate governance. The sections below discuss the various ongoing moves to strengthen the pharmaceutical business and optimize the business structure.

STRENGTHENING THE PHARMACEUTICAL BUSINESS

Establishment of a strongly competitive position in the Japanese market

The Yamanouchi Group aims to enhance its competitive edge in the Japanese pharmaceuticals market, the second largest in the world. To achieve this goal, Yamanouchi endeavors to expand and maintain its principal products, such as Harnal®, a treatment for the functional symptoms of benign prostatic hyperplasia (BPH), Lipitor®, a treatment for hypercholesterolemia, Micardis®, an angiotensin-II receptor blocker, and Gaster®, an H_2 antagonist, while striving to rapidly foster new drug candidate groups ready for launch.

Commencement of independent U.S. marketing and sales activities

Commencing independent marketing and sales activities in the U.S. pharmaceuticals market, the world's largest, has been given top priority in Yamanouchi's medium-term business plan. As the first product to be sold in the United States, YM905 (proposed brand name: Vesicare®; for urinary frequency, urinary incontinence or urgency associated with overactive bladder) received an approvable letter from the Food and Drug Administration (FDA) in October 2003. YM905 is expected to be launched in 2004. In August 2003, Yamanouchi Pharma America, Inc. (YPA) signed an agreement to co-promote YM905 with the U.S. subsidiary of GlaxoSmithKline plc of the U.K., with the aim of quick and effective market penetration in the United States. A new drug application (NDA) for YM087, a treatment for hyponatremia, was filed with the FDA in January 2004. YM087 is positioned as a new product following YM905.

Enhancement of R&D capabilities; focus on genomics-based drug discovery research

The Yamanouchi Group is actively engaged in genomics-based drug discovery research in order to ensure a superior position in the R&D area amid significantly intensified competition among pharmaceuticals companies pursuing the development of new drugs, and to enrich its long-term product pipeline. Additionally, the Yamanouchi Group is endeavoring to strengthen the global alliance among its research facilities in Japan, the United States and Europe for the clinical development of drugs, as well as to establish a system that can more efficiently implement activities, from drug discovery research and preclinical research to clinical development and new drug applications with the relevant authorities, through the strategic use of information technologies.

Effective operation and rationalization

The Yamanouchi Group proactively tackles issues, such as the effective use of management resources based on a policy of "selection and concentration," and the streamlining and rationalizing of overall

business operations for the purpose of further enhancing profitability and improving the return on assets. As part of concrete measures taken by Yamanouchi in Japan, full outsourcing of logistics operations is scheduled for completion by January 2005. Yamanouchi has also decided to separate its drug formulation plants from the company in April 2005. Overseas, Yamanouchi completed rebuilding of its operating framework in Europe and the integration of bases at Yamanouchi Pharma Technologies, Inc. in the United States during the fiscal year ended March 2004 and closed a plant in Taiwan in June 2004.

Along with these efforts, the Yamanouchi Group is engaged in the creation of a global quality assurance system in view of the amended Pharmaceutical Affairs Law that will come into force in 2005 in Japan and the upcoming commencement of independent marketing and sales in the United States. In October 2003, organizational changes were implemented, including the establishment of the Pharmacovigilance Department in the QA & RA Division. The new department is in charge of supervising and controlling the collection and evaluation, and dissemination and reporting of safety information.

OPTIMIZATION OF BUSINESS STRUCTURE

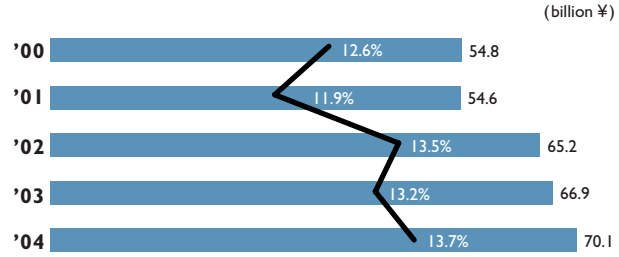
In the fiscal year ended March 2004, the business of the Yamanouchi Group consisted of three operating segments: the pharmaceuticals and related products business, the nutritional and personal care products business, and the food and roses business. However, to maximize the corporate value of the entire group, Yamanouchi rigorously evaluated each business and examined various measures to increase value. The following organizational changes were implemented with a basic policy of concentrating management resources on the ethical pharmaceuticals business.

With respect to the nutritional and personal care products business, as well as the food and roses business, Yamanouchi divested substantially all relevant operations by selling the nutritional and personal care products subsidiaries on May 28, 2004 and the food and roses subsidiaries on June 18, 2004. Regarding the over-the-counter (OTC) pharmaceuticals business, a part of its pharmaceuticals business, Yamanouchi concluded a definitive agreement with Fujisawa in May 2004 to spin off and merge their respective OTC pharmaceuticals businesses in a new joint venture, Zepharma Inc., on October 1, 2004. The goal of this business integration is to further strengthen the business platform by increasing the business' competitive edge in the OTC pharmaceuticals market.

RESEARCH AND DEVELOPMENT

Yamanouchi strives for efficient research and development activities by applying the latest technologies and a global network with the aim of achieving continuous and rapid creation of internationally innovative drugs. As a result of these R&D activities, a number of new drug candidates are currently under clinical development.

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



Note: Years ended March 31

PIPELINE STATUS

In Japan, Yamanouchi filed an application in February 2004 for a new orally disintegrating tablet formulation of YM617 (tamsulosin), a drug for improving the functional symptoms of BPH. Yamanouchi has already made NDA filings in Japan for a further four compounds, including YM177 (celecoxib), a treatment for rheumatoid arthritis and osteoarthritis, which was jointly developed with Pfizer Japan Inc.

Yamanouchi has two compounds in Phase III clinical trials in Japan: YM529 (minodronate), an osteoporosis treatment under joint development with Ono Pharmaceutical Co., Ltd. of Japan, and YM905 (solifenacin), a treatment for urinary frequency, urinary incontinence or urgency associated with overactive bladder. In addition to YM974 (valdecoxib), a treatment for rheumatoid arthritis and osteoarthritis, YM978 (parecoxib), a treatment for acute pain under joint development with Pfizer Japan, also entered Phase II clinical studies in Japan. In addition, in May 2003, Yamanouchi concluded a license agreement with Phytopharm plc of the U.K., whereby Yamanouchi acquired in Japan and certain Asian markets the exclusive license to develop, manufacture and market PYM50028, a compound with potential applications as a treatment for Alzheimer's disease. In August 2003, Yamanouchi granted Medtronic Sofamor Danek Co., Ltd., a Japanese subsidiary of Medtronic Inc. of the U.S., the exclusive license to commercialize YM484, an implantable recombinant human bone morphogenetic protein preparation, in the field of orthopedic surgery in Japan and other Asian countries.

In Europe, Yamanouchi has obtained marketing authorization for Vesicare® (YM905), a treatment for urinary frequency, urinary incontinence or urgency associated with overactive bladder, in 17 European Union (EU) member states, through the Mutual Recognition Procedures (MRP). After the first approval was obtained in the Netherlands as the reference member state in December 2003, approval was forthcoming in France, Germany, Spain, Italy, the U.K. and other relevant member states in June 2004. Vesicare® is expected to be launched sequentially in these countries from September 2004 onward. In addition, in January 2004, Yamanouchi filed an application for marketing authorization in Europe for a

TOCAS (Tamsulosin Oral Controlled Absorption System) formulation of Harnal® that applies OCAS® (orally controlled absorption system). In other developments in Europe, in December 2003, Yamanouchi gained exclusive development and sales rights in Europe from German firm MediGene AG for Eligard®, a treatment for advanced prostate cancer. Yamanouchi launched the product in Germany in May 2004. In the United States, Yamanouchi received an approvable letter from the FDA for YM905 (proposed brand name: Vesicare®) in October 2003 and the launch of the product is expected at the end of 2004. Furthermore, Yamanouchi filed an application with the FDA for regulatory approval of YM087 (conivaptan), a treatment for hyponatremia, in January 2004.

Besides the above drugs, Yamanouchi has various compounds in clinical development in Europe and the United States. These include YM443, a treatment for functional dyspepsia, which is being developed in the U.S. under license from Zeria Pharmaceutical Co., Ltd. of Japan; YM178, for the symptoms of overactive bladder; and YM150, which is being developed for the prevention of deep vein thrombosis and thromboembolism associated with atrial fibrillation.

Yamanouchi places great importance on genomics-based drug discovery in drug discovery research. Yamanouchi actively promotes strategic alliances with leading venture companies in Japan and overseas, while strengthening in-house R&D capabilities. Some new drug discovery targets identified through genomics-based drug discovery research approaches have already entered the preclinical development stage.

CORPORATE GOVERNANCE

The Yamanouchi Group strives to improve its corporate governance framework with basic policies to promote management focused on maximizing shareholder value, to ensure the transparency and objectivity of management, and to ensure accountability to society.

As part of efforts to strengthen corporate governance, Yamanouchi gained approval at the ordinary annual meeting of shareholders held in June 2004 for a resolution proposing the appointment of outside directors. Yamanouchi also introduced a corporate officer system in June 2004. These moves resulted in the creation of a Board of Directors with five members, including one outside director. The new board composition brings a greater breadth of experience and an external perspective to top-level decision-making processes, thereby reinforcing oversight of policy execution. Following approval at the ordinary annual meeting of shareholders in June 2003, Yamanouchi introduced a stock option plan for directors and key employees for the purpose of raising morale and motivation to improve the corporate value of Yamanouchi and promote management that is highly conscious of increasing shareholder value.

In line with this move, Yamanouchi is also considering the introduction of a new management indicator linked to corporate value. Moreover, Yamanouchi continues to put its energy into investor relations activities in order to reflect the views of capital markets more accurately in management, through interactive communication with shareholders and investors. Yamanouchi will continue to consider effective measures towards further refining the system.

MERGER WITH FUJISAWA

Yamanouchi finalized a merger agreement with Fujisawa on May 24, 2004 in order to become a company able to succeed in the global market, where competition is growing increasingly intense, by enhancing the core ethical pharmaceuticals business. Yamanouchi gained approval for the merger at the ordinary annual meeting of shareholders on June 24, 2004.

The outline of the planned merger is as follows:

- Yamanouchi will be the surviving entity in the merger, while Fujisawa will be dissolved. The merged company will be renamed Astellas Pharma Inc.
- Each Fujisawa share will be exchanged for 0.71 shares of common stock of Yamanouchi. Among the shares to be allotted to Fujisawa shareholders, 29 million shares will be allotted using Yamanouchi's treasury stock and the remainder will be newly issued.
- All shareholders recorded in the last register of shareholders of Fujisawa on the day immediately before the effective merger date will receive a cash payment of ¥11 per share of Fujisawa common stock in lieu of a dividend for the fiscal year ending March 2005. However, the exact per-share value of this payment is subject to the value of the assets and liabilities of Fujisawa on the day immediately before the effective merger date and to economic conditions, based on consultations between the two companies.
- For dividend purposes, the initial date of reckoning for newly issued equity will be set at April 1, 2005.
- The merger will result in the following increases in Yamanouchi's capital and various reserves.
  (1) Paid-in capital: no change.
  (2) Additional paid-in capital: the amount of surplus as calculated pursuant to Section 1.5 of Article 288-2 of the Commercial Code of Japan, less the amounts stipulated in (3) and (4) below.
  (3) Additional legal reserves: the amount of legal reserves of Fujisawa as of the effective merger date.
  (4) Additional voluntary reserves and other retained earnings: the amount of any voluntary reserves and other retained earnings of Fujisawa as of the effective merger date; the nature and amounts of any related provisions deemed necessary will be decided based on consultations between the two companies.

The planned merger schedule is as follows:

- Effective merger date: April 1, 2005
- Registration date of merger: early April 2005

This schedule is subject to change depending on the progress of merger procedures or other reasons, based on consultations between the two companies.

RESULTS FOR THE FISCAL YEAR ENDED MARCH 2004

MARKET CONDITIONS

Along with restrictive measures against increasing medical expenses mainly in developed countries, global competition in R&D and sales of new drugs have intensified. In Japan, as part of restrictive measures to prevent increasing national medical expenses, in April 2003 the level of patient co-payments under the National Health Insurance (NHI) program was raised to 30% of the overall medical fees and expenses incurred.

OVERVIEW

Consolidated net sales in the fiscal year ended March 2004 increased 0.9% to ¥511.2 billion, operating income decreased 4.5% to ¥101.0 billion and net income increased 0.3% to ¥60.1 billion.

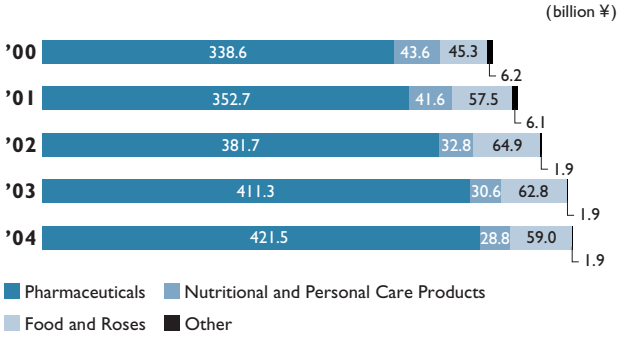
With respect to net sales, sales of Lipitor®, a treatment for hypercholesterolemia, grew favorably and those of Harnal®, a treatment for the functional symptoms of benign prostatic hyperplasia, continued to increase in Japan and overseas. In addition, sales of Micardis®, an angiotensin-II receptor blocker launched in Japan in December 2002, contributed to the sales increase. While sales of Gaster® D, an orally disintegrating tablet, increased steadily, overall sales of Gaster®, an H_2 antagonist, declined due to severe competition with generics and proton pump inhibitors. Sales of Advaferon®, a treatment for chronic hepatitis C virus infections, decreased due to the substantial contraction of the interferon drug market in Japan. Additionally, the yen's appreciation against the U.S. dollar and depreciation relative to the euro had a negative impact on net sales of ¥2.5 billion. Overseas sales increased 0.8% year on year to ¥196.3 billion and represented 38.4% of consolidated net sales.

In respect of income, gross profit increased 1.8% to ¥337.4 billion due to an improvement in the cost of sales ratio resulting from changes to the product mix and foreign exchange fluctuations, and due to the increase in net sales. However, operating income was below the previous fiscal year by ¥4.7 billion as a result of an increase in selling, general and administrative expenses due to such factors as higher R&D expenses and costs incurred in preparing for independent marketing and sales in the United States. Exchange rate fluctuations had a positive impact on operating income of ¥3.8 billion. Gain on sales of investment securities totaled ¥8.1 billion. Yamanouchi also posted a restructuring charge of ¥3.5 billion, which included costs of ¥2.0 billion related to preparations for creation of Zepharma, a joint venture with Fujisawa in the OTC pharmaceuticals business. Income taxes for the year rose by ¥9.8 billion on a year-on-year basis, reflecting higher taxes at overseas subsidiaries, although Yamanouchi also benefited from a tax deduction for research. Net income increased by ¥0.2 billion compared with the previous fiscal year.

R&D expenses increased 4.8% year on year to ¥70.1 billion. This figure represented 13.7% of consolidated net sales.

SALES

Net Sales Breakdown



Note: Years ended March 31

Sales by Business Segment

Years ended March 31, (billion ¥)

	2004	2003
Pharmaceuticals	¥421.5	¥411.3
Nutritional and personal care products	28.8	30.6
Food and roses	59.0	62.8
Other	1.9	1.9
Consolidated	¥511.2	¥506.6

Pharmaceuticals

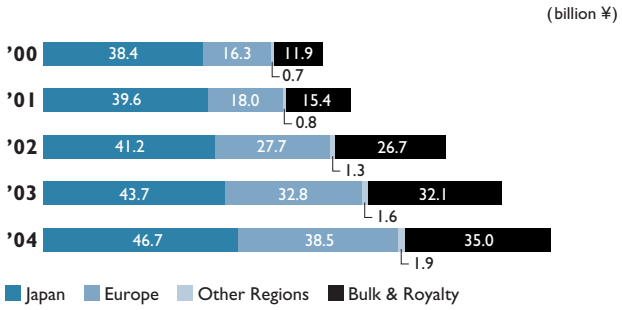
Sales of Pharmaceuticals

Years ended March 31,	2004	2003
		(billion ¥)
Harnal®	¥122.3	¥110.4
Lipitor®	77.6	63.4
Gaster®	84.1	88.6
Perdipine®/ Perdipine® LA	13.9	15.0
Hypoca®	3.8	3.6
Frandol®	13.7	14.6
Dorner®	10.0	11.0
Optiray®	8.8	10.5
Advaferon®	4.7	7.8
Euglucon®	2.9	6.3
Farom®	3.4	4.2
Starsis®	4.1	3.7
Micardis® (launched in December 2002)	8.6	3.1

Strong growth of leading products in Japan and a strong contribution from Harnal® in overseas markets resulted in a 2.5% year-on-year increase in sales of pharmaceuticals, to ¥421.5 billion.

Harnal® (brand names in Europe and the U.S.: Omnic® and Flomax®, respectively), a treatment for the functional symptoms of BPH, has strengthened its position as a top-selling product for BPH in many countries. Sales in Japan rose 6.8% to ¥46.7 billion. Sales in Europe and the United States, which include independent sales as well as revenues from sales of bulk Harnal® to and royalties from licensees, also continued to generate steady growth, rising 13.3% to ¥73.5 billion. In Europe, independent sales of Harnal® by Yamanouchi Europe B.V. (YEU) under the brand name Omnic® climbed 17.3% to ¥38.5 billion. Harnal® also performed well at European licensee Boehringer Ingelheim. In the United States, the drug's position was enhanced by licensee Boehringer Ingelheim Pharmaceuticals, Inc. and its co-promoter Abbott Laboratories. These various factors generated a 9.0% increase in revenues from sales of bulk Harnal® to and royalties from licensees, to ¥35.0 billion. Consolidated sales of Harnal® by region and source are shown in the following chart.

Sales of Harnal®



Note: Years ended March 31

To extend the future life cycle of this product, Yamanouchi is undertaking clinical development of Harnal® in Japan to gain an additional indication for lower urinary tract syndromes, as well as developing an additional formulation, an orally disintegrating tablet based on WOWTAB® technology to allow it to be taken without water. In February 2004, Yamanouchi filed an application for regulatory approval of the additional formulation. And in Europe in January 2004, Yamanouchi filed an application for regulatory approval of an additional TOCAS formulation. TOCAS technology makes drugs less susceptible to the effects of meals than conventional capsule formulations. Because of its pharmacokinetic profile, it is expected to provide a better efficacy and safety profile.

Sales in Japan of hypercholesterolemia treatment **Lipitor®** have grown rapidly due to its strong cholesterol-lowering effects and superior safety profile. Other attributable factors include the trust it has generated among medical professionals worldwide as the leading statin in terms of sales; its high success rate in lowering cholesterol levels to clinical target values; a broad range of clinical data obtained from clinical experience in overseas markets; and the fruits of co-promotion with Pfizer Japan Inc. Sales of Lipitor® in Japan rose 22.5% to ¥77.6 billion. Since its launch in May 2000, Lipitor® has captured more than 30% of the total market for hypercholesterolemia treatments in just four years. Yamanouchi continues to expand sales steadily toward the goal of making Lipitor® the market leader in Japan.

A variety of formulations, a broad range of indications, rapid onset of action and other properties have made **Gaster®** the first choice in Japan for the treatment of peptic ulcers and gastritis. In Japan, although sales of **Gaster® D** (an orally disintegrating tablet launched in September 2000 that uses WOWTAB® technology) increased 24.0% in the fiscal year ended March 2004 to ¥38.2 billion, the effects of intensified competition resulted in a decline in overall sales of ethical Gaster® of 4.6%, to ¥75.3 billion. Sales in Japan of the switch OTC formulation **Gaster 10®** increased 2.2% to ¥3.1 billion. Including bulk sales to and royalty income from licensees, overseas sales of Gaster® fell 14.3% year on year to ¥5.6 billion.

Sales of **Micardis®**, a long-acting angiotensin-II receptor antagonist launched in Japan in December 2002, rose 172.6% year on year to ¥8.7 billion. A superior product profile is helping Micardis® steadily penetrate the market. Due to its sustained action, Micardis® is especially useful as an antihypertensive in offering greater control in the morning, when rising blood pressure can often pose a higher risk of ischemic events. It also offers considerable advantages for patients with renal dysfunction, since it is eliminated virtually 100% via biliary excretion. In addition, in January 2004, the mandatory two-week maximum prescribing limit was lifted as the drug had been on the market for 12 months. This provided a considerable boost to sales. It is expected that its superior efficacy and safety profile will generate further growth in Japan.

Fierce competition in markets for antihypertensive drugs led to a decline in sales of calcium antagonists **Perdipine®**, **Perdipine® LA** and **Hypoca®**, which fell 14.3% to ¥17.8 billion.

Sales in Japan of **Dorner®**, a treatment for chronic arterial occlusion, fell 8.7% to ¥10.0 billion due to stiff competition from competing drugs.

In the diabetes market, sales in Japan of the rapid-onset insulin secretagogue **Starsis®** continued to expand, rising 11.6% to ¥4.2 billion. Sales of the oral anti-hyperglycemic **Euglucon®** dropped 53.5% to ¥2.9 billion, reflecting sales only to the end of September 2003 due to the expiry of a related sales agreement with Chugai Pharmaceutical Co., Ltd. of Japan, under which marketing and sales of the product was transferred to Chugai on October 1, 2003.

Sales in Japan of chronic hepatitis C treatment **Advaferon®** dropped 39.8% to ¥4.7 billion due to the substantial contraction of the interferon drug market.

In OTC drugs, sales of **Locobase® Repair Cream**, a dermal protective cosmetic preparation launched in Japan in January 2003, were favorable, at ¥0.2 billion (a year-on-year rise of 240.6%). In addition, **Gaster 10®** grew steadily, as discussed above. However, **Makiron®** first-aid antiseptics recorded a 5.6% decline in sales to ¥2.3 billion, while sales of **Cakonal®** cold remedies fell 7.9% to ¥2.0 billion.

Nutritional and Personal Care Products

Competition in this field has become fiercer, due to saturation of multilevel marketing channels and the successive introduction of many low-priced products. Net sales of nutritional and personal care products fell ¥1.8 billion, or 5.9%, to ¥28.8 billion compared with the previous fiscal year.

Food and Roses

Net sales in the food and roses business increased year on year on a local-currency basis, but fell in yen terms by ¥3.8 billion, or 6.0%, to ¥59.0 billion due to the appreciation of the yen against the U.S. dollar.

Other

This segment consists of real estate-related business, with commercial rental income representing the main source of revenues. Sales in this segment totaled ¥1.8 billion.

Sales by Geographical Area

Years ended March 31,		(billion ¥)
	2004	2003
Japan	**¥323.9**	¥323.9
North America	**79.2**	84.5
Europe	**106.0**	96.1
Asia (excluding Japan)	**2.1**	2.1
Consolidated	**¥511.2**	¥506.6

Sales in Japan were slightly higher than in the previous fiscal year, at ¥323.9 billion. Although sales of Lipitor®, Micardis® and other products increased, overall sales growth was stunted by lower sales of some other drugs and falling exports.

Sales in North America decreased 6.3% year on year to ¥79.2 billion. This was primarily due to sluggish sales of nutritional and personal care products in an increasingly competitive business environment.

Sales in Europe increased 10.3% year on year to ¥106.0 billion. This was mainly due to depreciation of the yen against the euro combined with strong independent sales of Harnal® in Europe by YEU under the Omnic® brand name. Substantially higher sales of bulk Harnal® to and royalties from licensees also contributed to growth.

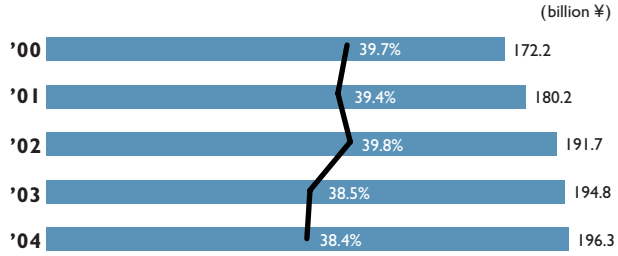
Sales in Asia (excluding Japan) were almost the same as those in the previous fiscal year, at ¥2.1 billion. The lack of significant growth primarily reflected ongoing government measures to contain medical costs and the effects of keener competition within pharmaceutical markets.

Average Exchange Rates

Years ended March 31,		(¥)
	2004	2003
Yen-dollar	**¥113**	¥122
Yen-euro	**133**	121

During the year ended March 2004, the yen appreciated against the U.S. dollar while depreciating against the euro. The net effect of exchange rate fluctuations was to decrease net sales by ¥2.5 billion while increasing operating income by ¥3.8 billion.

Consolidated Overseas Sales and Ratio of Overseas Sales to Net Sales



Note: Years ended March 31

Overseas Sales

Years ended March 31,		(billion ¥)
	2004	2003
North America	**¥110.8**	¥115.3
Europe	**76.2**	70.3
Asia (except Japan)	**7.4**	8.0
Other	**1.9**	1.2
Consolidated	**¥196.3**	¥194.8
Percent of total sales	**38.4%**	38.5%

Overseas sales rose 0.8% year on year. Overseas sales represent export sales by Yamanouchi and its domestic consolidated subsidiaries, plus sales by foreign consolidated subsidiaries other than export sales to Japan.

In North America, declining sales in the nutritional and personal care products business were offset by significantly higher sales of bulk Harnal® to and royalty income from licensees. Notwithstanding, overall sales fell 4.0% year on year, principally due to negative currency translation effects as the yen appreciated against the U.S. dollar.

In Europe, in addition to healthy sales of Harnal® (Omnic®) by YEU, sales of bulk Harnal® to and royalty income from European licensee Boehringer Ingelheim also increased. The positive effect of the depreciation of the yen against the euro further contributed to an overall gain in sales of 8.5% relative to the previous fiscal year.

Overseas sales in Asia include sales by the Taipei Branch of Yamanouchi Pharmaceutical Co., Ltd., sales by Yamanouchi Pharmaceutical (China) Co., Ltd., and exports to South Korea.

COST OF SALES AND SG&A EXPENSES

Cost of Sales

Cost of sales amounted to ¥173.8 billion. This represented an improvement of 0.6 of a percentage point in the cost of sales ratio, which fell from 34.6% to 34.0%. The improvement mainly reflected the effects of favorable currency exchange fluctuations and changes in the product mix.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled ¥236.5 billion. This represented a deterioration of 1.8 percentage points in the SG&A expense ratio, which rose from 44.5% to 46.3%.

R&D expenses rose 4.8% year on year to ¥70.1 billion, primarily due to steady progress in clinical development programs, both in Japan and overseas. Preparations for the commencement of independent marketing and sales activities in the United States also caused SG&A expenses to increase.

Within SG&A expenses, advertising and sales promotional expenses increased 1.1% year on year to ¥39.9 billion. Most of this increase was associated with pre-marketing activities prior to the start-up of independent pharmaceutical sales activities in the United States.

Personnel expenses rose 2.3% to ¥70.4 billion. The main factors behind this increase were higher pension and severance payments in the nutritional and personal care products business, and staff recruitment at YPA as part of preparations for the commencement of independent marketing and sales activities in the United States.

INCOME AND EXPENSES BEFORE INCOME TAXES AND MINORITY INTERESTS

Operating Income

Operating income declined 4.5% year on year to ¥101.0 billion. The table below shows the breakdown by business segment.

Operating Income

Years ended March 31,		(billion ¥)
	2004	2003
Pharmaceuticals	**¥ 93.4**	¥ 95.7
Nutritional and personal care products	**3.0**	2.9
Food and roses	**0.8**	3.6
Other	**3.4**	3.1
Eliminations	**0.4**	0.4
Total operating income	**¥101.0**	¥105.7

In the pharmaceuticals segment, although gross profit increased due to an improvement in the cost of sales ratio and to an increase in net sales as previously mentioned, operating income edged down by 2.4% to ¥93.4 billion as a result of an increase in SG&A expenses, which reflected higher R&D expenses and costs incurred in preparing for independent marketing and sales in the United States.

In the nutritional and personal care products segment, operating income rose by 6.5% to ¥3.0 billion, despite a drop in sales. This was mainly due to lower SG&A expenses resulting from previous business restructuring.

In the food and roses business segment, the negative effects of a higher SG&A expense ratio and expanded discount sales programs on the cost-of-sales ratio compounded the impact of a year-on-year reduction in sales of 6.0%. Segment operating income slumped 76.5% to ¥0.8 billion.

Other Income (Expenses)

A further decline in market interest rates resulted in a year-on-year fall in interest and dividend income of ¥0.3 billion, to ¥2.9 billion. The exchange loss increased to ¥5.8 billion, from ¥5.1 billion in the previous fiscal year. This was principally attributable to an exchange loss on devaluation of the dollar-denominated deposits held by European subsidiaries, caused by the appreciation of the euro against the U.S. dollar.

Yamanouchi posted a gain on sales of investment securities of ¥8.1 billion and a business restructuring loss amounting to ¥3.5 billion, including one-off charges for establishing a new joint venture with Fujisawa in the OTC pharmaceuticals business.

Income Taxes

Income taxes in the year ended March 2004 totaled ¥43.0 billion, an increase of 29.6% compared with the previous fiscal year. This reflected increased taxes borne by certain foreign consolidated subsidiaries, although Yamanouchi did benefit from the broadening of tax deductions for research expenses in Japan. Income taxes accounted for 41.6% of income before income taxes and minority interests, compared with a ratio of 35.6% in the previous fiscal year.

Net Income

Net Income

Years ended March 31,		(billion ¥)
	2004	2003
Net income	**¥ 60.1**	¥ 59.9
As a % of sales	**11.7%**	11.8%
Net income per share (¥):		
Basic	**¥181.09**	¥177.43
Diluted	**179.46**	174.69

Net income for the year ended March 2004 increased 0.3% to ¥60.1 billion. Due to the acquisition of 10 million shares of parent company common stock as treasury stock in the previous fiscal year, net income per share increased 2.1% to ¥181.09. Diluted net income per share was ¥179.46.

Capital Expenditures and Depreciation

Years ended March 31,		(billion ¥)
	2004	2003
Capital expenditures	**¥16.2**	¥27.2
Depreciation and amortization	**25.1**	25.5

Capital expenditures decreased from ¥27.2 billion to ¥16.2 billion. Major capital investments by business segment are outlined below.

In the pharmaceuticals business segment, capital expenditures totaled ¥12.6 billion. Investments in production capacity and equipment for the next generation of products absorbed a total of ¥5.0 billion in Japan and abroad. In addition, investments in production equipment maintenance and upgrades by YEU at the Meppel and Carugate plants amounted to ¥2.1 billion.

In the nutritional and personal care products business segment, capital expenditures of ¥1.4 billion encompassed investments in computer equipment, office equipment and fixtures, production capacity increases and plant renewal.

In the food and roses business segment, capital expenditures of ¥1.7 billion included investments to upgrade and renew orchards, facilities and other equipment. This sum also included IT-related investments.

In the other business segment, capital spending of ¥0.4 billion was mainly directed at the maintenance and repair of buildings.

The necessary funds for capital expenditures were provided mainly by internal funds.

Depreciation expenses relating to tangible fixed assets amounted to ¥17.4 billion. Amortization relating to intangible fixed assets totaled ¥7.7 billion.

ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

Total assets as of March 31, 2004 amounted to ¥902.7 billion, an increase of ¥4.5 billion compared with the previous fiscal year-end. In current assets, the main increases were in cash and cash equivalents which increased by ¥14.3 billion, and in short-term investments, which increased by ¥5.4 billion.

Total property, plant and equipment decreased by ¥16.5 billion from the previous fiscal year-end, partly due to a decrease in capital investments. Investment securities rose by ¥12.9 billion, primarily due to a substantial rise in valuation gains reflecting a buoyant stock market, despite sales of cross-shareholdings during the fiscal year ended March 2004.

With respect to liabilities and shareholders' equity, accrued income taxes decreased by ¥27.9 billion compared with the previous fiscal year-end. This was attributable to income tax payments being substantially higher in the fiscal year ended March 2004 than income taxes on the statement of income. Accordingly, there was a decrease in the amount of accrued taxes for the fiscal year ended March 2004 (see also the Consolidated Statements of Cash Flows). Total liabilities decreased by ¥42.1 billion due also to a decrease in accrued retirement benefits for employees of ¥2.7 billion. Shareholders' equity increased by ¥46.6 billion, partly because there were no share buybacks during the fiscal year ended March 2004.

CASH FLOWS

Cash provided by operating activities is the primary source of funds for the Yamanouchi Group. In the year ended March 2004, net cash provided by operating activities amounted to ¥43.4 billion. Purchases of property, plant and equipment totaling ¥12.1 billion contributed to a net cash outflow in investing activities of ¥12.8 billion. A net cash outflow in financing activities of ¥11.2 billion included cash dividends paid of ¥9.9 billion. Cash and cash equivalents increased relative to the previous fiscal year-end by ¥14.3 billion, to ¥345.5 billion. The analysis below outlines reasons for differences in cash flow from the previous fiscal year.

Cash Flows From Operating Activities

Net cash provided by operating activities totaled ¥43.4 billion. Compared with the fiscal year ended March 2003, when cash provided by operating activities amounted to ¥85.8 billion, this represented a net year-on-year decrease of ¥42.4 billion. This primarily reflected the year-on-year increase of ¥46.3 billion in income taxes paid.

Cash Flows From Investing Activities

Net cash used in investing activities amounted to ¥12.8 billion, ¥8.9 billion more than in the previous fiscal year, when investing activities used ¥4.0 billion in cash. The difference was primarily attributable to a net increase of ¥6.6 billion in short-term investments in contrast with the net decrease of ¥28.9 billion in short-term investments in the previous fiscal year.

Cash Flows From Financing Activities

Net cash used in financing activities amounted to ¥11.2 billion, ¥46.4 billion less than in the previous fiscal year, when financing activities used ¥57.6 billion in cash. The major difference was a drop of ¥31.7 billion in payments for purchase of treasury stock.

FINANCE POLICY

Working from a position of financial strength, the Yamanouchi Group is primarily focused on strengthening its pharmaceuticals business. In Japan, Yamanouchi aims to expand or maintain sales of leading products while bringing new products to market as quickly as possible to boost its competitive position. In overseas markets, the major focus at the moment is on the development of independent marketing and sales capabilities in the United States. Yamanouchi is also working to strengthen in-house R&D capabilities, with a major emphasis on genomics-based drug discovery research. Yamanouchi actively seeks to develop external alliances and license in new products. The sale of subsidiaries operating in the nutritional and personal care products and food and roses business segments brought in a gross amount of US$570 million. Yamanouchi plans to invest these proceeds mainly in the global development of the pharmaceuticals business and in R&D to raise profitability further and to strengthen the business structure.

Cash and cash equivalents comfortably exceed levels required to provide working capital and to fund capital investments. As of March 31, 2004, short-term borrowings amounted to ¥1.2 billion and long-term borrowings totaled ¥0.3 billion. Yamanouchi also has one outstanding convertible bond issue of ¥6.5 billion due to mature in 2014. Repayment in all cases is not expected to pose any problem given the level of cash and cash equivalents.

While maintaining funds at levels sufficient to ensure smooth operations, the Yamanouchi Group has also sought to return profits to shareholders through stable dividend payments and share buybacks. Cumulative treasury stock purchases as of March 31, 2004 amounted to 30 million shares (for ¥101.5 billion). Yamanouchi plans to continue share buybacks. Yamanouchi also plans to use 29 million shares of existing treasury stock in the merger with Fujisawa to cover part of the equity issuance requirement.

The Yamanouchi Group faces various particular risks in the pharmaceutical business. Although Yamanouchi views it as preferable to continue to fund development of these operations from internal resources, it also recognizes that funding requirements may exceed these levels at some future date. Yamanouchi's policy is to maintain strong finances at all times to ensure that it can raise capital at attractive interest rates if such a need arises.

DIVIDEND POLICY

Yamanouchi is committed to paying a stable dividend over the long term while keeping retained earnings at a sufficiently high level to maintain and build strong finances. The level of dividend payments is determined after consideration of general factors such as consolidated results, payout ratios and the return on shareholders' equity provided by dividends. Following approval of a resolution at the ordinary annual meeting of shareholders on June 24, 2004, the Articles of Incorporation were amended to allow the Board of Directors to authorize purchases of treasury stock. This change permits more dynamic responses to business development needs in the form of share buybacks by resolution of the Board of Directors. Yamanouchi plans to use treasury stock purchases to boost capital efficiency and earnings per share, thereby increasing overall returns to shareholders.

The final dividend for the year ended March 2004 was set at ¥16 per share. Including the interim dividend, this brought the annual dividend to ¥31 per share. This resulted in a dividend payout ratio of 17.3%. The return on equity at the net income level was 9.3%, while the dividend return on equity was 1.5%.

SCOPE OF CONSOLIDATION

The Yamanouchi Group includes the parent company and 59 consolidated subsidiaries. There was no change in the scope of consolidation during the year ended March 2004. The main companies within 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 Pharma America, Inc., Yamanouchi Pharmaceutical (China) Co., Ltd.
Number of consolidated companies: 34

Nutritional and Personal Care Products:

Shaklee Corporation, Shaklee Japan K.K., INOBYS Ltd.
Number of consolidated companies: 16

Food and Roses:

Bear Creek Corporation
Number of consolidated companies: 9

Other:

Lotus Estate Co., Ltd.
Number of consolidated companies: 1

BUSINESS RISKS

The major business and financial risks faced by the Yamanouchi Group that have the potential to affect decisions by investors are outlined below. The risks faced by the Yamanouchi Group vary substantially, and this list is not meant to be comprehensive. Risk assessments outlined below refer to the views of management as of March 31, 2004.

Regulatory risk

The Yamanouchi Group is subject to various regulations governing pharmaceuticals and related products in the countries where it does business. For example, the trend in developed countries is strongly toward medical cost restrictions, as exemplified by the increase in the level of patient co-payments to 30% that went into force in April 2003 in Japan. This trend could pressure earnings. In addition, increasingly stringent regulatory regimes governing the development, production and distribution of pharmaceuticals could also lead to higher expenses.

Dependence on certain products

A substantial proportion of the consolidated net sales of the Yamanouchi Group derive from a few leading products, most notably Harnal®, Gaster® and Lipitor®. As a result, the operating results of the Yamanouchi Group could be materially affected by any of the following eventualities: failure to properly maintain or protect rights pertaining to leading products; instigation of major product liability lawsuits; emergence of unforeseen side effects; or the launch of significant competitor drugs.

R&D-related pipeline development risk

In general terms, the probability of discovering a promising drug compound in drug discovery research is not high. Even after original drug compounds have been discovered, developing them as pharmaceuticals and bringing them to market requires heavy investment over many years. The development of compounds that showed initial promise can sometimes be terminated, in the case that clinical efficacy cannot be established or a serious side effect arises. The need to gain regulatory approval to manufacture and market pharmaceuticals in different countries adds another hurdle to the development process, introducing further risk and uncertainty. Hence, pharmaceutical research and development has various inherent risks.

Exchange rate risk

Overseas sales accounted for 38.4% of the total sales in the fiscal year ended March 2004. Since the Yamanouchi Group does business in many countries and territories, its business results and financial condition may be affected by exchange rate fluctuations.

Business restructuring

The Yamanouchi Group plans to focus on the ethical pharmaceuticals business going forward. To this end, it has divested its nutritional and personal care products business and food and roses business, and plans to create a joint venture for its OTC pharmaceuticals business. To expand further within the ethical pharmaceuticals sector, Yamanouchi is continuing to make preparations to start independent marketing and sales activities in the United States. At the same time, to achieve greater efficiency and rationalize operations, plans call for Yamanouchi to completely outsource logistics operations and to spin off drug formulation plants as a separate company. In addition, as part of moves to reinforce the operational base to boost global competitiveness, Yamanouchi plans to merge with Fujisawa. The success or failure of this series of moves could also materially affect the future business results and financial condition of the Yamanouchi Group.

Consolidated Statements of Income

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Net sales	¥511,208	¥506,603	¥481,328	$4,868,648
Cost of sales	173,791	175,249	167,535	1,655,153
Gross profit	337,417	331,354	313,793	3,213,495
Selling, general and administrative expenses (Note 10)	236,457	225,656	219,502	2,251,971
Operating income	100,960	105,698	94,291	961,524
Other income (expenses):				
Interest and dividend income	2,932	3,205	5,325	27,924
Interest expense	(552)	(597)	(657)	(5,257)
Loss on devaluation of securities	–	(6,550)	(7,308)	–
Loss on business restructuring	(3,545)	(4,880)	–	(33,762)
Exchange (loss) gain	(5,769)	(5,094)	1,656	(54,943)
Equity in earnings (losses) of affiliates	667	(469)	(336)	6,352
Gain on sales of investment securities	8,115	6	–	77,286
Other, net	429	1,898	60	4,086
	2,277	(12,481)	(1,260)	21,686
Income before income taxes and minority interests	103,237	93,217	93,031	983,210
Income taxes (Note 8):				
Current	36,101	47,679	29,654	343,819
Deferred	6,881	(14,511)	8,046	65,534
	42,982	33,168	37,700	409,353
Income before minority interests	60,255	60,049	55,331	573,857
Minority interests in earnings of consolidated subsidiaries	(197)	(191)	(171)	(1,876)
Net income (Note 13)	¥ 60,058	¥ 59,858	¥ 55,160	$ 571,981

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

Assets	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 3) 2004
Current assets:			
Cash and cash equivalents	¥ 345,501	¥ 331,153	$ 3,290,486
Short-term investments (Note 15)	11,734	6,372	111,752
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	294	294	2,800
Trade	125,551	129,143	1,195,724
	125,845	129,437	1,198,524
Allowance for doubtful receivables	(475)	(853)	(4,524)
	125,370	128,584	1,194,000
Inventories (Note 4)	56,739	56,592	540,371
Deferred tax assets (Note 8)	25,213	28,024	240,124
Other current assets	14,504	8,177	138,134
Total current assets	579,061	558,902	5,514,867
Property, plant and equipment, at cost:			
Land	32,214	33,176	306,800
Buildings	159,787	159,049	1,521,781
Machinery and equipment	147,819	146,686	1,407,800
Other	12,420	13,252	118,286
Construction in progress	7,511	17,028	71,533
Accumulated depreciation	(185,631)	(178,617)	(1,767,914)
Property, plant and equipment, net	174,120	190,574	1,658,286
Investments and other assets:			
Investment securities (Note 15)	64,059	51,176	610,086
Investments in and advances to unconsolidated subsidiaries and affiliates	3,690	3,293	35,143
Intangible assets	27,266	31,498	259,676
Prepaid expenses	832	831	7,924
Deferred tax assets (Note 8)	20,194	32,693	192,324
Other assets	33,476	29,203	318,818
Total investments and other assets	149,517	148,694	1,423,971
Total assets	¥ 902,698	¥ 898,170	$ 8,597,124

Liabilities and shareholders' equity	Millions of yen 2004	2003	Thousands of U.S. dollars (Note 3) 2004
Current liabilities:			
Short-term bank loans (Note 5)	¥ 800	¥ 900	$ 7,619
Current portion of long-term debt (Note 6)	438	987	4,171
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	603	603	5,743
Trade	60,912	62,598	580,114
Construction	1,659	1,910	15,800
Accrued expenses	25,640	29,642	244,190
Accrued income taxes (Note 8)	10,477	38,416	99,781
Deferred tax liabilities (Note 8)	3,922	5,124	37,352
Other current liabilities	5,695	7,392	54,240
Total current liabilities	110,146	147,572	1,049,010
Long-term liabilities:			
Long-term debt (Note 6)	6,825	7,337	65,000
Accrued retirement benefits for employees (Note 9)	36,374	39,046	346,419
Accrued retirement benefits for directors	1,248	1,457	11,886
Deferred tax liabilities (Note 8)	2,418	4,785	23,029
Other long-term liabilities	17,832	16,792	169,828
Total long-term liabilities	64,697	69,417	616,162
Minority interests	2,463	2,408	23,457
Shareholders' equity (Notes 7 and 18):			
Common stock, without par value:			
Authorized — 800,000,000 shares			
Issued — 361,216,470 shares in 2004 and 2003	99,761	99,761	950,105
Additional paid-in capital	113,685	113,685	1,082,714
Retained earnings	616,112	566,089	5,867,733
Unrealized holding gain on securities	13,848	4,758	131,886
Translation adjustments	(16,557)	(4,103)	(157,686)
Total	826,849	780,190	7,874,752
Treasury stock, at cost:			
30,137,026 shares in 2004 and 30,124,855 shares in 2003	(101,457)	(101,417)	(966,257)
Shareholders' equity, net	725,392	678,773	6,908,495
Contingent liabilities (Note 12)			
Total liabilities and shareholders' equity	¥ 902,698	¥ 898,170	$8,597,124

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Common stock (Note 7)				
Balance at beginning of year (2004 — 361,216,470 shares; 2003 — 361,203,052 shares; 2002 — 361,150,865 shares)	¥ 99,761	¥ 99,745	¥ 99,692	$ 950,105
Add:				
Shares issued upon conversion of convertible bonds (2003 — 13,418 shares; 2002 — 52,187 shares)	–	16	53	–
Balance at end of year (2004 — 361,216,470 shares; 2003 — 361,216,470 shares; 2002 — 361,203,052 shares)	¥ 99,761	¥ 99,761	¥ 99,745	$ 950,105
Additional paid-in capital (Note 7)				
Balance at beginning of year	¥113,685	¥113,669	¥113,616	$1,082,714
Add:				
Conversion of convertible bonds	–	16	53	–
Balance at end of year	¥113,685	¥113,685	¥113,669	$1,082,714
Retained earnings (Notes 7 and 18)				
Balance at beginning of year	¥566,089	¥515,832	¥469,800	$5,391,324
Net income	60,058	59,858	55,160	571,981
Cash dividends paid	(9,934)	(9,500)	(9,029)	(94,610)
Bonuses to directors and corporate auditors	(101)	(101)	(99)	(962)
Balance at end of year	¥616,112	¥566,089	¥515,832	$5,867,733
Unrealized holding gain on securities				
Balance at beginning of year	¥ 4,758	¥ 7,360	¥ 12,207	$ 45,314
Net changes during the year	9,090	(2,602)	(4,847)	86,572
Balance at end of year	¥ 13,848	¥ 4,758	¥ 7,360	$ 131,886
Translation adjustments				
Balance at beginning of year	¥ (4,103)	¥ (835)	¥ (17,594)	$ (39,076)
Adjustments arising from translation of foreign currency financial statements	(12,454)	(3,268)	16,759	(118,610)
Balance at end of year	¥ (16,557)	¥ (4,103)	¥ (835)	$ (157,686)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Operating activities				
Income before income taxes and minority interests	¥103,237	¥ 93,217	¥ 93,031	$ 983,210
Depreciation and amortization	25,118	26,081	26,715	239,219
Provision for retirement benefits, net of payments	(2,649)	(2,564)	464	(25,229)
(Gain) loss on sales of investment securities	(8,115)	144	–	(77,286)
Loss on devaluation of securities	–	6,550	7,308	–
Equity in (earnings) losses of affiliates	(667)	469	336	(6,352)
Interest expense	552	597	657	5,257
Notes and accounts receivable	1,485	5,437	(3,870)	14,143
Inventories	(1,910)	(5,951)	(940)	(18,190)
Other current assets	2,202	(1,032)	(3,676)	20,971
Notes and accounts payable	(1,171)	(19,499)	14,690	(11,152)
Accrued expenses	(2,516)	3,654	(1)	(23,962)
Other current liabilities	(1,449)	(528)	(3,283)	(13,800)
Other	(342)	3,069	(248)	(3,258)
Subtotal	113,775	109,644	131,183	1,083,571
Interest paid	(638)	(389)	(823)	(6,076)
Income taxes paid	(69,760)	(23,466)	(33,655)	(664,381)
Net cash provided by operating activities	43,377	85,789	96,705	413,114
Investing activities				
Additions to property, plant and equipment	(12,134)	(18,224)	(22,054)	(115,562)
Proceeds from sales of property, plant and equipment	3,816	1,876	1,665	36,343
(Increase) decrease in investments in and advances to unconsolidated subsidiaries and affiliates	(172)	158	(62)	(1,638)
(Increase) decrease in short-term investments	(6,561)	28,863	16,278	(62,486)
Decrease (increase) in investment securities	9,471	(7,788)	2,135	90,200
Increase in other assets	(4,271)	(5,116)	(4,010)	(40,676)
Other	(2,993)	(3,752)	(2,969)	(28,504)
Net cash used in investing activities	(12,844)	(3,983)	(9,017)	(122,323)
Financing activities				
Decrease in short-term bank loans	(100)	–	–	(952)
Proceeds from issuance of long-term debt	–	–	556	–
Repayment of long-term debt	(1,005)	(15,479)	(1,415)	(9,571)
Purchase of treasury stock	(40)	(31,714)	(69,689)	(381)
Cash dividends	(9,934)	(9,500)	(9,029)	(94,610)
Other	(140)	(924)	(460)	(1,334)
Net cash used in financing activities	(11,219)	(57,617)	(80,037)	(106,848)
Effects of exchange rate changes on cash and cash equivalents	(4,966)	(1,604)	8,257	(47,295)
Increase in cash and cash equivalents	14,348	22,585	15,908	136,648
Cash and cash equivalents at beginning of year	331,153	308,568	292,660	3,153,838
Cash and cash equivalents at end of year	¥345,501	¥331,153	¥308,568	$3,290,486

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yamanouchi Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2004

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 generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

2. Summary of Significant Accounting Policies

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

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation.

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

All consolidated subsidiaries close their books of account at March 31 for financial reporting purposes except for Yamanouchi Pharmaceutical (China) Co., Ltd. which closes its books as of December 31. The necessary adjustments are made to the financial statements of Yamanouchi Pharmaceutical (China) Co., Ltd. to reflect any significant transactions from January 1 to March 31.

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

(b) Foreign currency translation

Revenue and expense accounts of the foreign consolidated subsidiaries are translated using the average rate during the year and, except for the components of shareholders' equity, the balance sheet accounts are translated into yen at the exchange rates in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as a component of shareholders' equity and minority interests in the accompanying consolidated financial statements.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(d) Inventories

Merchandise is stated principally at the lower of cost or market, cost being determined by the average method. Finished goods are stated principally at cost by the average method. Work in process and semi-finished goods, and raw materials and supplies are stated principally at cost by the 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 and structures	2 to 60 years
Machinery, equipment and vehicles	4 to 15 years

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

(f) Leases

Noncancelable leases of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased

assets to the lessee are accounted for as finance leases. However, leases of the foreign consolidated subsidiaries are generally classified and accounted for as either finance or operating leases.

(g) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into held-to-maturity or other securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, 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.

(h) Stock and bond issuance expenses and discounts on bonds

Stock and bond issuance expenses are charged to income as incurred. Discounts on bonds are amortized by the straight-line method over the respective terms of the bonds.

(i) Research and development expenses

Research and development expenses are charged to income as incurred.

(j) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(k) Retirement benefits

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at balance sheet dates, 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. 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 (15 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 (13 years through 16 years).

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

(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. 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 18.

(n) New accounting standards

Impairment of Fixed Assets

A new Japanese accounting standard "Impairment of Fixed Assets" was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. Early adoption is permitted. The new standard requires that tangible and intangible fixed assets be carried at cost

less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The Company is currently assessing the impact of this new accounting standard on its financial position and operating results.

Business Combination

A new Japanese accounting standard "Business Combination" was issued in October 2003 that is effective for fiscal years beginning on or after April 1, 2006. The new accounting standard requires business combinations to be accounted for primarily by the purchase method and permits certain limited business combinations to be accounted for by the pooling-of-interest method. The Company will account for the merger with Fujisawa Pharmaceutical Co., Ltd. by the pooling-of-interest method. See Note 18 1).

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 ¥105 = U.S.$1.00, the approximate rate of exchange on March 31, 2004. 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. Inventories

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Merchandise	¥20,471	¥19,794	$194,962
Finished goods	4,254	4,327	40,514
Work in process and semi-finished goods	11,951	13,048	113,819
Raw materials and supplies	20,063	19,423	191,076
	¥56,739	¥56,592	$540,371

5. Short-Term Bank Loans

Short-term bank loans consisted mainly of unsecured loans at interest rates ranging from 0.27% to 1.375% and from 0.29% to 1.375% per annum at March 31, 2004 and 2003, respectively.

6. Long-Term Debt

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Yamanouchi Pharmaceutical Co., Ltd.:			
1.14% unsecured loans from an insurance company, payable in yen, due through 2004	¥ –	¥ 32	$ –
1.25% unsecured convertible bonds, payable in yen, due 2014	6,480	6,480	61,714
	6,480	6,512	61,714
Consolidated subsidiaries:			
Unsecured loans from banks and others, at rates ranging from 1.375% to 7.38%, due through 2017	783	1,812	7,457
	7,263	8,324	69,171
Less current portion	(438)	(987)	(4,171)
	¥6,825	¥7,337	$65,000

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

	Conversion price per share at March 31, 2004	Period (up to and including)
1.25% convertible bonds due 2014	1,979.00	March 24, 2014

At March 31, 2004, if all the outstanding convertible bonds had been converted at the then current conversion price, 3,274 thousand new shares would have been issuable.

Under the indentures and trust deeds of the convertible bonds, the conversion price is subject to adjustment in certain cases which include stock splits. A sufficient number of shares of common stock is reserved for the conversion of all outstanding convertible bonds.

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 438	$ 4,171
2006	37	352
2007	39	371
2008	43	410
2009	43	410
2010 and thereafter	6,663	63,457
	¥7,263	$69,171

7. Additional Paid-in Capital and Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account. The legal reserve amounted to ¥10,362 million ($98,686 thousand) as of both March 31, 2004 and 2003.

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. The Code also provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

8. 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 a statutory tax rate of approximately 41.7%. 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, 2004, 2003 and 2002 differ from the statutory tax rate for the following reasons:

	2004	2003	2002
Statutory tax rate	41.7 %	41.7 %	41.7 %
Effect of:			
Tax deduction for research expenses	(4.2)	(4.2)	–
Different tax rates applied to income of foreign consolidated subsidiaries	(1.3)	(0.8)	(2.4)
Reversal of income taxes for prior periods	–	(3.8)	–
Expenses not deductible for income tax purposes	2.3	2.6	2.2
Tax rate change	0.4	1.0	–
Other, net	2.7	(0.9)	(1.0)
Effective tax rates	41.6 %	35.6 %	40.5 %

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 41.7% to 41.0% effective for fiscal years beginning after March 31, 2004. The effect of this tax rate change was to decrease deferred tax assets (net of deferred tax liabilities) by ¥862 million at March 31, 2003 and to increase income taxes – deferred by ¥918 million for the year ended March 31, 2003.

The significant components of the deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 3,191	¥ 7,400	$ 30,391
Accrued retirement benefits	12,898	12,869	122,838
Depreciation and amortization	9,431	9,972	89,819
Accrued expenses	7,113	7,396	67,743
Inventories	7,202	8,044	68,590
Accrued enterprise and other taxes	2,071	4,878	19,724
Other	20,471	18,045	194,962
Gross deferred tax assets	62,377	68,604	594,067
Valuation allowance	(1,309)	(488)	(12,467)
Total deferred tax assets	61,068	68,116	581,600
Deferred tax liabilities:			
Unrealized holding gain on securities	9,617	3,304	91,590
Depreciation and amortization	5,597	6,234	53,305
Deferred income	3,448	4,249	32,838
Inventories	1,036	1,324	9,867
Accrued retirement benefits	1,435	1,272	13,667
Other	868	925	8,266
Total deferred tax liabilities	22,001	17,308	209,533
Net deferred tax assets	¥39,067	¥50,808	$372,067

9. 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 plans and defined contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation	¥(96,487)	¥(96,417)	$(918,924)
Plan assets at fair value	59,140	50,949	563,238
Unfunded retirement benefit obligation	(37,347)	(45,468)	(355,686)
Unrecognized actuarial gain or loss	13,000	19,229	123,809
Unrecognized prior service cost	(7,769)	(7,979)	(73,990)
Net retirement benefit obligation	(32,116)	(34,218)	(305,867)
Prepaid pension cost	4,258	4,828	40,552
Accrued retirement benefits	¥(36,374)	¥(39,046)	$(346,419)

The components of retirement benefit expenses for the years ended March 31, 2004, 2003 and 2002 are outlined as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Service cost	¥ 4,494	¥ 4,224	¥ 4,423	$ 42,800
Interest cost	3,238	3,254	3,629	30,838
Expected return on plan assets	(1,931)	(2,038)	(2,066)	(18,390)
Amortization of actuarial gain or loss	990	795	337	9,428
Amortization of prior service cost	(327)	(545)	77	(3,114)
Other	3,847	1,024	1,128	36,638
Total	¥10,311	¥ 6,714	¥ 7,528	$ 98,200

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

	2004	2003
Discount rates	2.5% - 6.3%	2.5% - 6.8%
Expected return on plan assets	1.6% - 9.0%	1.6% - 10.0%

10. 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, 2004, 2003, and 2002, were ¥70,080 million ($667,429 thousand), ¥66,874 million and ¥65,169 million, respectively.

11. 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, 2004 and 2003, 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, 2004					
	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	¥6,642	¥3,858	¥2,784	$63,257	$36,743	$26,514

	March 31, 2003		
	Millions of yen		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥5,210	¥2,906	¥2,304

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,690 million ($16,095 thousand), ¥1,371 million and ¥1,499 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, 2004, 2003 and 2002, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 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
2005	¥1,296	¥19	$12,343	$ 181
2006 and thereafter	1,488	17	14,171	162
Total	¥2,784	¥36	$26,514	$343

12. Contingent Liabilities

At March 31, 2004, the Company and its consolidated subsidiaries were contingently liable as guarantors of indebtedness of the Company's employees and affiliates in the aggregate amount of ¥8,734 million ($83,181 thousand).

13. Amounts Per Share

	Yen			U.S. dollars
	2004	2003	2002	2004
Net income:				
Basic	¥ 181.09	¥ 177.43	¥ 154.73	$ 1,725
Diluted	179.46	174.69	152.07	1,709
Cash dividends	31.00	28.00	25.00	295
Net assets	2,190.69	2,054.17	1,952.47	20,864

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

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

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

14. Supplementary Cash Flow Information

The conversion of convertible bonds for the years ended March 31, 2003 and 2002 amounted to ¥32 million and ¥106 million, respectively. There was no conversion of convertible bonds for the year ended March 31, 2004.

15. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2004 and 2003 are as follows:

Marketable held-to-maturity debt securities

	2004					
	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose their fair value exceeds their carrying value:						
Government bonds	¥ 600	¥ 600	–	$ 5,714	$ 5,714	–
Corporate bonds	–	–	–	–	–	–
Others	–	–	–	–	–	–
Subtotal	¥ 600	¥ 600	–	$ 5,714	$ 5,714	–
Securities whose carrying value exceeds their fair value:						
Government bonds	¥2,401	¥2,397	¥(4)	$22,867	$22,829	$(38)
Corporate bonds	–	–	–	–	–	–
Others	–	–	–	–	–	–
Subtotal	¥2,401	¥2,397	¥(4)	$22,867	$22,829	$(38)
Total	¥3,001	¥2,997	¥(4)	$28,581	$28,543	$(38)

	2003		
	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose carrying value exceeds their fair value:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Others	¥988	¥987	¥(1)
Total	¥988	¥987	¥(1)

Marketable other securities

	2004					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥19,538	¥43,068	¥23,530	$186,076	$410,171	$224,095
Debt securities	2,000	2,000	–	19,048	19,048	–
Other	131	146	16	1,247	1,391	153
Subtotal	¥21,669	¥45,214	¥23,546	$206,371	$430,610	$224,248
Securities whose acquisition cost exceeds their carrying value:						
Stock	¥ 53	¥ 44	¥ (10)	$ 505	$ 419	$ (95)
Debt securities	9,200	9,185	(15)	87,619	87,476	(143)
Other	5,000	4,960	(40)	47,619	47,238	(381)
Subtotal	¥14,253	¥14,189	¥ (65)	$135,743	$135,133	$ (619)
Total	¥35,922	¥59,403	¥23,481	$342,114	$565,743	$223,629

	2003		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥15,670	¥24,403	¥8,733
Debt securities	–	–	–
Other	–	–	–
Subtotal	¥15,670	¥24,403	¥8,733
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥12,276	¥11,619	¥ (657)
Debt securities	4,800	4,787	(13)
Other	130	101	(29)
Subtotal	¥17,206	¥16,507	¥ (699)
Total	¥32,876	¥40,910	¥8,034

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Proceeds from sales	¥69,826	¥101,951	¥86,135	$665,010
Gains on sales	8,188	6	–	77,981
Losses on sales	73	150	–	695

The redemption schedule for securities with maturities classified as other securities and held-to-maturity debt securities as of March 31, 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ 600	¥2,401	–	$ 5,714	$22,867	–
Corporate bonds	7,197	3,989	–	68,543	37,990	–
Other debt securities	500	–	–	4,762	–	–
Others	–	–	–	–	–	–
Total	¥8,297	¥6,390	–	$79,019	$60,857	–

16. 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.

The disclosure of fair value information for derivatives as of March 31, 2004 and 2003 has been omitted since all derivatives have been accounted for as hedges.

17. 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 and personal care products segment conducted principally by the Shaklee Group, and the food and roses segment conducted principally by the Bear Creek Group.

As described in Note 18 2), pursuant to a resolution by the Company's Board of Directors which was passed on April 2, 2004, the Company sold all shares of its subsidiaries engaged in the nutritional and personal care business on May 28, 2004, and sold all shares of its subsidiaries engaged in the food and roses business on June 18, 2004.

The business and geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2004, 2003, and 2002 is outlined as follows:

Business segments

	Year ended March 31, 2004						
	Millions of yen						
	Pharmaceuticals	Nutritional and personal care products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	¥421,543	¥28,829	¥59,032	¥ 1,804	¥511,208	–	¥511,208
Intergroup sales and transfers	181	15	–	5,150	5,346	¥ (5,346)	–
Total sales	421,724	28,844	59,032	6,954	516,554	(5,346)	511,208
Operating expenses	328,275	25,798	58,196	3,712	415,981	(5,733)	410,248
Operating income	¥ 93,449	¥ 3,046	¥ 836	¥ 3,242	¥100,573	¥ 387	¥100,960
II. Assets, depreciation and capital expenditures							
Total assets	¥814,192	¥40,130	¥31,389	¥47,554	¥933,265	¥(30,567)	¥902,698
Depreciation and amortization	19,114	2,428	1,870	1,706	25,118	–	25,118
Capital expenditures	12,635	1,407	1,712	405	16,159	–	16,159

	Year ended March 31, 2004						
	Thousands of U.S. dollars						
	Pharmaceuticals	Nutritional and personal care products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	$4,014,695	$274,562	$562,210	$ 17,181	$4,868,648	–	$4,868,648
Intergroup sales and transfers	1,724	143	–	49,047	50,914	$ (50,914)	–
Total sales	4,016,419	274,705	562,210	66,228	4,919,562	(50,914)	4,868,648
Operating expenses	3,126,429	245,695	554,248	35,352	3,961,724	(54,600)	3,907,124
Operating income	$ 889,990	$ 29,010	$ 7,962	$ 30,876	$ 957,838	$ 3,686	$ 961,524
II. Assets, depreciation and capital expenditures							
Total assets	$7,754,210	$382,190	$298,943	$452,895	$8,888,238	$(291,114)	$8,597,124
Depreciation and amortization	182,028	23,124	17,810	16,247	239,219	–	239,219
Capital expenditures	120,333	13,400	16,305	3,857	153,895	–	153,895

	Year ended March 31, 2003						
	Millions of yen						
	Pharmaceuticals	Nutritional and personal care products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	¥411,307	¥30,635	¥62,815	¥ 1,846	¥506,603	–	¥506,603
Intergroup sales and transfers	57	24	–	5,178	5,259	¥ (5,259)	–
Total sales	411,364	30,659	62,815	7,024	511,862	(5,259)	506,603
Operating expenses	315,617	27,799	59,254	3,918	406,588	(5,683)	400,905
Operating income	¥ 95,747	¥ 2,860	¥ 3,561	¥ 3,106	¥105,274	¥ 424	¥105,698
II. Assets, depreciation and capital expenditures							
Total assets	¥802,486	¥44,312	¥37,790	¥52,185	¥936,773	¥(38,603)	¥898,170
Depreciation and amortization	18,917	2,893	1,816	1,856	25,482	–	25,482
Capital expenditures	19,356	3,938	2,466	1,411	27,171	–	27,171

	Year ended March 31, 2002						
	Millions of yen						
	Pharmaceuticals	Nutritional and personal care products	Food and roses	Other	Total	Eliminations	Consolidated
I. Sales and operating income							
Sales to third parties	¥381,744	¥32,835	¥64,869	¥ 1,880	¥481,328	–	¥481,328
Intergroup sales and transfers	39	23	–	5,130	5,192	¥ (5,192)	–
Total sales	381,783	32,858	64,869	7,010	486,520	(5,192)	481,328
Operating expenses	295,878	29,976	62,403	4,548	392,805	(5,768)	387,037
Operating income	¥ 85,905	¥ 2,882	¥ 2,466	¥ 2,462	¥ 93,715	¥ 576	¥ 94,291
II. Assets, depreciation and capital expenditures							
Total assets	¥801,586	¥42,250	¥44,061	¥51,893	¥939,790	¥(42,841)	¥896,949
Depreciation and amortization	18,800	2,244	3,289	2,009	26,342	–	26,342
Capital expenditures	20,611	2,971	5,710	438	29,730	–	29,730

Geographical areas

	Year ended March 31, 2004						
	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥ 323,884	¥ 79,210	¥ 106,041	¥ 2,073	¥ 511,208	–	¥ 511,208
Intergroup sales and transfers	33,343	15,549	4,172	123	53,187	¥(53,187)	–
Total sales	357,227	94,759	110,213	2,196	564,395	(53,187)	511,208
Operating expenses	(262,490)	(97,746)	(102,816)	(2,027)	(465,079)	54,831	(410,248)
Operating income (loss)	¥ 94,737	¥ (2,987)	¥ 7,397	¥ 169	¥ 99,316	¥ 1,644	¥ 100,960
Total assets	¥ 689,574	¥ 93,707	¥ 144,013	¥ 4,089	¥ 931,383	¥(28,685)	¥ 902,698

	Thousands of U.S. dollars						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	$ 3,084,610	$ 754,381	$1,009,914	$ 19,743	$ 4,868,648	–	$ 4,868,648
Intergroup sales and transfers	317,552	148,086	39,734	1,171	506,543	$(506,543)	–
Total sales	3,402,162	902,467	1,049,648	20,914	5,375,191	(506,543)	4,868,648
Operating expenses	(2,499,905)	(930,915)	(979,200)	(19,304)	(4,429,324)	522,200	(3,907,124)
Operating income (loss)	$ 902,257	$ (28,448)	$ 70,448	$ 1,610	$ 945,867	$ 15,657	$ 961,524
Total assets	$ 6,567,371	$ 892,448	$1,371,552	$ 38,943	$ 8,870,314	$(273,190)	$ 8,597,124

	Year ended March 31, 2003						
	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥323,838	¥ 84,540	¥ 96,107	¥2,118	¥506,603	–	¥506,603
Intergroup sales and transfers	34,011	14,514	2,645	132	51,302	¥(51,302)	–
Total sales	357,849	99,054	98,752	2,250	557,905	(51,302)	506,603
Operating expenses	255,017	95,853	92,614	2,155	445,639	(44,734)	400,905
Operating income	¥102,832	¥ 3,201	¥ 6,138	¥ 95	¥112,266	¥ (6,568)	¥105,698
Total assets	¥682,000	¥103,647	¥133,491	¥4,452	¥923,590	¥(25,420)	¥898,170

	Year ended March 31, 2002						
	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥301,995	¥ 90,268	¥ 86,789	¥2,276	¥481,328	–	¥481,328
Intergroup sales and transfers	27,961	11,025	3,768	75	42,829	¥(42,829)	–
Total sales	329,956	101,293	90,557	2,351	524,157	(42,829)	481,328
Operating expenses	242,538	100,011	83,007	2,210	427,766	(40,729)	387,037
Operating income	¥ 87,418	¥ 1,282	¥ 7,550	¥ 141	¥ 96,391	¥ (2,100)	¥ 94,291
Total assets	¥668,036	¥110,001	¥140,292	¥5,480	¥923,809	¥(26,860)	¥896,949

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, 2004, 2003 and 2002 are summarized as follows:

	Year ended March 31, 2004				
	Millions of yen				
	North America	Europe	Asia	Other	Total
Overseas sales	**¥110,759**	**¥76,210**	**¥7,423**	**¥1,934**	**¥196,326**
Consolidated net sales					**511,208**
	Thousands of U.S. dollars				
Overseas sales	**$1,054,847**	**$725,810**	**$70,695**	**$18,419**	**$1,869,771**
Consolidated net sales					**4,868,648**
Overseas sales as a percentage of consolidated net sales	**21.7%**	**14.9%**	**1.4%**	**0.4%**	**38.4%**

	Year ended March 31, 2003				
	Millions of yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥115,357	¥70,265	¥8,033	¥1,161	¥194,816
Consolidated net sales					506,603
Overseas sales as a percentage of consolidated net sales	22.8%	13.9%	1.6%	0.2%	38.5%

	Year ended March 31, 2002				
	Millions of yen				
	North America	Europe	Asia	Other	Total
Overseas sales	¥118,215	¥63,256	¥7,236	¥3,015	¥191,722
Consolidated net sales					481,328
Overseas sales as a percentage of consolidated net sales	24.6%	13.1%	1.5%	0.6%	39.8%

18. Subsequent Events

1) Pursuant to a resolution by the Company's the Board of Directors which was passed on May 24, 2004, the Company entered into an agreement (the "Agreement") to merge with Fujisawa Pharmaceutical Co., Ltd. ("Fujisawa"), a Japanese publicly listed pharmaceutical company, effective April 1, 2005. The Agreement was approved at the annual general meeting of the Company's shareholders held on June 24, 2004.

Under the terms and conditions stipulated in the Agreement, the Company will issue 0.71 share of its own common stock in exchange for Fujisawa's one share of common stock and Fujisawa will thereafter be dissolved. Treasury stock amounting to 29 million shares will be reissued for this purpose and new shares will be issued for the remainder required for this exchange of shares. In addition, Fujisawa's shareholders of record will receive ¥11 ($0.105) per share in lieu of the dividend to be paid for the fiscal year ending March 31, 2005, which is subject to change.

The following table sets forth Fujisawa's summarized financial information as of and for the year ended March 31, 2004:

	Billions of yen	Millions of U.S. dollars
Total assets	¥499.6	$4,758
Total liabilities	123.1	1,172
Total shareholders' equity	375.9	3,580
Net sales	395.4	3,766
Net income	41.4	394

2) Pursuant to a resolution by the Company's Board of Directors which was passed on April 2, 2004, the Company sold all shares of its subsidiaries engaged in the nutritional and personal care business on May 28, 2004, and sold all shares of its subsidiaries engaged in the food and roses business on June 18, 2004 for $570 million (approximately ¥60 billion) in the aggregate.

3) 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, 2004, were approved at the annual general meeting of the Company's shareholders held on June 24, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥16.00 = U.S.$0.15 per share)	¥5,297	$50,448
Bonuses to directors and corporate auditors	92	876
	¥5,389	$51,324

Report of Independent Auditors

The Board of Directors
Yamanouchi Pharmaceutical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2004, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yamanouchi Pharmaceutical Co., Ltd. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 18 1), on May 24, 2004, the Company entered into an agreement (the "Agreement") to merge with Fujisawa Pharmaceutical Co., Ltd., a Japanese publicly listed pharmaceutical company. The Agreement was approved at the annual general meeting of the Company's shareholders held on June 24, 2004. In addition, as described in Note 18 2), pursuant to a resolution by the Company's Board of Directors which was passed on April 2, 2004, the Company sold all shares of its subsidiaries engaged in the nutritional and personal care business on May 28, 2004, and sold all shares of its subsidiaries engaged in the food and roses business on June 18, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Shin Nihon & Co.

June 24, 2004

Main Products and Pipeline

	Indications/Therapeutic Target	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)
Advaferon®	Chronic hepatitis C	Consensus interferon (CIFN)	Launched (Japan/Asia/Europe)
	Chronic hepatitis C (for use with ribavirin)*	Consensus interferon (CIFN)	P-III (Japan)
YM060 (ramosetron)	Irritable bowel syndrome	$5HT_3$ antagonist	P-II (Europe)/P-III (Japan)*
YM443	Functional dyspepsia	Acetylcholine level enhancer	P-II (USA)
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 resin	Launched (Japan)
Frandol®	Angina pectoris	Coronary artery dilator	Launched (Japan)
Milrila®	Acute heart failure	Phosphodiesterase III inhibitor	Launched (Japan)
Solinase®	Acute myocardial infarction	Modified t-PA	Launched (Japan)
Micardis®	Hypertension	Angiotensin II receptor antagonist	Launched (Japan)
YM087 (conivaptan)	Hyponatremia	Vasopressin receptor antagonist	Filed (USA)
	Acutely decompensated chronic heart failure	Vasopressin receptor antagonist	P-III/II (Europe/USA)
YM150	Prevention of deep vein thrombosis, prevention of thromboembolism in atrial fibrillation	Factor Xa inhibitor	P-II (Europe)
Urology			
Harnal®	Functional symptoms of benign prostatic hyperplasia	Alpha-1 receptor antagonist	Launched (Japan/Asia/Europe)
	Functional symptoms of benign prostatic hyperplasia	TOCAS** (Tamsulosin Oral Controlled Absorption System)	Filed (Europe)
	Functional symptoms of benign prostatic hyperplasia	Orally disintegrating tablet**	Filed (Japan)/P-II (Europe)
	Lower urinary tract syndrome*	Alpha-1 receptor antagonist	P-III (Japan)
YM152 (finasteride)	Benign prostatic hyperplasia	5 alpha-reductase inhibitor	Filed (Japan)
YM905 (solifenacin)	Urinary frequency, urinary incontinence or urgency	Muscarinic receptor antagonist	Approved (Europe)/Filed (USA)/ P-III (Japan)
YM178	Overactive bladder	Beta-3 receptor agonist	P-II (Europe)
Endocrine			
Starsis®	Diabetes	Insulin secretion enhancer	Launched (Japan)
	Diabetes (concomitant treatment with Biganides)*	Insulin secretion enhancer	P-III (Japan)
Micardis®	Diabetic nephropathy*	Angiotensin II receptor antagonist	P-III (Japan)
Locomotorium/ Inflammation			
Bisphonal®	Hypercalcemia	Bisphosphonate	Launched (Japan)
YM177 (celecoxib)	Rheumatoid arthritis, osteoarthritis	Cyclooxygenase-II inhibitor	Filed (Japan)
YM529 (minodronate)	Osteoporosis	Bisphosphonate	P-III (Japan)
YM974 (valdecoxib)	Rheumatoid arthritis, osteoarthritis	Cyclooxygenase-II inhibitor	P-II (Japan)
YM978 (parecoxib)	Acute pain	Cyclooxygenase-II inhibitor	P-II (Japan)
Oncology			
Nasea®	Emesis due to chemotherapy	$5HT_3$ antagonist	Launched (Japan/Asia)
YM294 (oprelvekin)	Chemotherapy-induced thrombocytopenia	Thrombocytopoietic growth factor (rhIL-11)	Filed (Japan)
Other			
Josamycin®	Infections	Macrolide antibiotic	Launched (Japan/Asia/Europe)
Farom®	Infections	Penem-type antibiotic	Launched (Japan)
Nasanyl®	Endometriosis	GnRH agonist	Launched (Japan)
YM670 (multiporous gelatine particles)	Arterio-embolization (liver)	Transcatheter arterial embolization therapy (Gelatin sponge sphere)	Filed (Japan)
YM454 (perflutren)	Cardiovascular echo imaging*	Ultrasound contrast agent	P-II (Japan)

Notes:
1. * additional indication
2. ** additional formulation

(As of July 2004)

Corporate Data

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

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

Plants
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 24, 2004, 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
Euronext Paris

Independent Certified Public Accountants
Shin Nihon & Co.
Osaka Kokusai Bldg., 3-13, Azuchi-machi 2-chome,
Chuo-ku, Osaka 541-0052, Japan

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

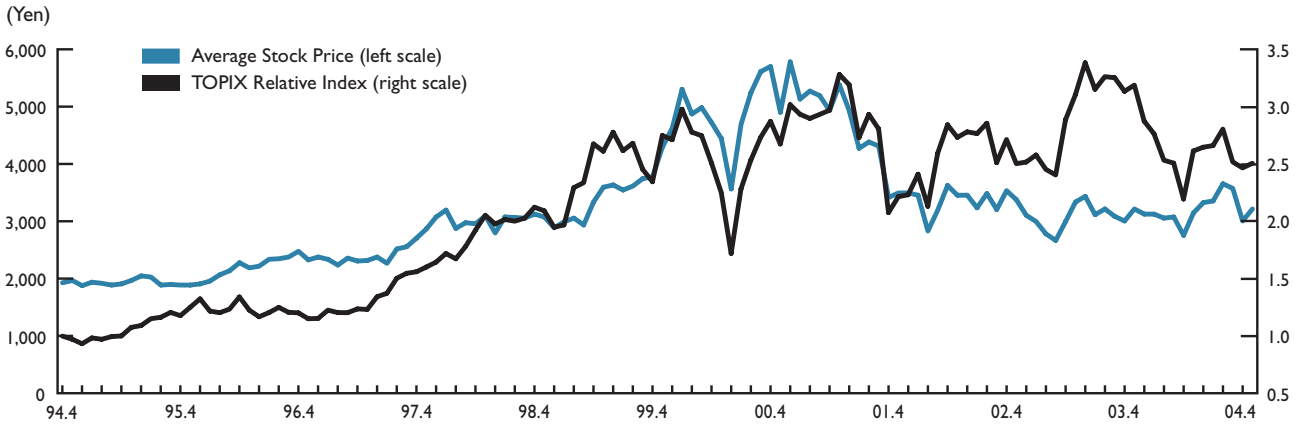
Yamanouchi on the Internet
www.yamanouchi.com

(As of July 2004)

Stock Price Information

Years ended March 31,	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
	Yen									
Common stock price:										
High	**¥3,840**	¥3,640	¥4,740	¥6,280	¥5,990	¥4,030	¥3,280	¥2,610	¥2,410	¥2,080
Low	**2,745**	2,560	2,745	4,060	3,370	2,750	2,520	2,160	1,830	1,830
Average for the year	**3,206**	3,141	3,367	5,024	4,684	3,300	2,982	2,374	2,135	1,940
Year-end	**3,580**	3,090	3,210	4,320	5,620	3,750	3,060	2,560	2,380	1,900

Average Stock Price and TOPIX Relative Index



Common Stock

As of March 31,	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
	Thousands of Shares									
Number of shares outstanding	**361,216**	361,216	361,203	361,151	360,246	344,468	338,605	324,308	323,338	323,338
(Treasury stock)	**30,137**	30,125	20,063	2	23	14	34	10	2	3

As of March 31,	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
	Billions of Yen									
Market value	**¥1,293**	¥1,116	¥1,159	¥1,560	¥2,025	¥1,292	¥1,036	¥830	¥770	¥614

Note: Market value=Number of shares outstanding x stock price at year-end

As of March 31,	2004
Principal shareholders	
The Master Trust Bank of Japan, Ltd.	10.02%
Japan Trustee Services Bank, Ltd.	6.88
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	4.51
State Street Bank and Trust Company	4.30
Nippon Life Insurance Company	4.00
The Chase Manhattan Bank, N.A. London	2.25
Sumitomo Mitsui Banking Corporation	1.39
Deutsche Bank AG, Frankfurt	1.36
Mellon Bank Treaty Clients Omnibus	1.23
The Government of Singapore Investment Corporation Pte Ltd.	1.18
Number of shareholders	22,992

Transfer agent: The Chuo Mitsui Trust and Banking Company, Limited

Principal Subsidiaries and Affiliates

PHARMACEUTICALS

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

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

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

Yamanouchi Pharma Technologies, Inc.
3300 Marshall Avenue, Norman, OK 73072, U.S.A.

Yamanouchi Venture Capital LLC
P.O. Box 1300, Los Altos, CA 94023-1300, U.S.A.

Yamanouchi U.K. Limited
1st Floor, Blays House, Wick Road, Egham, Surrey TW20 0HJ, U.K.

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

Yamanouchi Europe B.V.
Elisabethhof 19, P.O. Box 108, 2350 AC Liderdorp, 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.S.
Paroi Nord La Grande Arche 1, Parvis de La Défence 92044,
Paris La Défence 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, 1, 20061 Carugate (MI), Italy

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

Yamanouchi Pharma A/S
Naverland 4, 2600 Glostrup, Denmark

Yamanouchi Pharma AB
Ridspögatan 10, 213 77 Malmö, Sweden

Yamanouchi Pharma, S.A.
Centro Empresarial, El Plantio, Calle Ochandiano 10,
28023 Madrid, Spain

Yamanouchi Pharma A.G.
Alte Steinhausstrasse 19, CH-6330, Switzerland

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

Yabrofarma, LDA
Edificio Cinema, Rua José Fontana, nº 1-1º
2770-101 PAÇO DE ARCOS, Portugal

ZAO Yamanouchi Pharma
Marksistskaya Ulitsa 16, 109147 Moscow, Russia

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

Yamanouchi Pharma s.r.o.
Radimova 36, 16900 Praha 6, Czech Republic

Yamanouchi Pharma Pty Ltd.
Wanderers Office Park 52 Corlett Drive,
Illovo 2196, South Africa

Yamanouchi Pharmaceutical (China) 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 Center,
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

P.T. Yamanouchi Indonesia*
Wisma Kyoei Prince Building 11th Floor,
Jl. Jend. Sudirman Kav. 3, Jakarta 10220, Indonesia

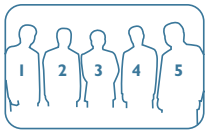
OTHER

Lotus Estate Co., Ltd.
17-1, Hasune 3-chome, Itabashi-ku, Tokyo 174-8612, Japan

*Unconsolidated company

(As of July 2004)

Board of Directors



1 Makoto Matsuo
2 Kunihide Ichikawa
3 Toichi Takenaka
4 Toshinari Tamura
5 Nobuji Takayama

President and Chief Executive Officer
Toichi Takenaka

Directors and
Corporate Executive Vice Presidents
Toshinari Tamura
Kunihide Ichikawa

Director and
Corporate Senior Vice President
Nobuji Takayama

Outside Director
Makoto Matsuo

Corporate Senior Vice Presidents
Yasuo Ishii
Isao Yanagisawa
Isao Kishi
Hiroaki Hiraiwa

Corporate Vice Presidents
Shigekazu Takahashi
Kazuyoshi Hatanaka
Toshio Saba
Shinji Usuda
Ikuya Sugisaki
Hajime Nakajima
Iwaki Miyazaki
Koji Yoshinaga
Tadao Hasegawa
Toshio Osawa
Kiyoshi Furuichi
Katsuro Yamada

Corporate Auditors
Norio Sasaki
Toyomichi Ohtani
Kenichiro Saito
Hideo Yamada*

*Outside Corporate Auditor

(As of June 24, 2004)

Yamanouchi Pharmaceutical Co., Ltd.

3-11, Nihonbashi-Honcho 2-chome,
Chuo-ku, Tokyo 103-8411, Japan
http://www.yamanouchi.com

Yamanouchi

Printed in Japan on recycled paper