Annual Report 2005

Astellas Pharma Inc.

Leading Light for Life

The most vital role of Astellas is to create superior pharmaceuticals that promise a healthier and more enriched life for people all over the world. Our challenge is to illuminate the future. As a global pharmaceutical company, Astellas is determined to be a "Leading Light for Life."

astellas

Contents

Aiming to Become a Global Mega Pharmaceutical Company	1
Business Philosophy	2
To Our Stakeholders	4
Message from President Takenaka	6
Research & Development	10
Worldwide Operations	
Japan	16
North America	18
Europe	20
Asia	21
Corporate Social Responsibility	22
Board of Directors	24
Organization	25
Financial Section	26
Principal Subsidiaries and Affiliates	62
Investor Information	64

Note about forward-looking statements and forecasts

Statements made in this annual report with respect to current plans, estimates, strategies and beliefs and other statements of Astellas that are not historical facts are forward-looking statements about the future performance of Astellas. These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. Consequently, undue reliance should not be placed on these statements. Astellas cautions the reader that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to: (i) changes in general economic conditions in, and the Pharmaceutical Affairs Law and other laws and regulations relating to, markets of Astellas, (ii) currency exchange rate fluctuations, (iii) delays in new product launches, (iv) the inability of Astellas to market existing and new products effectively, (v) the inability of Astellas to continue to effectively research and develop products accepted by customers in highly competitive markets and (vi) infringements of intellectual property rights of third parties.

Aiming to Become a Global Mega Pharmaceutical Company

Astellas Pharma Inc. was created through the merger of Yamanouchi Pharmaceutical Co., Ltd. and Fujisawa Pharmaceutical Co., Ltd. on April 1, 2005.

Astellas is a new force in the world pharmaceutical market. With its outstanding R&D and marketing ability, Astellas is committed to aggressively developing its business and ensuring a sustained growth in its enterprise value as a global pharmaceutical company which contributes toward improving the health of people around the world through the provision of innovative and reliable pharmaceutical products.

Key Financial Data

(Year ended March 31, 2005)

	(¥ billion)			(US$ million)
	Pro forma	Yamanouchi	Fujisawa	Pro forma
Net Sales	¥862.0	¥447.0	¥414.9	$8,056
R&D expenses	127.6	58.8	68.7	1,192
Operating income	192.2	108.8	83.3	1,796
Net income	59.5	33.7	25.8	556

* Pro forma figures are simple additions of the figures for Yamanouchi and Fujisawa.
**The U.S. dollar amounts in this report represent, for convenience only, translations of Japanese yen at the rate of ¥107=US$1.

Business Philosophy

The business philosophy of Astellas highlights our attitudes toward all our stakeholders – our customers, shareholders, employees, and the global community. It embodies our vision of unceasingly contributing to the health of people around the world by providing innovative and reliable pharmaceutical products, thereby continuously enhancing the enterprise value of Astellas.

Raison D'être

Contribute toward improving the health of people around the world through the provision of innovative and reliable pharmaceutical products

To go beyond all others in exploring and tapping the potential of the life sciences.

To continue tackling new challenges and creating innovative pharmaceutical products.

To deliver quality products along with accurate information and retain solid credibility among customers.

To support healthy living for people around the world.

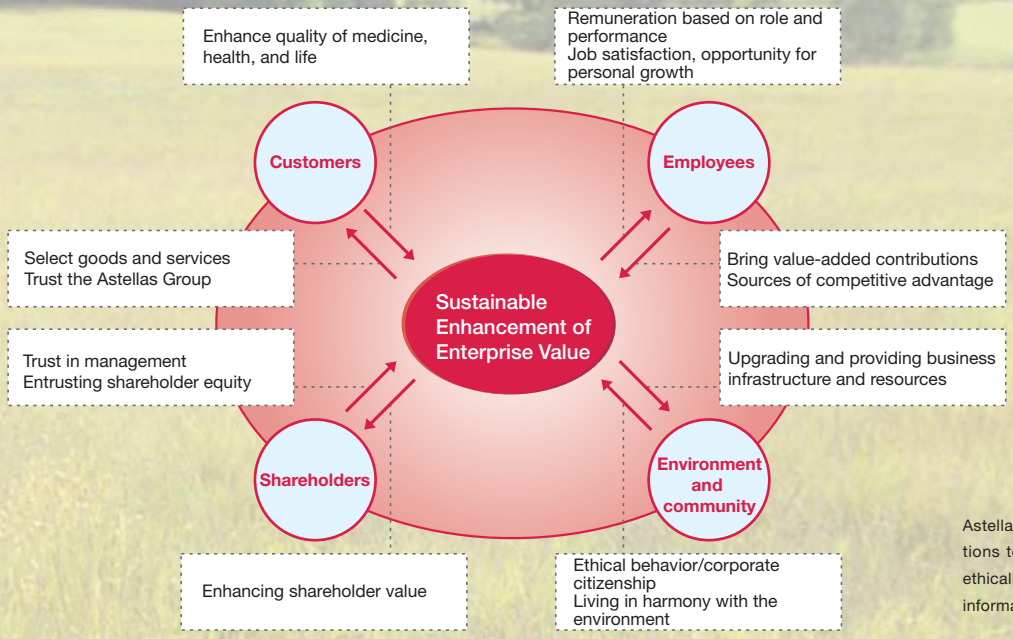
To continue shining on the global pharmaceutical field.

Mission

Sustainable enhancement of enterprise value

Astellas will seek to enhance its enterprise value in a sustainable manner.

Astellas will seek to be the company of choice among all its stakeholders, including its customers, shareholders, employees, and the global community. Astellas will strive to gain the trust of all stakeholders and thereby enhance its enterprise value.



Astellas promises to perform its obligations toward all stakeholders by acting ethically and seeking to actively disclose information.

Beliefs

Our “beliefs” provide the code of conduct we prize at all times
Astellas will always be a group of people who act upon these beliefs

High Sense of Ethics
We will always manage our business with the highest sense of ethics.

Customer Focus
We will always seek to understand customer needs and our focus will always be on achieving customer satisfaction.

Creativity
We will not be complacent and will always seek to innovate to create new value.

Competitive Focus
Our eyes will always be directed to the outside world, and we will continue to create better value faster.

To
Our Stakeholders

Message from the Chairman and the President

It gives us great pleasure to announce the start of operations of Astellas Pharma Inc. on April 1, 2005.

In FY2004, Yamanouchi Pharmaceutical Co., Ltd. and Fujisawa Pharmaceutical Co., Ltd. completed their last year as independent companies by reporting record-breaking operating incomes. These excellent results facilitated the smooth start to operations by Astellas.

The merger between these two companies was not, however, an end in itself. The ultimate goal of the creation of Astellas is to turn it into an R&D-driven company that is fully competitive in the global market. We are striving to improve our enterprise value, by maximizing our improved R&D and sales capabilities to achieve sustained growth and development on global markets.

We remain committed to generating a steady flow of innovative and effective new pharmaceuticals, as embodied in our raison d'être: "contributing toward improving the health of people around the world." We look forward to the continued support and understanding of all our shareholders in our ongoing efforts.

Hatsuo Aoki, Ph.D.
Chairman

Toichi Takenaka, Ph.D.
President & CEO

Message from President Takenaka

As an R&D-driven pharmaceutical company that aims to become fully competitive in the global market, our long-term goal is to maximize enterprise value by expanding our presence globally overseas. The specific strategies in place to achieve this long-term goal are set out in the mid-term business plan that runs for three years from Astellas's first year of operations.

We are actively investing in R&D, and will make further improvements in our R&D activities in order to cultivate first-class product development capabilities. We aim to effectively recover our investment through global marketing of these newly developed products, and then re-invest in R&D. This cycle will allow us to maximize enterprise value. To complement this cycle, we are actively seeking out business opportunities to make full use of our solid financial infrastructure, for example through product in-licensing or acquisitions. Other activities to maximize our enterprise value include the development of efficient organizational and cost structures, as well

FY 2007 Targets for Ethical Drug Business

Sales:	¥1 trillion
Operating income:	¥250 billion (operating margin: 25%)
R&D expenses:	¥145 billion (14.5% of net sales)

as a capital policy and a dividend policy that contribute to higher enterprise value.

The targets set out in the three-year mid-term business plan that runs from FY2005 to FY2007 (April 2005-March 2008) include:

Sales in the ethical drug business: ¥1 trillion

Operating income: ¥250 billion (25% operating margin)

Our pro forma earnings for FY2004 (April 2004-March 2005) were ethical drug sales of ¥831.9 billion and operating income of ¥192.2 billion on a consolidated basis. These results represent a good start toward the achievement of our targets.

The following are strategies we plan to implement in order to achieve these targets.

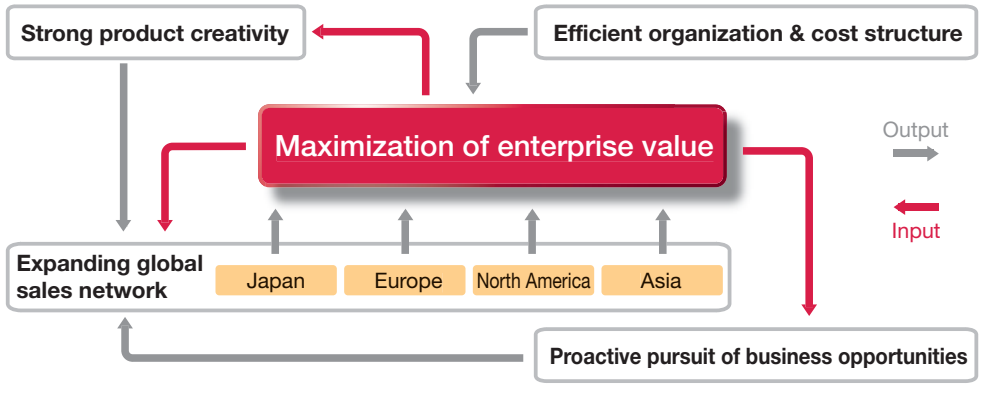
Enhance R&D capabilities

Astellas will advance its capabilities in drug development by making the most of its strong R&D activities and increased R&D investment. The combination of differing drug discovery cultures should stimulate new drug development concepts, and we aim to build a more advanced R&D structure through the integration of the technologies and expertise accumulated at both Yamanouchi and Fujisawa. In this way, we hope to create a continuous pipeline of innovative and efficacious new products.

We are also working to improve the efficiency of our R&D activities by streamlining our work in research fields and individual projects. We aim to develop new drugs in the key fields of urology and inflammation/immunology (transplantation) – where we have already built highly competitive global franchises – as well as the fields of diabetes, infectious diseases, gastrointestinal ailments, and central nervous system disorders.

In terms of clinical development, we are working to

The Astellas Operational Cycle: Maximizing Enterprise Value



maximize product value and shorten development times by focusing our resources on high-priority projects.

In FY2007 (April 2007-March 2008) we plan to invest around ¥145 billion in R&D (approximately 14.5% of sales). Our R&D investment level is one of the highest among Japanese pharmaceutical companies, and is a competitive level of investment in global terms.

Build a global sales network

Another key challenge to enable us to maximize profits from new products is to strengthen our own sales network in the U.S. and Europe, as well as in Japan, where we already have a leading presence.

In Japan, we have an extensive product portfolio that spans the major therapeutic categories of cardiovascular, gastrointestinal, and infectious diseases, as well as various other disease areas, including urology and central nervous system disorders. By effectively using our 2,500 medical representatives, we will expand our market share further and capture a commanding position as the number one player in the Japanese market.

The United States is the largest pharmaceutical market in the world, and is our most important strategic market for future growth. We are working to become profitable in our urology business at an early date, and to achieve sustained growth in the four disease areas of transplantation, cardiovascular disorders, dermatology, and infectious diseases, where we have already established stable business foundations.

In Europe, we have sales bases in 18 countries and are developing our business across the entire region. We have already established ourselves as a leading company in the fields of transplantation and urology. We plan to generate as many synergies as possible from the merger and to further improve our earnings base.

In East and Southeast Asia, where we expect market growth, we are improving our earning power and also strengthening our sales structures through focused investment in the fields of transplantation and urology.

Seek out business opportunities

One of our key strategies to maximize enterprise value is to actively seek out business opportunities.

Specifically, we look for product in-licensing opportunities on a global and local level, in order to bolster our product line-up, and we pursue M&As and other strategic business opportunities, making the most of our solid financial foundations.

Become more cost-competitive

Astellas will continuously improve its enterprise value by focusing its management resources on the ethical drug business. We have almost finished business restructuring to

achieve this, for example through withdrawal from the home care business and the sell-off of the nutritional and personal care products business, as well as the food and roses business.

In addition to such measures, we are also strengthening our earnings by improving the gross margin and through effective use of expenses.

Capital policy that helps improve enterprise value

We are taking steps to improve enterprise value through active business investment. At the same time, we have adopted a dividend payment policy that places the prime focus on capital efficiency. We are targeting a dividend on equity (DOE) ratio of 3.5% in FY2007.

In addition, we will implement share buybacks in a flexible manner.

Corporate governance and group management

By clearly separating the functions and roles of the Board of Directors and the Corporate Officers, we have taken a major step toward improving business transparency and increasing management efficiency through rapid decision making. At Astellas, the Board of Directors decides key issues related to group strategy and policy, while the Corporate Officers manage operations in line with these strategies and policies.

In order to further strengthen and improve business transparency, the Board of Directors now consists of a total of nine members, including three external directors. Our board of auditors comprises four members, including two external auditors, and provides an objective perspective in the assessment of the Board of Directors' management performance.

Astellas aims to manage the group efficiently and flexibly. In Japan, we are working to clarify the functions that should be carried out at Head Office and to spin off other functions into separate companies.

We have set up a regional head offices in North America and Europe. We also aim to efficiently manage our operations by establishing group companies by function for research, development, and manufacturing, and by region for sales and marketing.

As described earlier, as an R&D-driven pharmaceutical company that aims to become fully enterprise in the global market, our long-term goal is to maximize enterprise value by expanding our presence on global markets. The current mid-term business plan simply represents our route to achieving this goal. By implementing the strategies previously described, we hope to achieve the targets in the mid-term business plan and galvanize our business even further.

Increasing Shareholder Returns

- FY 2007 target for DOE: 3.5%
- FY 2005 plan for annual dividends per share: ¥60*
- Flexible acquisition of the Company's own shares

*Subject to approval at shareholders' meeting

Toichi Takenaka, Ph.D.
President & CEO

Research & Development

In order to overcome global competition and achieve further growth, our main challenges are to generate a continuous stream of innovative new products and launch these products as quickly as possible onto global markets.

Following the merger, Astellas now employs some 2,400 R&D staff around the world and has a significantly increased R&D budget of ¥135 billion. In order to make best use of these substantial resources, we will combine the technologies and expertise of the former Yamanouchi and the former Fujisawa, and streamline and prioritize our research areas and development projects. Through these measures, we will develop better quality and faster R&D structures, and improve R&D productivity.

Drug discovery research

On April 1, 2005, Astellas fully integrated research activities at the Japanese drug discovery research sites in Tsukuba (Ibaraki) and Kashima (Osaka). The research division, with around 1,100 staff, has built a seamless infrastructure ranging from exploratory research to compound-optimization and development, including the field of metabolism and safety investigation.

We also have research satellite centers in the U.S. (Evanston, Illinois) and Europe (Edinburgh, U.K.), which work closely with exploratory research staff at Tsukuba to achieve highly innovative drug discovery targets in the fields of transplantation and central nervous system (CNS) disorders.

We have defined six fields franchise and priority research areas – urology, inflammation and immunology (transplantation), infectious disease, diabetes, gastrointestinal disease, and CNS – and are streamlining priority research into diseases in these fields even further. We have defined these target diseases on the basis of such factors as their scientific potential, medical needs, market potential, and our expertise in these areas. Through this streamlining process, we are focusing resource allocation on these six research areas and aim to conduct high-quality research at an even faster pace.

Yamanouchi and Fujisawa were able to discover numerous novel compounds based on their areas of expertise: synthesis research on small molecular compounds at Yamanouchi and fermentation technologies at Fujisawa. We expect to generate substantial synergies in drug discovery research at Astellas, by combining the different drug discovery cultures and technical expertise of Yamanouchi and Fujisawa.

Specifically, we will improve our ability to identify drug discovery targets by combining genome research with fundamental protein technologies. Moreover, the merger will allow us to build more extensive, diverse, and unique

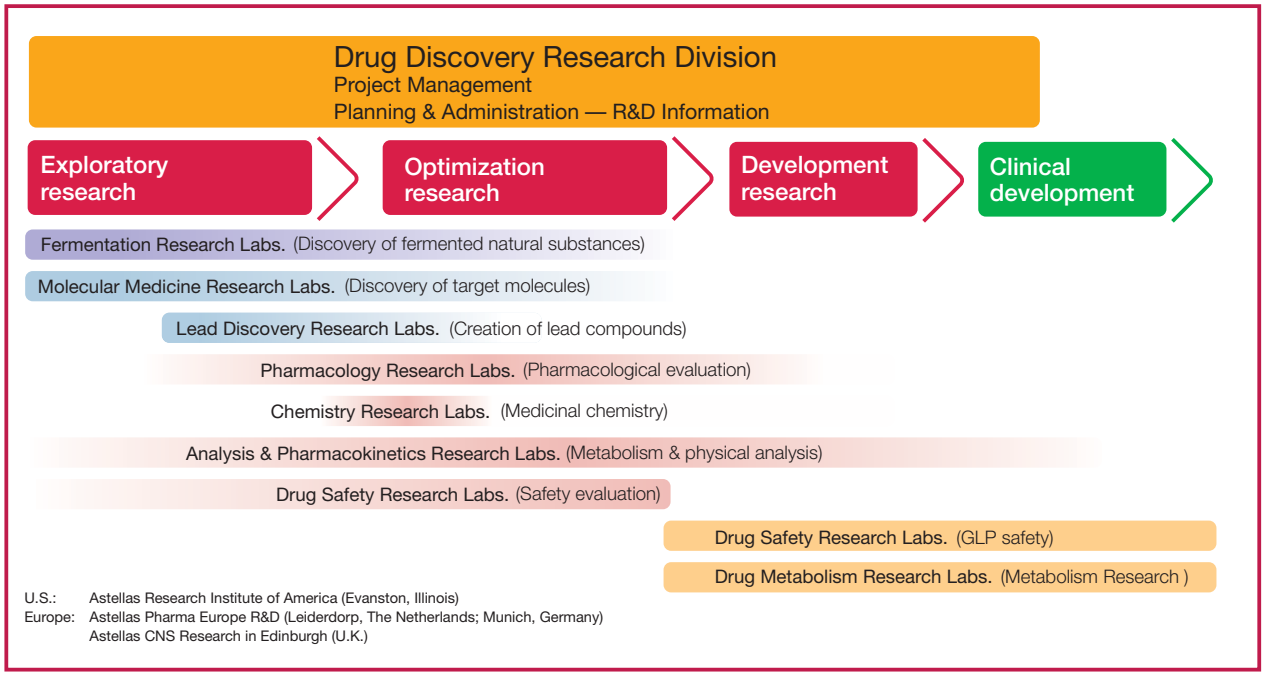
compound libraries, which we expect to use for high throughput screening to achieve higher success rates in identifying hit compounds. At the lead optimization stage, we expect to identify highly qualified compounds in shorter time frames, by combining the varied and extensive experience of the chemistry and pharmacology researchers from both companies.

We have also integrated the IT systems for drug discovery research since the formation of Astellas in April. All Astellas research staff have access to integrated databases containing a wide range of information on the compounds, in order to support efficient drug discovery research.

Clinical development

Astellas has around 1,300 staff engaged in development in the three key regions of Japan, the U.S., and Europe. Global project teams work closely together with local project teams in these three regions, creating development plans addressed to global market needs and promoting clinical development around the world.

All development projects are prioritized to enable the efficient allocation of our R&D resources and to accelerate our development activities. It is our policy to make Go/No Go decisions more rigorously at each successive milestone.



Currently, the following projects have been given priority for focused resource allocation: projects in our transplantation and urology franchise areas in which we are strongly competitive globally through research & development to sales & marketing; global development projects including YM060, YM150, and FK506 for asthma; and US local projects related to RSD1235 and CVT-3146. By accelerating the development of these projects, we expect to make earnings contributions over the short and mid term.

Transplantation area

FK506MR, a modified release of FK506, is a sustained release formulation of our global mainstay product Prograf®. This is regarded as a key development project to maximize the product value of Prograf®. While the current Prograf® formulation used in transplantation is given twice daily, the sustained release formulation will enable once-daily dosing. FK506MR clinical development is currently in Phase 3 in both Europe and the U.S., and in Phase 2 in Japan.

It has been reported that non-compliance with Prograf® dosing is closely related to the loss of graft function in transplant patients in the stable phase. Once-daily dosing is expected to improve compliance of Prograf®, which may result in better graft survival for long term. Moreover, the sustained release formulation is expected to lower maximum blood concentrations (Cmax), providing a safety profile equivalent to or, hopefully, superior to the current formulation.

Urology area

YM178, a β_3–adrenoceptor agonist, is under development for urinary frequency, urinary incontinence or urgency associated with overactive bladder. Proof-of-concept (POC) studies conducted in Europe have established the compound's efficacy, so we plan to move ahead with Phase 2 dose-finding studies in Europe and the U.S.

YM155, an injectable anticancer, has a novel mechanism involving inhibition of survivin expression. This compound is expected to be effective against hormone-refractory prostate

Prioritized Projects

Projects in Phase II or Phase III which are expected to contribute to business performance in the short-/mid-term

(excluding projects NDA filed)

Global Franchise Areas	Global Projects	Local Projects
Transplantation FK506MR FK778 Urology YM178 YM155 YM617 WOWTAB	FK463 YM060 FK962 FK506 Asthma YM150	U.S.A. RSD1235 CVT-3146

cancer, as well as non-small cell lung cancer, metastatic melanoma, and other cancers. We are preparing to begin Phase 2 studies in Europe and the U.S., and are working on Phase 1 studies in Japan.

Other projects under global development

YM060, a 5-HT_3 receptor antagonist, is under development as an oral agent to treat diarrhea-predominant irritable bowel syndrome (IBS). The compound is currently in Phase 3 in Japan, aiming for NDA submission during the current fiscal year ending March 2006. It is now in Phase 2 in Europe.

The Phase 2 studies in Japan have shown that YM060 is efficacious against the various symptoms of IBS, including diarrhea and abdominal pain. YM060 is expected to be an effective agent for the treatment of diarrhea-predominant IBS in both men and women.

Estimates indicate that the number of IBS patients will reach about 33 million in the U.S., 30 million in Europe, and at least 10 million in Japan in 2007. However, only 10–15% of these individuals will actually receive therapeutic treatment, so there is a substantial potential patient population not receiving treatment for IBS.

YM150, a Factor Xa inhibitor given orally, is expected to be a safer and more convenient oral antithrombotic agent that will replace existing drugs. European POC studies have shown that YM150 has good bioavailability, and that it dose-dependently reduces the incidence of venous thromboembolism.

FK506 inhaler for asthma is in Phase 2 in Europe and the U.S., as a line extension of FK506. Clinical studies to confirm safety/tolerability in Europe to date have shown that the FK506 inhaler has a good safety profile and is well tolerated. In terms of efficacy, the FK506 inhaler group showed improved lung function versus the placebo group.

Pursuing business opportunities

In order to achieve sustainable growth, we need to actively pursue in-licensing and product acquisition opportunities, on top of our in-house drug development efforts, so as to further improve our product pipeline. For this purpose, we will regularly review and evaluate our development pipeline in terms of disease areas, regions, and development stage. The head office divisions involved in product strategy, business development, and licensing are working with the R&D divisions to seek out opportunities for product in-licensing and alliances.

Products under Clinical Development

(As of July, 2005)

- Filed
- Preparation for Filing
- Phase Ⅲ
- Phase Ⅱ

Japan

	Generic Name	Code	Therapeutic Target	Classification	Dosage Form	Remarks
	solifenacin	YM905	Urinary frequency, urinary incontinence or urgency associated with overactive bladder	Muscarinic receptor antagonist	Oral	
	celecoxib	YM177	Rheumatoid arthritis, osteoarthritis, low back pain, etc.	Cyclooxygenase-II inhibitor	Oral	Licensed from Pfizer
	finasteride	YM152	Benign prostatic hyperplasia	5 alpha-reductase inhibitor	Oral	Licensed from Merck
	fluvoxamine maleate		Social anxiety disorder	Antidepressant	Oral	Licensed from Solvay New indication
	telithromycin		Skin and soft tissue infections & uterine infection	Ketolide class antibiotic	Oral	Licensed from Sanofi Aventis New indication
	micafungin	FK463	Deep-seated fungal infection (for pediatric)	Candin antifungal agent	Injection	New indication
	minodronate	YM529	Osteoporosis	Bisphosphonate	Oral	
	tamsulosin	YM617	Lower urinary tract syndrome	Alpha-1 receptor antagonist	Oral	New indication
	telmisartan	YM086	Diabetic nephropathy	Angiotensin II receptor antagonist	Oral	Licensed from Boehringer Ingelheim New indication
	interferon alfacon-1	YM643	Chronic hepatitis C virus infection (Advaferon® for use in combination with ribavirin)	Consensus interferon (CIFN)	Injection/ ribavirin: Oral	New indication
	ramosetron	YM060	Irritable bowel syndrome (IBS)	$5HT_3$ antagonist	Oral	New indication
	nateglinide	YM026	Type II diabetes (Concomitant treatment with biganides)	Rapid onset insulin secretion enhancer	Oral	Licensed from Ajinomoto New indication
	nateglinide	YM026	Type II diabetes (Concomitant treatment with insulin sensitizers)	Rapid onset insulin secretion enhancer	Oral	Licensed from Ajinomoto New indication
	celecoxib	YM177	Post surgical pain, post traumatic pain, tooth extraction pain	Cyclooxygenase-II inhibitor	Oral	Licensed from Pfizer New indication
	tacrolimus	FK506	Lupus nephritis	Immunosuppressant	Oral	New indication
	tacrolimus	FK506	Ulcerative colitis	Immunosuppressant	Oral	New indication
	telithromycin		Pediatric use	Ketolide class antibiotic	Oral	Licensed from Sanofi Aventis New indication
	famotidine	YM1170	Symptomatic-gastro-esophageal reflux disease (S-GERD)	H_2 receptor antagonist	Oral	New indication
	valdecoxib	YM974	Rheumatoid arthritis, osteoarthritis, low back pain, etc.	Cyclooxygenase-II inhibitor	Oral	Licensed from Pfizer
	parecoxib	YM978	Acute pain	Cyclooxygenase-II inhibitor	Injection	Licensed from Pfizer
		FK614	Type II diabetes	Insulin sensitizer	Oral	
	quetiapine fumarate	FK949	Behavior psychological symptoms of dementia	Antipsychotic	Oral	Licensed from AstraZeneca New indication
	strontium ranelate	FK481	Osteoporosis	Bone formation stimulating and antiresorptive agent	Oral	Licensed from Servier
	tacrolimus	FK506	Suppression of organ rejection in organ transplant (modified release)	Immunosuppressant	Oral	New formulation

U.S.A.

	Generic Name	Code	Therapeutic Target	Classification	Dosage Form	Remarks
	conivaptan	YM087	Hyponatremia	Vasopressin receptor antagonist	Injection	
	tacrolimus	FK506	Rheumatoid arthritis	Immunosuppressant	Oral	New indication
	tacrolimus	FK506	Atopic dermatitis	Immunosuppressant	Cream	New indication New formulation
		RSD1235	Atrial fibrillation and atrial flutter	Antiarrhythmic agent	Injection	Licensed from Cardiome
	regadenoson	CVT-3146	Pharmacologic stress agent in cardiac perfusion imaging studies	Adenosine A2a agonist	Injection	Licensed from CV Therapeutics
	tacrolimus	FK506	Psoriasis	Immunosuppressant	Cream	New indication New formulation
	tacrolimus	FK506	Suppression of organ rejection in organ transplant (modified release)	Immunosuppressant	Oral	New formulation
		YM443	Functional dyspepsia	Acetylcholine level enhancer	Oral	Licensed from Zeria
		FK614	Type II diabetes	Insulin sensitizer	Oral	
		FK778	Suppression of organ rejection in liver and kidney transplants	Immunosuppressant	Oral	Licensed from Sanofi Aventis
	carperitide		Acute heart failure	Alfa-human atrial natriuretic peptide	Injection	Licensed from Daiichi Suntory
		FK962	Alzheimer's disease	Antidementia	Oral	
		YM155	Hormone refractory prostate cancer, non-small cell lung cancer, metastatic melanoma, etc.	Survivin expression inhibitor	Injection	
	tacrolimus	FK506	Asthma	Immunosuppressant	Inhalation	New indication New formulation

Europe

	Generic Name	Code	Therapeutic Target	Classification	Dosage Form	Remarks
	micafungin	FK463	Deep-seated fungal infection	Candin antifungal agent	Injection	
	tacrolimus	FK506	Suppression of organ rejection in organ transplant (modified release)	Immunosuppressant	Oral	New formulation
		YM178	Urinary frequency, urinary incontinence or urgency associated with overactive bladder	β_3–adrenoceptor agonist	Oral	
		YM150	Prevention of deep vein thrombosis, prevention of thromboembolism in atrial fibrillation	Factor Xa inhibitor	Oral	
	ramosetron	YM060	Irritable bowel syndrome (IBS)	$5HT_3$ antagonist	Oral	
	tamsulosin	YM617	Functional symptoms with benign prostatic hyperplasia	Alpha-1 receptor antagonist	Oral	New formulation (Orally disintegrating tablet)
	tacrolimus	FK506	Rheumatoid arthritis	Immunosuppressant	Oral	New indication
		FK778	Suppression of organ rejection in liver and kidney transplants	Immunosuppressant	Oral	Licensed from Sanofi Aventis
	tacrolimus	FK506	Asthma	Immunosuppressant	Inhalation	New indication New formulation
		YM155	Hormone refractory prostate cancer, non-small cell lung cancer, metastatic melanoma, etc.	Survivin expression inhibitor	Injection	

Worldwide Operations

Japan

Astellas is headquartered in Tokyo and has an extensive network across Japan, including 22 branch offices and 181 sales offices. We also have research laboratories in Tsukuba and Osaka. Our two main manufacturing plants are in Toyama and Yaizu, and we also have production facilities at eight other sites. Astellas employed around 9,500 full-time staff in Japan as of April 1, 2005.

Growth on the Japanese market

The Japanese ethical pharmaceutical market accounts for over 50% of the total sales of Astellas. We will achieve synergies in customer coverage and improved sales force capabilities through the merger between Yamanouchi and Fujisawa. Prior to the merger, Yamanouchi's particular strength was in the general practitioner segment, while Fujisawa was especially strong in the hospital segment. We aim to firmly establish our position as the leading player on the Japanese market through our enhanced product line-up and first-class sales force in terms of both quality and quantity.

Highly competitive product portfolio

One of our key strengths is our highly competitive product portfolio in a wide range of fields.

Our product line-up includes drugs in the major cardiovascular, gastrointestinal, and infectious disease segments of the Japanese market, such as Lipitor®, a treatment for hypercholesterolemia; the angiotensin II receptor antagonist Micardis®; Gaster® for peptic ulcers and gastritis; and the oral cephalosporin antibiotic Cefzon®. We also market such leading products as Harnal® for functional symptoms associated with benign prostatic hyperplasia (BPH) in the urology field, as well as the hypnotic Myslee® and the antidepressant Luvox® in the field of central nervous system treatments.

In April 2005, we obtained approval for the additional indication of rheumatoid arthritis for the immunosuppressant Prograf®, and in June 2005 we launched Harnal D®, an orally disintegrating tablet formulation of Harnal®. In this way, we are actively working to maximize the value of our products.

Strong sales infrastructure

Astellas also boasts a strong sales infrastructure, including around 2,500 medical representatives (MRs), backed up by Area Marketing Supporters (AMS) who provide marketing support in each region and Prograf Managers who support the MRs in the highly specialized field of transplantation.

In FY2005 our basic strategy is to avoid confusion in sales channels as far as possible in this first year after the merger. Thus, we have divided our sales force into two groups. The GA group handles mainly Yamanouchi products, and the CF group specializes in Fujisawa products. But all our MRs will detail "synergy products," where there is a strong correlation between the number of detail calls and sales, allowing us to maximize the benefits from our expanded sales force. The synergy products in question are Lipitor®, Micardis®, Myslee®, and Luvox®. In the highly specialized central nervous system (CNS) field, we have put together a team of around 150 specialist MRs to improve the quality of detail calls on mental hospitals, as well as neurological and mental clinics.

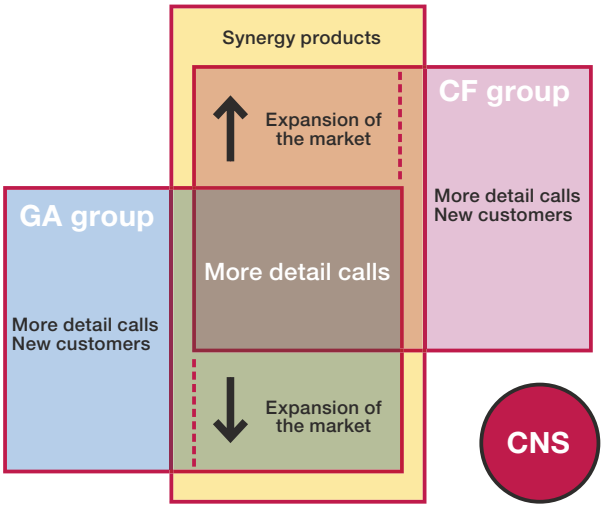
Through this sales infrastructure, we plan to make 10 million detail calls in FY2005, of which 80% will focus on promoting 11 strategic products, including the four synergy products.

This first-class domestic sales infrastructure – in terms of both quality and quantity – should allow us to improve our competitive advantage even further for our various products and franchise fields.

OTC pharmaceuticals business

Zepharma Inc. was established in October 2004 when Yamanouchi and Fujisawa spun off their OTC businesses to create a merged company. The company has established a corporate culture befitting an OTC pharmaceuticals business, and aims to contribute to the self-medication market, an area that has been the focus of increasing attention of late. Zepharma markets several highly efficacious and established brands, including the switch OTC formulation of Gaster® Gaster 10®, the anti-allergy eye and nose drops AG Eyes® and AG Nose®, and the cold remedies Precol® and Cakonal®.

To Become No.1 in Japanese Market



Synergy Products

Lipitor®, Micardis®, Myslee® and Luvox® are "synergy products." In order to maximize the benefit from our expanded sales force, all four products are detailed by all of our 2,500 MRs.

North America

The U.S. pharmaceutical market is the largest in the world and is expected to continue growing in the future. Our key challenge is to achieve growth in this market. We have competitive products targeted at some specialist physician segments in the U.S. market, including the transplantation, dermatology and hospital segments. Our new target field of urology is an important area for us in North America and we are currently working to develop our sales activities in order to make the urology business profitable as soon as possible.

For growth in North American market

In addition to the specialist physician market segments, we have a number of new drugs in the pipeline that are excellent candidates for use by primary care physicians (PCPs) over the mid-to-long term. We plan to expand our business into the PCP market in a stepwise manner, in line with progress in developing these new drugs.

In addition to developing our sales of in-house products, we are also targeting further growth in North America by strengthening our product line-up through strategic alliances, including product in-licensing and acquisitions.

Current sales platform

At present in the U.S. market, our immunosuppressant Prograf® is considered a leading product in the field of transplantation, while in the hospital segment, we are achieving steady growth in sales of such products as Adenoscan®, a pharmacologic stress imaging agent. In the urology field, however, we have just started up our U.S. activities. We launched VESIcare® for the treatment of overactive bladder (OAB) with symptoms of urgency, urinary frequency and urinary urge incontinence in January 2005 and are co-promoting Flomax® (Japanese brand name: Harnal®) for treatment of the signs and symptoms of BPH with Boehringer Ingelheim Pharmaceuticals, Inc.

Astellas Pharma US, Inc. employs about 600 MRs, including 300 MRs in the urology PCP market.

Series of new product launches

In 2005, we launched VESIcare® in January, followed by the echinocandin antifungal injection Mycamine® in May.

VESIcare® provides significant improvement in the various symptoms of OAB. In the U.S. market, Astellas Pharma US, Inc. is promoting the product to specialist physician segments, such as urologists and obstetrics and gynecology specialists. We are also enhancing sales through co-promotion

with GlaxoSmithKline in the PCP market.

Mycamine® has a novel mechanism whereby the drug specifically inhibits the biosynthesis of 1,3-ß-D-glucan, one of the main components of fungal cell walls that is not found in the human body. Mycamine® is indicated for the prophylaxis of candida infection in patients undergoing hematopoietic stem cell transplantation and the treatment of esophageal candidiasis. This is the first echinocandin antifungal agent to be approved for a prophylactic indication in the U.S. We expect the echinocandin antifungal market to continuously and rapidly grow and are co-promoting Mycamine® with the hospital sales force of Roche, which has extensive experience in the hospital and infectious disease markets.

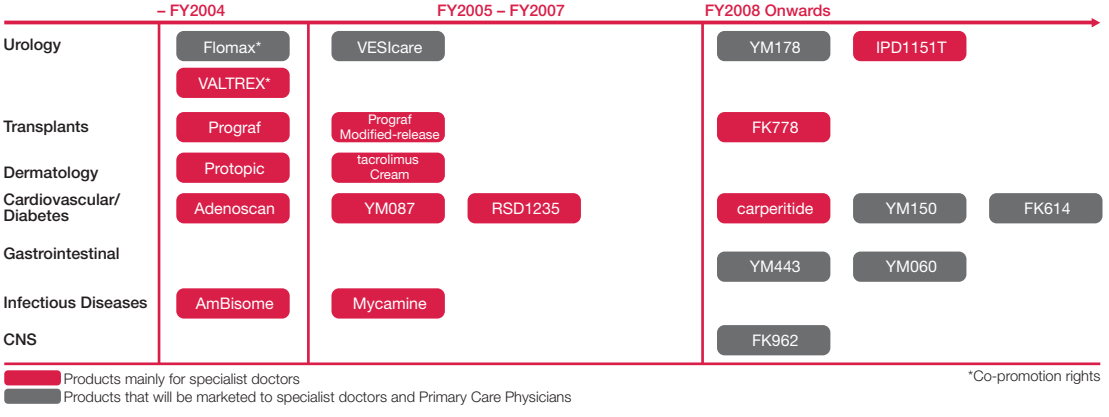
Both VESIcare® and Mycamine® are competitive products that we expect to make substantial contributions to the mid-term growth of our North American business. We are achieving rapid and effective market penetration through co-promotion with major pharmaceutical firms.

Following on from these new products, we plan to launch YM087 for hyponatremia during FY2005. YM087 is currently under review by the FDA and, if approved, would be the first drug indicated for the treatment of hyponatremia. We expect the product to bolster our line-up in the hospital segment, where we have already established business foundations.

New Products Launched in 2005

VESIcare® and Mycamine® were launched in the U.S. in January and May 2005, respectively. Both products are highly competitive and expected to contribute to the future growth of Astellas in the U.S. market

Product Portfolio in the North American Market



Europe

We have established a regional headquarters in the U.K., and cover almost all of the European region through 18 sales affiliates. We are also engaged in sale of bulk product to licensees. The merger to create Astellas has strengthened our sales force capabilities in the five major European pharmaceutical markets – Germany, France, the U.K., Italy, and Spain – and has expanded our European presence through complementary coverage of regions not previously handled when Yamanouchi or Fujisawa were operating independently. We also have manufacturing sites in Ireland, Germany, the Netherlands, and Italy, and are engaged in clinical development .

We aim to achieve a steady growth in sales on the European market, through contributions from both mainstay and new product sales.

Strengths of Astellas in Europe

We have around 1,300 MRs promoting our in-house products across Europe. Astellas has established itself as a leading company in the fields of transplantation, urology and dermatology.

In the transplantation field, Prograf® has been extremely well received in all the European countries where it has been launched since 1994 (Germany and the other major markets). Prograf has been registered as a drug for the prevention of rejection of organs after kidney and liver transplantation. Based on the good results of a wide-ranging pan-European comparative study in heart transplantation, the registration process for this indication was initiated in April 2005. Prograf® has achieved a market share of its class of around 50% in a number of European markets and we expect to continue growing sales in the future.

In the urology field, Omnic® (Japanese brand name: Harnal®) has penetrated the market successfully as the leading product for the treatment of functional symptoms of BPH. In January 2005, we completed the launch of the new formulation Omnic OCAS®, which uses our proprietary OCAS (oral controlled absorption system) formulation technology in the Netherlands. The roll-out of this new formulation across

Omnic®, Omnic OCAS®

The roll-out of Ominc OCAS®, the new formulation of Omnic®, in Europe is going well. It is expected that the market penetration of Omnic OCAS® will further strengthen its position as the leading product for the treatment of functional symptoms of BPH.

Europe is going well with the launch in Germany in April 2005 and other markets to follow. We have strengthened our activities in the urology field through the launch in FY2004 of the new product Vesicare®. This product is currently available in 14 European countries and we plan to launch it in all the remaining key countries during FY2005. In March 2005, we announced the results of the STAR study which compared Vesicare® and tolterodine ER at the 20th European Association of Urology Congress. The data showed that Vesicare® was superior to tolterodine ER on the endpoints of incontinence episodes, urge incontinence, urgency and volume voided. The study also achieved its objective of proving non-inferiority on the primary efficacy variable of micturition frequency. The results of the STAR study will help Vesicare® to steadily penetrate the OAB market. We are also achieving steady growth on the German market for Eligard to treat prostate cancer, which is contributing to European sales.

The combination of Fujisawa's Protopic® and Yamanouchi's dermatology portfolio, including Locoid®, Locobase® and Zinerytr®, has created synergies and made Astellas one of the leading dermatology companies in Europe.

Prograf®

Prograf® has been launched in about 70 countries and has made a significant contribution in terms of reducing rejection rate and improving transplant outcome. Prograf® is now recognized as the cornerstone of immunosuppressant therapy.

Asia

In East Asia, Astellas has a sales base and a manufacturing function in China, as well as sales subsidiaries in South Korea and Taiwan. In Southeast Asia, we have our own sales operations in the Philippines, Indonesia, and Thailand.

Establish presence in growing markets

In East and Southeast Asia, where the overall market is growing strongly and we expect growth to continue in the future, we have focused our business resources in our transplantation and urology global franchise areas.

In South Korea, Astellas Korea was established through a merger of the sales subsidiaries of Fujisawa and Yamanouchi in April 2005. Our sales bases in Taiwan will be integrated in FY2005 and those in China in FY2006, in order to bolster our sales structures and improve our earnings potential. We also have sales subsidiaries in the Philippines, Indonesia, and Thailand. While operations in all three countries are profitable, we will improve profitability further.

We expect two new products – Vesicare® and micafungin – to contribute to stronger business foundations in these regions in addition to our existing product line-up.

Corporate Social Responsibility

Astellas seeks to enhance its enterprise value in a sustainable manner through its worldwide business activities and to gain the trust of all stakeholders. We are therefore keenly aware of our social responsibilities and are working on issues related to safety and the environment, compliance, and our social contributions.

When Astellas began operations on April 1, 2005, we created a specific Charter of Corporate Conduct, based on our belief in the need for high ethical standards, in order to realize our business philosophy in our corporate activities. This Charter clarifies how we should conduct ourselves in our activities, and it is available on our website.

In line with the spirit of the Charter, we have also set out more detailed standards which take local laws and cultures into consideration in each region, for each executive and employee to follow in the performance of their duties. We ensure that each group employee is familiar with the Charter and the standards by distributing them in the form of booklets.

In order to promote our corporate social responsibilities (CSR), we established a cross-departmental CSR Committee headed by our Executive Vice President. This Committee decides the policy of Astellas toward compliance, safety and the environment, while our various business sites and departments operate in line with this policy.

Each year we produce a CSR Report, as a tool to report on our CSR activities.

Safety and the environment

As a pharmaceutical company, we place particular emphasis on ensuring that our business activities are environmentally friendly and that we ensure the health and safety of our employees.

Based on the Astellas Environmental and Health & Safety Policy, we comply with the relevant laws, regulations, and ordinances and also strive to set and achieve the highest standards in our activities. We have broken down this Policy into Environmental and Health & Safety Guidelines, which clarify how we want Astellas to be operating by 2010. In our day-to-day activities, we follow these Guidelines and work to achieve the specific goals set out in our Environmental Plan of Action and our Health & Safety Plan of Action. The Environmental Plan of Action includes specific numeric targets on measures to address global warming, such as

reduced CO_2 emissions; reduced resource utilization, for example through “green procurement;” and reduced harmful substance emissions. The Health & Safety Action Plan provides targets for the construction and development of a health and safety management system for employees’ protection and application in accidents or emergency situations.

We have introduced an environmental management system in all our group companies both in Japan and overseas, while main production facilities have obtained ISO 14001 certification – the international standard for environmental management systems.

Booklets containing the Charter of Coporate Conduct and ethical standards

Compliance

In order to strengthen our compliance systems, we are working in our first year of operations to ensure that every employee is familiar with the Charter of Corporate Conduct, through full-scale training systems including group training and e-learning programs.

In terms of organizational structure, we have put systems in place to enable our compliance policy to be disseminated to all employees, through the appointment of a compliance promotion leader in each department. We aim to rapidly address any areas that need improving.

With regard to compliance at group companies overseas, we have staff in charge of compliance at Astellas Pharma Europe Ltd. and Astellas US LLC, which perform headquarters functions for their respective regions. For our Asian subsidiaries and affiliates, the Asia Business Management Department is pursuing initiatives to improve compliance at each company through the dissemination of the Charter.

Moreover, the staff in charge of compliance responsible for each region (Japan, the U.S., Europe) hold regular meetings, thereby ensuring that the principles of compliance are properly observed across the whole Astellas Group in a systematized manner.

In addition, we have designated a point of contact for consultations and notifications on compliance issues in each region in order to rapidly resolve issues as soon as they arise. We aim to strengthen our compliance systems further by ensuring direct communication channels to the staff responsible for compliance, or to an external third party (legal office). We are also utilizing this function as a route for submitting ideas on how to ensure compliance in our activities.

Social responsibilities

In the 1990s, we established foundations in the U.S. and Europe as ongoing programs to support scientific research, especially in the fields of pharmacology and medicine.

In Japan, two Astellas-related foundations have provided continuous support for researchers at the cutting edge of the medical and pharmacology fields. In addition to these programs, Astellas plans to continue supporting a wide range of social programs, including health seminars for the general public, donations of ambulances to local governments, and donations of wheelchair-compatible vehicles to social welfare facilities through a system whereby the Company matches employee donations to this scheme.

Board of Directors

(Back row, from left)

Makoto Matsuo
Director

Toshio Saba
Director

Koichi Sejima
Director

Akiro Kojima
Director

Takashi Yamane
Director

(Front row, from left)

Toshinari Tamura, Ph. D.
Representative Director
Executive Vice President

Hatsuo Aoki, Ph. D.
Representative Director
Chairman

Toichi Takenaka, Ph. D.
Representative Director
President and CEO

Masafumi Nogimori
Representative Director
Executive Vice President

Heads of Divisions and Chiefs of Overseas Businesses

Kunihide Ichikawa
Executive Corporate Officer
Senior Vice President, Sales & Marketing

Yasuo Ishii
Senior Corporate Officer
Chairman and CEO, Astellas Pharma Europe Ltd.

Isao Yanagisawa, Ph. D.
Senior Corporate Officer
Senior Vice President, Drug Discovery Research

Hirofumi Onosaka
Senior Corporate Officer
Senior Vice President, Corporate Strategy

Masao Shimizu
Senior Corporate Officer
Senior Vice President, Development

Isao Kishi
Senior Corporate Officer
Senior Vice President, Information Systems

Hitoshi Ohta
Senior Corporate Officer
Senior Vice President, Technology

Toshio Ohsawa
Senior Corporate Officer
Senior Vice President, Corporate Administration

Osamu Nagai
Corporate Officer
Senior Vice President, Corporate Finance & Accounting

Iwaki Miyazaki
Corporate Officer
Senior Vice President, QA, RA and Pharmacovigilance

Makoto Nishimura, Ph. D.
Corporate Officer
Chairman and CEO, Astellas Pharma US, Inc.

Representative Director and Chairman

Hatsuo Aoki, Ph. D.

Representative Director, President and Chief Executive Officer

Toichi Takenaka, Ph. D.

Representative Director, Executive Vice Presidents

Toshinari Tamura, Ph. D.
Masafumi Nogimori

Directors

Koichi Sejima
Toshio Saba
Akiro Kojima*
Makoto Matsuo*
Takashi Yamane*

**Outside Directors*

Corporate Auditors

Kenichiro Saito
Masaya Ishii
Kanji Kobayashi*
Hideo Yamada*

**Outside Corporate Auditors*

Executive Corporate Officer

Kunihide Ichikawa

Senior Corporate Officers

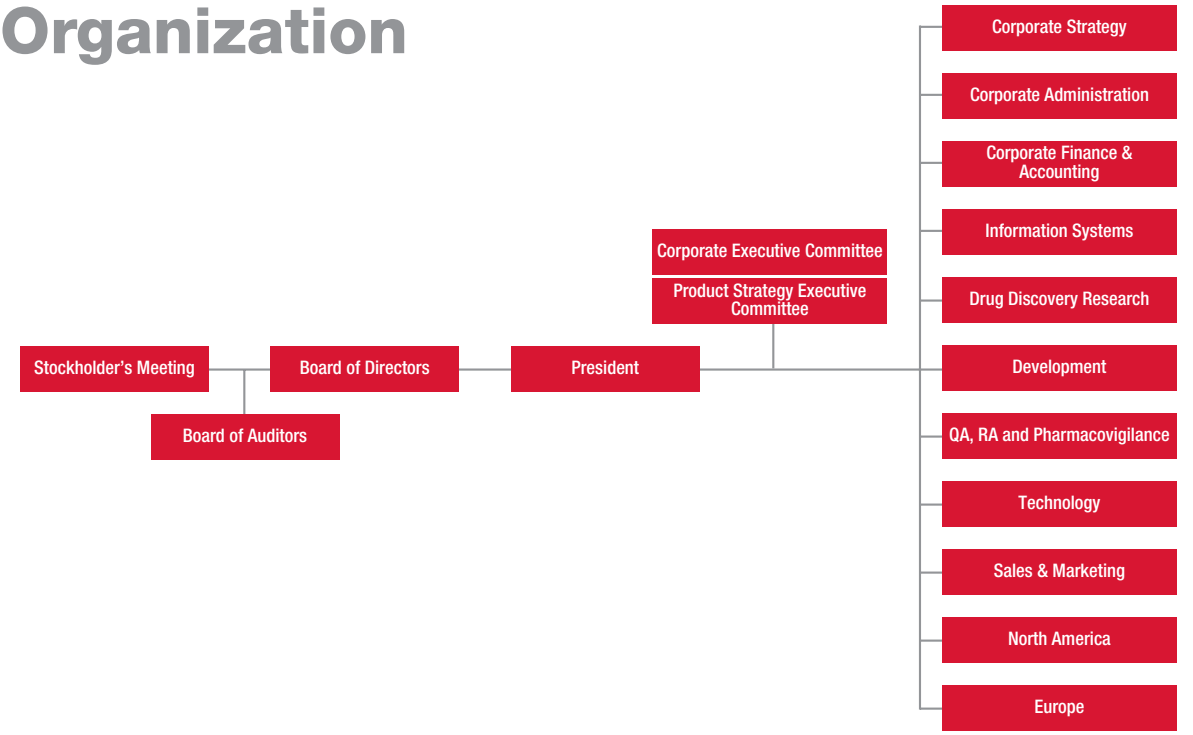
Yasuo Ishii
Isao Yanagisawa, Ph. D.
Hirofumi Onosaka
Masao Shimizu
Naoki Fujimoto
Isao Kishi
Hiroaki Hiraiwa
Takayoshi Mukaida
Hitoshi Ohta
Toshio Ohsawa

Corporate Officers

Kazuyoshi Hatanaka
Toshio Goto, Ph. D.
Shinji Usuda, Ph. D.
Ikuya Sugisaki
Hajime Nakajima
Osamu Nagai
Iwaki Miyazaki
Tadao Hasegawa
Masaru Imahori
Kiyoshi Furuichi, Ph. D.
Katsuro Yamada
Shinichi Shimizu
Makoto Nishimura, Ph. D.
Yoshiro Miyokawa
Yoshihiko Hatanaka

(As of June 24, 2005)

Organization



(As of April 1, 2005)

Financial Section

Year ended March 31, 2005

Key Financial Data

	(¥ billion)			(US$ million)
	Pro forma	Yamanouchi	Fujisawa	Pro forma
Net sales	¥862.0	¥447.0	¥414.9	$8,056
Cost of sales	279.3	141.1	138.1	2,610
Gross profit	582.6	305.8	276.8	5,445
SG&A expenses	390.4	196.9	193.4	3,649
(R&D expenses)	127.6	58.8	68.7	1,192
Operating income	192.2	108.8	83.3	1,796
Other income (expenses)	(76.9)	(38.2)	38.7	(719)
Income before income taxes and minority interests	115.2	70.6	44.6	1,077
Income taxes	54.3	35.6	18.7	508
Net income	59.5	33.7	25.8	556

* Pro forma figures are simple additions of the figures for Yamanouchi and Fujisawa.

Contents

Key Financial Data	26
Management's Discussion & Analysis (Yamanouchi)	27
Consolidated Balance Sheets (Yamanouchi)	34
Consolidated Statements of Income (Yamanouchi)	36
Consolidated Statements of Shareholders' Equity (Yamanouchi)	37
Consolidated Statements of Cash Flows (Yamanouchi)	38
Notes to Consolidated Financial Statements	39
Report of Independent Auditors	54
Summarized Financial Review (Fujisawa)	55
Consolidated Statements of Income (Fujisawa)	57
Consolidated Balance Sheets (Fujisawa)	58
Consolidated Statements of Shareholders' Equity (Fujisawa)	60
Consolidated Statements of Cash Flows (Fujisawa)	61

The translation of yen amounts into U.S. dollar amounts in this section is included solely for convenience at the rate of ¥107=US$1.00, the approximate exchange rate on March 31, 2005.

Management's Discussion & Analysis (Former Yamanouchi)

■ Overview

Along with restrictive measures against increasing medical expenses, mainly in the leading industrial nations, global competition has intensified, both in R&D and sales of new drugs. In Japan, the government cut the NHI drug prices by 4.2% on average in April 2004 in an effort to curb national medical expenditure.

In this environment, although sales growth continued for major products in the ethical pharmaceuticals business, net sales on a consolidated basis decreased 12.5% to ¥447.0 billion (US$4,178 million). This was due to the divestiture during the fiscal year of the Company's nutritional and personal care products business as well as its food and roses business ("consumer products businesses").

In Japan, extra products were shipped at the end of March 2005 ahead of a temporary shutdown of the ordering and delivery systems in preparation for the merger with Fujisawa in April 2005. This had the effect of increasing sales by about ¥9.3 billion (US$86 million) in the fiscal year under review.

With respect to earnings, operating income rose 7.9% year-on-year, to ¥108.8 billion (US$1,017 million). This was attributable to a reduction in selling, general and administrative (SG&A) expenses arising from the divestiture of the consumer products businesses and a decline in R&D spending. The year-end extra shipment also contributed to increases in operating income (about ¥5.9 billion (US$55 million)). Net income fell 43.9% to ¥33.7 billion (US$315 million), mainly due to business integration expenses associated with the merger with Fujisawa.

Average exchange rates (¥)

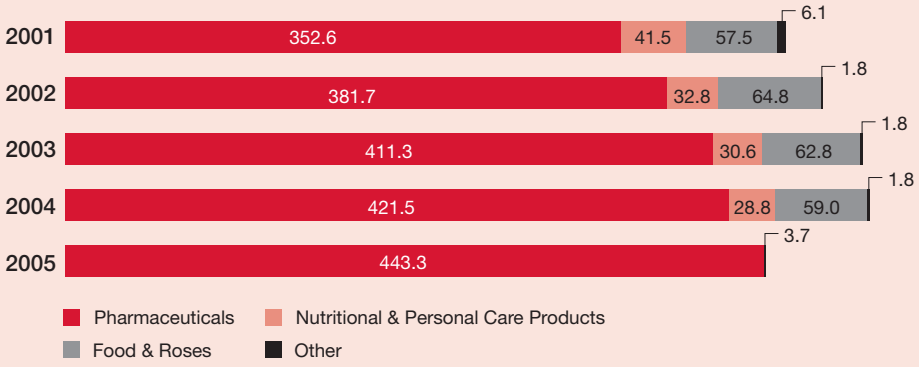
Year ended March 31	2005	2004
Yen-dollar	**¥108**	¥113
Yen-euro	**135**	133

During the term under review, the yen averaged ¥108 against the U.S. dollar and ¥135 against the euro, thus depreciating against the dollar year-on-year, while appreciating against the euro. The effect of exchange rate fluctuations on earnings for the year was to increase operating income by ¥0.3 billion. There was virtually no impact on sales.

Net Sales

Sales by business segment

Net sales breakdown (¥ billion)



Note: Year ended March 31

Sales by business segment

Year ended March 31	¥ billion		US$ million
	2005	2004	**2005**
Pharmaceuticals	**¥443.3**	¥421.5	**$4,143**
Nutritional & personal care products	**—**	28.8	
Food & roses	**—**	59.0	
Other	**3.7**	1.8	**34**
Consolidated	**¥447.0**	511.2	**$4,178**

Note: Sales in the consumer products businesses are not included as the Company divested these businesses during the fiscal year under review.

Pharmaceuticals

In pharmaceuticals, continued growth in sales of Yamanouchi's leading products lifted total sales in this category by ¥21.7 billion to ¥443.3 billion (US$4,143 million), despite negative factors such as NHI price cuts in Japan and the elimination of sales of the non-ionic contrast medium Optiray® and the oral anti-hyperglycemic Euglucon®, which were transferred to other companies in the previous period.

Harnal®, a treatment for the functional symptoms of BPH (brand names in Europe and U.S. are Omnic® and Flomax®, respectively) has strengthened its position as a top-selling product in many countries. Consolidated sales of Harnal® came to ¥135.9 billion (US$1,270 million), up ¥13.6 billion from the previous term on the back of an increase of ¥6.3 billion in European sales, which rose to ¥44.8 billion (US$418 million), and a ¥2.2 billion increase in revenue from sales of Harnal® bulk to and royalties from licensees, which amounted to ¥37.2 billion (US$347 million). In the U.S., Yamanouchi concluded a co-promotional agreement on Flomax® with Boehringer Ingelheim Pharmaceuticals Inc. in August 2004, and has been actively promoting this product since October 2004. In Europe, the Company launched the additional formulation Omnic-OCAS®, which uses its proprietary oral controlled absorption system (OCAS), in the Netherlands in January 2005. The Company is now rolling out the OCAS formulation in other countries. In Japan, the Company launched new

formulation Harnal D® (an orally disintegrating tablet) in June 2005. The Company is working to maximize the value of this product through rapid market penetration of the new formulation.

Hypercholesterolemia treatment Lipitor® became the top seller in the statin market for the first time in Japan with sales of ¥85.5 billion (US$799 million), a market share of over 35% and an increase of ¥7.9 billion. Sales of Lipitor® have grown steadily due to factors including its high success rate in lowering cholesterol levels to clinical target values, a broad range of clinical data obtained from experience in overseas markets, and co-promotion with Pfizer Japan Inc.

A superior product profile helped Micardis® – a long-acting angiotensin-II receptor antagonist – achieve rapid penetration in a fiercely competitive 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. Sales jumped from ¥17.5 billion to ¥26.1 billion (US$243 million).

Sales of Gaster® for prescription for the treatment of peptic ulcers and gastritis declined ¥3.7 billion to ¥77.2 billion (US$721 million). In the Japanese market, amid NHI price cuts and intensifying competition, sales of Gaster® were essentially at the previous-year level on a volume basis thanks to growth in Gaster® D, an orally disintegrating tablet. In Japan, sales of Gaster® D now account for some 65% of the total sales of prescription oral type Gaster® products.

Further, sales of Vesicare®, newly launched in FY2004 in Europe and the U.S., amounted to ¥2.7 billion (US$25 million), making a valuable contribution to the overall sales increase. In Europe, following the Dutch launch in August 2004, the Company is now rolling out this product in Germany, France, the U.K., and other countries. In the U.S., the Company launched the product in January 2005 and is working to achieve rapid market penetration through co-promotion with the U.S. subsidiary of GlaxoSmithKline.

Yamanouchi's OTC drugs business was spun off as Zepharma Inc., a company jointly established with Fujisawa in October 2004.

Up to the end of the reporting period, Zepharma Inc. was an equity-method affiliate, and therefore sales of OTC drugs it generated in the six months from October 2004 are not reflected in the consolidated sales figures for the fiscal year under review. Sales of OTC business for the first half of the fiscal year under review amounted to ¥4.9 billion (US$45 million).

Major product sales included ¥3.0 billion (US$28 million) for Gaster 10®, the switch OTC formulation of Gaster®, ¥2.2 billion (US$20 million) for Makiron® first-aid antiseptics, and ¥1.9 billion (US$17 million) for Cakonal® cold remedies. Of these amounts, sales between April and September included in consolidated

Sales of pharmaceuticals

Year ended March 31	¥ billion		US$ million
	2005	2004	**2005**
Harnal®	**¥135.9**	¥122.3	**$1,270**
Lipitor®	**85.5**	77.6	**799**
Gaster® (excluding OTC)	**77.2**	80.9	**721**
Micardis®	**26.1**	8.6	**243**
Frandol®	**13.4**	13.7	**125**
Perdipine®/Perdipine® LA	**13.1**	13.9	**122**
Hypoca®	**4.3**	3.8	**40**
Dorner®	**9.3**	10.0	**86**
Vesicare®	**2.7**	—	**25**

figures amounted to ¥1.2 billion (US$11 million), ¥1.4 billion (US$13 million) and ¥0.6 billion (US$5 million), respectively.

Other

This segment comprises our real estate business and revenues from the manufacture of consumer products (which will be ceased by the end of 2006) under consignment agreements after the divestiture of the consumer products businesses.

Sales by geographical area

(Excluding consumer products businesses)

Year ended March 31	¥ billion		US$ million	¥ billion		US$ million
	2005	2004	**2005**	**2005**	2004	**2005**
Japan	**¥310.3**	¥323.8	**$2,900**	**¥310.3**	¥313.8	**$ 2,900**
North America	**8.7**	79.2	**81**	**8.7**	1.3	**81**
Europe	**120.4**	106.0	**1,125**	**120.4**	106.0	**1,125**
Asia (excluding Japan)	**7.4**	2.0	**69**	**7.4**	2.0	**69**
Consolidated	**¥447.0**	¥511.2	**$4,178**	**¥447.0**	¥423.3	**$4,178**

Japan

Sales in Japan decreased ¥13.4 billion to ¥310.3 billion (US$2,900 million). This large decrease was primarily due to the divestiture of the consumer products businesses in the reporting term, which had sales of ¥10.0 billion in the previous term. Without that factor, the decrease would have been ¥3.4 billion.

This decrease of ¥3.4 billion is mainly attributable to the elimination of sales of Optiray® and Euglucon®, and also the elimination from October 2004 of OTC drug sales resulting from the spin-off of OTC drug operations. This more than offset increased sales of major products such as Lipitor®, Micardis® and Harnal®.

North America

Sales in North America decreased ¥70.4 billion to ¥8.7 billion (US$81 million). This large decrease was due to the divestiture of the consumer products businesses in the reporting term, which had sales of ¥77.9 billion in the previous term. Without that factor, an increase of ¥7.3 billion would have been recorded.

This increase of ¥7.3 billion is primarily attributable to sales of ¥1.1 billion (US$10 million) achieved by the newly launched VESIcare®, income of ¥2.9 billion (US$27 million) from the U.S. partnership established with Wyeth for the bone morphogenetic protein rhBMP-2, and ¥2.2 billion (US$20 million) from the manufacture of consumer products under consignment agreements.

Europe

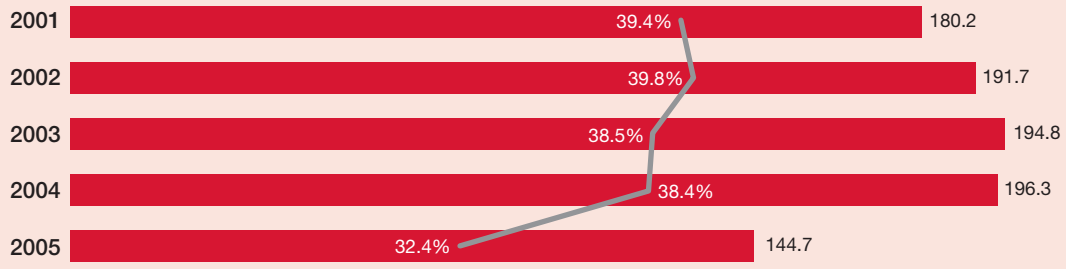
Sales in Europe totaled ¥120.4 billion (US$1,125 million), an increase of ¥14.4 billion year-on-year. Contributing factors were growth of ¥8.5 billion in Omnic® sold through the Company's own channels and sales of bulk to and royalty revenue from licensees, and sales of new products Vesicare® and Eligard®, a treatment for advanced prostate cancer in the amount of ¥1.5 billion (US$14 million) and ¥1.4 billion (US$13 million), respectively.

Asia

Sales in Asia rose ¥5.4 billion to ¥7.4 billion (US$69 million). The increase is primarily attributable to the first-time inclusion in consolidated accounts of Korea Yamanouchi and Taiwan Yamanouchi.

Overseas sales

Consolidated overseas sales and ratio of overseas sales to net sales (¥ billion)



Note: Year ended March 31

Overseas sales by geographical area

(Excluding consumer products businesses)

Year ended March 31	¥ billion		US$ million	¥ billion		US$ million
	2005	2004	**2005**	**2005**	2004	**2005**
North America	**¥ 42.1**	¥110.7	**$ 393**	**¥ 42.1**	¥ 32.9	**$ 393**
Europe	**88.5**	76.2	**827**	**88.5**	76.2	**827**
Asia	**10.3**	7.4	**97**	**10.3**	7.4	**97**
Other	**3.6**	1.9	**34**	**3.6**	1.9	**34**
Consolidated	**¥144.7**	¥196.3	**$1,352**	**¥144.7**	¥118.4	**$1,352**

Overseas sales decreased ¥51.5 billion to ¥144.7 billion (US$1,352 million). This decline was mainly caused by the divestiture of the consumer products businesses, which more than offset increased sales of pharmaceuticals, principally driven by growth in Harnal® and the contribution of new products including Vesicare®. The net result was a 6 percentage-point decrease to 32.4% in the ratio of overseas sales to total sales.

Excluding the consumer products businesses sales in the previous year, overseas sales rose ¥26.2 billion, and the overseas sales ratio climbed 4.4 percentage points.

Yamanouchi

Cost of sales, SG&A expenses

Cost of sales

Cost of sales amounted to ¥141.1 billion (US$1,319 million). This represented an improvement of 2.4 percentage points in the cost-of-sales ratio to 31.6%. The improvement in the cost-of-sales ratio is mainly attributable to the divestiture of the consumer products businesses.

Without the impact of the divestiture of the consumer products businesses, the cost-of-sales ratio would have deteriorated by 1.2 percentage points compared with the previous year. Of this, around 0.6 percentage point is attributable to NHI price cuts and changes in product mix, and around 0.6 percentage point to expenses for the manufacture of consumer products under consignment agreement.

SG&A expenses

SG&A expenses totaled ¥196.9 billion (US$1,841 million). This represented a year-on-year improvement of 2.3 percentage points in the SG&A expense ratio to 44.0%. The decrease was primarily due to the divestiture of the consumer businesses.

Excluding the consumer products businesses results in the previous year, SG&A expenses decreased by ¥0.5 billion, and were thus hardly changed from the previous term. Within SG&A expenses, R&D spending was ¥58.8 billion (US$549 million), a decrease of ¥10.4 billion. An increase of ¥9.9 billion in other SG&A spending is attributable to a ¥5.6 billion increase in costs related to the start-up of independent sales and marketing activities in the U.S. and a ¥4.8 billion increase in expenses for the sale and marketing of new products in Europe. The ratio of R&D expenses to net sales for the period was 13.2%.

Income and expenses before income taxes and minority interests

Operating income

Although gross profit decreased due to the downturn in sales, operating income rose ¥7.9 billion to ¥108.8 billion (US$1,017 million) as a result of a decrease of R&D expenses as well as SG&A expenses associated with the divestiture of the consumer products businesses. Excluding the consumer products businesses results in the previous year, operating income rose ¥11.8 billion. Extra end-of-year shipments of products in Japan ahead of the merger had the effect of increasing operating income by about ¥5.9 billion (US$55 million).

Other income (expenses)

Expenses for business integration totaled ¥20.9 billion (US$195 million), of which personnel expenses amounted to ¥12.3 billion (US$114 million). One-off charges comprised a loss on business restructuring of ¥12.6 billion (US$117 million), including a ¥7.7 billion (US$71 million) lump-sum payment accompanying the spin-off of formulation plants in Japan as wholly-owned subsidiaries on April 1, 2005, and cost of ¥10.5 billion (US$98 million) in an extraordinary amortization of patents associated with revisions to an agreement with Pfizer Inc. concluded in May 2004.

Income taxes

Income taxes totaled ¥35.6 billion (US$332 million). The effective tax rates were 50.4%, an increase of 8.8 percentage points from the previous term. This increase, which came despite benefits from R&D tax credit in Japan, largely reflected higher effective tax rates at overseas subsidiaries resulting from the start-up of independent sales and marketing activities in the U.S.

Net income

Year ended March 31	2005	2004	2005
Net income	**¥ 33.7 billion**	¥ 60.0 billion	**US$315 million**
As a % of sales	**7.5%**	11.7%	
Net income per share			
Basic	**¥102.52**	¥181.09	**$0.96**
Diluted	**¥101.72**	¥179.46	**$0.95**

Net income declined ¥26.3 billion to ¥33.7 billion (US$315 million) due to merger costs and losses incurred on business restructuring. As a result, earnings per share decreased 43.4% to ¥102.52 (US$0.96).

Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2005 amounted to ¥913.5 billion (US$8,537 million), an increase of ¥10.8 billion compared with the previous fiscal year-end.

Current assets rose ¥78.4 billion, primarily due to an increase in cash and cash equivalents, which rose ¥77.9 billion. Property, plant and equipment decreased ¥39.4 billion mainly as a result of the sale of the consumer products businesses and elimination of large-scale multi-purpose equipment and facilities at Yamanouchi's Takahagi site. Investments and other assets decreased ¥28.0 billion primarily due to the sale of investment securities and a decline in intangible assets resulting from an extraordinary amortization of patents.

Liabilities and shareholders' equity increased by ¥10.8 billion. Total liabilities decreased by ¥4.7 billion, primarily due to a decline of ¥12.9 billion in accrued retirement benefits for employees associated with implementation of an early retirement program and transfer of employees to group companies. Total shareholders' equity rose ¥16.5 billion as retained earnings increased by ¥24.4 billion, which more than offset the ¥12.5 billion increase in treasury stock.

Cash flows

Cash flows from operating activities

Net cash provided by operating activities totaled ¥48.5 billion (US$454 million), an increase of ¥5.2 billion compared with the previous year. This is primarily attributable to a decrease in income taxes paid of ¥38.6 billion, although income before income taxes and minority interests decreased ¥32.6 billion.

Cash flows from investing activities

Net cash provided by investment activities totaled ¥46.9 billion (US$438 million), compared with a ¥12.8 billion net cash outflow for the previous year. This was mainly due to proceeds for ¥36.7 billion (US$343 million) from the sale of subsidiaries' shares arising from divestiture of the consumer businesses and sales of investment securities.

Cash flows from financing activities

Net cash used in financing activities totaled ¥24.6 billion (US$230 million), a rise of ¥13.4 billion compared with the previous year. This was primarily due to purchase of treasury stock in an amount of ¥12.5 billion (US$117 million).

Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2005 and 2004

ASSETS	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 3) 2005
Current assets:			
Cash and cash equivalents	**¥423,478**	¥345,501	**$3,957,738**
Short-term investments (Note 15)	**12,378**	11,734	**115,682**
Notes and accounts receivable	**136,625**	125,845	**1,276,869**
Allowance for doubtful receivables	**(308)**	(475)	**(2,878)**
	136,317	125,370	**1,273,991**
Inventories (Note 4)	**40,461**	56,739	**378,140**
Deferred tax assets (Note 8)	**30,666**	25,213	**286,598**
Other current assets	**14,169**	14,504	**132,421**
Total current assets	**657,469**	579,061	**6,144,570**
Property, plant and equipment, at cost:			
Land	**25,511**	32,214	**238,421**
Buildings	**139,257**	159,787	**1,301,467**
Machinery and equipment	**128,004**	147,819	**1,196,299**
Other	**3,242**	12,420	**30,299**
Construction in progress	**3,489**	7,511	**32,607**
Accumulated depreciation	**(164,828)**	(185,631)	**(1,540,448)**
Property, plant and equipment, net	**134,675**	174,120	**1,258,645**
Investments and other assets:			
Investment securities (Note 15)	**51,974**	64,059	**485,738**
Investments in and advances to unconsolidated subsidiaries and affiliates	**7,559**	3,690	**70,645**
Intangible assets	**14,670**	27,266	**137,103**
Prepaid expenses	**845**	832	**7,897**
Deferred tax assets (Note 8)	**22,295**	20,194	**208,364**
Other assets	**24,076**	33,476	**225,010**
Total investments and other assets	**121,419**	149,517	**1,134,757**
Total assets	**¥913,563**	¥902,698	**$8,537,972**

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 3) 2005
Current liabilities:			
Short-term bank loans (Note 5)	**—**	¥ 800	**—**
Current portion of long-term debt (Note 6)	**—**	438	**—**
Notes and accounts payable:			
Trade	**¥ 61,730**	61,515	**$ 576,916**
Construction	**2,023**	1,659	**18,907**
Accrued expenses	**24,838**	25,640	**232,131**
Accrued income taxes (Note 8)	**21,468**	10,477	**200,636**
Deferred tax liabilities (Note 8)	**160**	3,922	**1,495**
Other current liabilities	**9,228**	5,695	**86,242**
Total current liabilities	**119,447**	110,146	**1,116,327**
Long-term liabilities:			
Long-term debt (Note 6)	**5,020**	6,825	**46,916**
Accrued retirement benefits for employees (Note 9)	**23,406**	36,374	**218,748**
Accrued retirement benefits for directors	**1,005**	1,248	**9,393**
Deferred tax liabilities (Note 8)	**2,295**	2,418	**21,449**
Other long-term liabilities	**18,917**	17,832	**176,793**
Total long-term liabilities	**50,643**	64,697	**473,299**
Minority interests	**1,579**	2,463	**14,757**
Shareholders' equity (Notes 7 and 18)**:**			
Common stock, without par value:			
Authorized — 800,000,000 shares			
Issued 2005 — 361,954,215 shares			
2004 — 361,216,470 shares	**100,491**	99,761	**939,168**
Additional paid-in capital	**114,415**	113,685	**1,069,299**
Retained earnings	**640,518**	616,112	**5,986,150**
Unrealized holding gain on securities	**11,600**	13,848	**108,411**
Translation adjustments	**(11,091)**	(16,557)	**(103,654)**
Total	**855,933**	826,849	**7,999,374**
Treasury stock, at cost:			
33,656,582 shares in 2005 and			
30,137,026 shares in 2004	**(114,039)**	(101,457)	**(1,065,785)**
Shareholders' equity, net	**741,894**	725,392	**6,933,589**
Contingent liabilities (Note 12)			
Total liabilities and shareholders' equity	**¥913,563**	¥902,698	**$8,537,972**

Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	**2005**
Net sales	**¥447,051**	¥511,208	¥506,603	**$4,178,047**
Cost of sales	**141,171**	173,791	175,249	**1,319,355**
Gross profit	**305,880**	337,417	331,354	**2,858,692**
Selling, general and administrative expenses (Note 10)	**196,990**	236,457	225,656	**1,841,028**
Operating income	**108,890**	100,960	105,698	**1,017,664**
Other income (expenses):				
Interest and dividend income	**4,451**	2,932	3,205	**41,598**
Interest expense	**(780)**	(552)	(597)	**(7,290)**
Loss on devaluation of securities	**(40)**	—	(6,550)	**(374)**
Loss on business restructuring	**(12,600)**	(3,545)	(4,880)	**(117,757)**
Expenses for business integration	**(20,936)**	—	—	**(195,664)**
Extraordinary amortization of patents	**(10,591)**	—	—	**(98,981)**
Exchange gain (loss)	**527**	(5,769)	(5,094)	**4,925**
Equity in (losses) earnings of affiliates	**(725)**	667	(469)	**(6,776)**
Gain on sales of investment securities	**5,723**	8,115	6	**53,486**
Other, net	**(3,301)**	429	1,898	**(30,850)**
	(38,272)	2,277	(12,481)	**(357,683)**
Income before income taxes and minority interests	**70,618**	103,237	93,217	**659,981**
Income taxes (Note 8)**:**				
Current	**37,329**	36,101	47,679	**348,869**
Deferred	**(1,715)**	6,881	(14,511)	**(16,028)**
	35,614	42,982	33,168	**332,841**
Income before minority interests	**35,004**	60,255	60,049	**327,140**
Minority interests in earnings of consolidated subsidiaries	**(1,287)**	(197)	(191)	**(12,028)**
Net income (Note 13)	**¥ 33,717**	¥ 60,058	¥ 59,858	**$ 315,112**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	**2005**
Common stock (Note 7)				
Balance at beginning of year (2005 — 361,216,470 shares; 2004 — 361,216,470 shares; 2003 — 361,203,052 shares)	**¥ 99,761**	¥ 99,761	¥ 99,745	**$ 932,346**
Add:				
Shares issued upon conversion of convertible bonds (2005 — 737,745 shares; 2004 — 0 shares; 2003 — 13,418 shares)	**730**	—	16	**6,822**
Balance at end of year (2005 — 361,954,215 shares; 2004 — 361,216,470 shares; 2003 — 361,216,470 shares)	**¥100,491**	¥ 99,761	¥ 99,761	**$ 939,168**
Additional paid-in capital (Note 7)				
Balance at beginning of year	**¥113,685**	¥113,685	¥113,669	**$1,062,477**
Add:				
Conversion of convertible bonds	**730**	—	16	**6,822**
Balance at end of year	**¥114,415**	¥113,685	¥113,685	**$1,069,299**
Retained earnings (Notes 7 and 18)				
Balance at beginning of year	**¥616,112**	¥566,089	¥515,832	**$5,758,056**
Net income	**33,717**	60,058	59,858	**315,112**
Cash dividends paid	**(10,211)**	(9,934)	(9,500)	**(95,429)**
Bonuses to directors and corporate auditors	**(92)**	(101)	(101)	**(860)**
Increase due to inclusion in consolidation	**992**	—	—	**9,271**
Balance at end of year	**¥640,518**	¥616,112	¥566,089	**$5,986,150**
Unrealized holding gain on securities				
Balance at beginning of year	**¥ 13,848**	¥ 4,758	¥ 7,360	**$ 129,421**
Net changes during the year	**(2,248)**	9,090	(2,602)	**(21,010)**
Balance at end of year	**¥ 11,600**	¥ 13,848	¥ 4,758	**$ 108,411**
Translation adjustments				
Balance at beginning of year	**¥ (16,557)**	¥ (4,103)	¥ (835)	**$ (154,738)**
Adjustments arising from translation of foreign currency financial statements	**5,466**	(12,454)	(3,268)	**51,084**
Balance at end of year	**¥ (11,091)**	¥ (16,557)	¥ (4,103)	**$ (103,654)**

See accompanying notes to consolidated financial statements.

Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	**2005**
Operating activities				
Income before income taxes and minority interests	**¥ 70,618**	¥103,237	¥ 93,217	**$ 659,981**
Depreciation and amortization	**28,039**	25,118	26,081	**262,047**
Provision for retirement benefits, net of payments	**(12,935)**	(2,649)	(2,564)	**(120,888)**
(Gain) loss on sales of investment securities	**(5,723)**	(8,115)	144	**(53,486)**
Loss on devaluation of securities	**40**	—	6,550	**374**
Equity in losses (earnings) of affiliates	**725**	(667)	469	**6,776**
Interest expense	**780**	552	597	**7,290**
Notes and accounts receivable	**(16,309)**	1,485	5,437	**(152,421)**
Inventories	**7,016**	(1,910)	(5,951)	**65,570**
Other current assets	**(973)**	2,202	(1,032)	**(9,093)**
Notes and accounts payable	**1,554**	(1,171)	(19,499)	**14,523**
Accrued expenses	**2,680**	(2,516)	3,654	**25,047**
Other current liabilities	**2,982**	(1,449)	(528)	**27,869**
Other	**2,028**	(342)	3,069	**18,953**
Subtotal	**80,522**	113,775	109,644	**752,542**
Interest paid	**(799)**	(638)	(389)	**(7,467)**
Income taxes paid	**(31,135)**	(69,760)	(23,466)	**(290,982)**
Net cash provided by operating activities	**48,588**	43,377	85,789	**454,093**
Investing activities				
Additions to property, plant and equipment	**(8,656)**	(12,134)	(18,224)	**(80,897)**
Proceeds from sales of property, plant and equipment	**2,620**	3,816	1,876	**24,486**
Decrease (increase) in investments in and advances to unconsolidated subsidiaries and affiliates	**3,251**	(172)	158	**30,383**
Proceeds from sales of subsidiaries' shares	**36,792**	—	—	**343,850**
Decrease (increase) in short-term investments	**3,329**	(6,561)	28,863	**31,112**
Decrease (increase) in investment securities	**8,288**	9,471	(7,788)	**77,458**
Increase in other assets	**(6,335)**	(4,271)	(5,116)	**(59,206)**
Other	**7,671**	(2,993)	(3,752)	**71,693**
Net cash provided by (used in) investing activities	**46,960**	(12,844)	(3,983)	**438,879**
Financing activities				
Decrease in short-term bank loans	**(800)**	(100)	—	**(7,477)**
Repayment of long-term debt	**(400)**	(1,005)	(15,479)	**(3,738)**
Purchase of treasury stock	**(12,582)**	(40)	(31,714)	**(117,589)**
Cash dividends	**(10,211)**	(9,934)	(9,500)	**(95,430)**
Other	**(699)**	(140)	(924)	**(6,532)**
Net cash used in financing activities	**(24,692)**	(11,219)	(57,617)	**(230,766)**
Effects of exchange rate changes on cash and cash equivalents	**4,096**	(4,966)	(1,604)	**38,280**
Increase in cash and cash equivalents	**74,952**	14,348	22,585	**700,486**
Increase in cash and cash equivalents due to increase in consolidated subsidiaries	**3,025**	—	—	**28,271**
Cash and cash equivalents at beginning of year	**345,501**	331,153	308,568	**3,228,981**
Cash and cash equivalents at end of year	**¥423,478**	¥345,501	¥331,153	**$3,957,738**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2005

1. Basis of Presentation

Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd., hereinafter "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.

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

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 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. b.

(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. 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. a.

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 ¥107 = U.S.$1.00, the approximate rate of exchange on March 31, 2005. 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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Merchandise and finished goods	**¥16,825**	¥24,725	**$157,243**
Work in process and semi-finished goods	**9,835**	11,951	**91,916**
Raw materials and supplies	**13,801**	20,063	**128,981**
	¥40,461	¥56,739	**$378,140**

5. Short-Term Bank Loans

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

6. Long-Term Debt

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Astellas Pharma Inc.:			
1.25% unsecured convertible bonds, payable in yen, due 2014	**¥5,020**	¥6,480	**$46,916**
	5,020	6,480	**46,916**
Consolidated subsidiaries:			
Unsecured loans from banks and others, at rates ranging from 1.375% to 7.38%, due through 2017	**—**	783	**—**
	5,020	7,263	**46,916**
Less current portion	**—**	(438)	**—**
	¥5,020	¥6,825	**$46,916**

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

	Conversion price per share at March 31, 2005	Period (up to and including)
1.25% convertible bonds due 2014	1,979.00	March 24, 2014

At March 31, 2005, if all the outstanding convertible bonds had been converted at the then current conversion price, 2,536 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, 2005 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 0	$ 0
2007	0	0
2008	0	0
2009	0	0
2010 and thereafter	5,020	46,916
	¥5,020	$46,916

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 ($96,841 thousand) as of both March 31, 2005 and 2004.

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 statutory tax rates of approximately 41% for 2005 and 42% for 2004 and 2003. 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, 2005, 2004 and 2003 differ from the statutory tax rates for the following reasons:

	2005	2004	2003
Statutory tax rates	**41.0%**	41.7%	41.7%
Effect of:			
Tax deduction for research expenses	**(7.6)**	(4.2)	(4.2)
Different tax rates applied to income of foreign consolidated subsidiaries	**12.0**	(1.3)	(0.8)
Reversal of income taxes for prior periods	**—**	—	(3.8)
Expenses not deductible for income tax purposes	**2.7**	2.3	2.6
Tax rate change	**—**	0.4	1.0
Change in valuation allowance	**4.0**	—	—
Other, net	**(1.7)**	2.7	(0.9)
Effective tax rates	**50.4%**	41.6%	35.6%

The significant components of the deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Loss on devaluation of investment securities	**¥ 3,044**	¥ 3,191	**$ 28,449**
Accrued retirement benefits	**7,699**	12,898	**71,953**
Depreciation and amortization	**10,838**	9,431	**101,290**
Accrued expenses	**7,572**	7,113	**70,766**
Inventories	**6,932**	7,202	**64,785**
Accrued enterprise and other taxes	**1,479**	2,071	**13,822**
Other	**41,821**	20,471	**390,851**
Gross deferred tax assets	**79,385**	62,377	**741,916**
Valuation allowance	**(15,757)**	(1,309)	**(147,262)**
Total deferred tax assets	**63,628**	61,068	**594,654**
Deferred tax liabilities:			
Unrealized holding gain on securities	**8,096**	9,617	**75,664**
Depreciation and amortization	**798**	5,597	**7,458**
Deferred income	**—**	3,448	**—**
Inventories	**—**	1,036	**—**
Accrued retirement benefits	**—**	1,435	**—**
Other	**4,228**	868	**39,514**
Total deferred tax liabilities	**13,122**	22,001	**122,636**
Net deferred tax assets	**¥50,506**	¥39,067	**$472,018**

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, 2005 and 2004 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Retirement benefit obligation	**¥(85,970)**	¥(96,487)	**$(803,458)**
Plan assets at fair value	**58,327**	59,140	**545,112**
Unfunded retirement benefit obligation	**(27,643)**	(37,347)	**(258,346)**
Unrecognized actuarial gain or loss	**14,869**	13,000	**138,963**
Unrecognized prior service cost	**(10,433)**	(7,769)	**(97,505)**
Net retirement benefit obligation	**(23,207)**	(32,116)	**(216,888)**
Prepaid pension cost	**199**	4,258	**1,860**
Accrued retirement benefits	**¥(23,406)**	¥(36,374)	**$(218,748)**

The components of retirement benefit expenses for the years ended March 31, 2005, 2004 and 2003 are outlined as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Service cost	**¥ 4,042**	¥ 4,494	¥4,224	**$ 37,776**
Interest cost	**2,694**	3,238	3,254	**25,178**
Expected return on plan assets	**(1,473)**	(1,931)	(2,038)	**(13,766)**
Amortization of actuarial gain or loss	**559**	990	795	**5,224**
Amortization of prior service cost	**(659)**	(327)	(545)	**(6,159)**
Other	**15,403**	3,847	1,024	**143,953**
Total	**¥20,566**	¥10,311	¥6,714	**$192,206**

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

	2005	2004
Discount rates	**2.0% – 6.3%**	2.5% – 6.3%
Expected return on plan assets	**1.6% – 9.0%**	1.6% – 9.0%

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, 2005, 2004, and 2003, were ¥58,842 million ($549,925 thousand), ¥70,080 million and ¥66,874 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, 2005 and 2004, 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:

	Millions of yen		
March 31, 2005	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥3,316**	**¥1,483**	**¥1,833**

	Thousands of U.S. dollars		
March 31, 2005	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**$30,991**	**$13,860**	**$17,131**

	Millions of yen		
March 31, 2004	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥6,642	¥3,858	¥2,784

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,091 million ($10,196 thousand), ¥1,690 million and ¥1,371 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, 2005, 2004 and 2003, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 on non-cancelable 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
2006	¥ 887	¥13	$ 8,290	$121
2007 and thereafter	946	13	8,841	121
Total	¥1,833	¥26	$17,131	$242

12. Contingent Liabilities

At March 31, 2005, 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 ¥6,243 million ($58,346 thousand).

13. Amounts Per Share

	Yen			U.S. dollars
	2005	2004	2003	**2005**
Net income:				
Basic	**¥ 102.52**	¥ 181.09	¥ 177.43	**$ 0.96**
Diluted	**101.72**	179.46	174.69	**0.95**
Cash dividends	**31.00**	31.00	28.00	**0.29**
Net assets	**2,259.68**	2,190.69	2,054.17	**21.12**

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 are 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, 2005 and 2003 amounted to ¥1,460 million ($13,644 thousand) and ¥32 million, respectively. There was no conversion of convertible bonds for the year ended March 31, 2004.

The following is a summary of transferred assets and liabilities and acquisition cost of shares of Zepharma Inc. in the year ended March 31, 2005.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥4,788	$44,747
Fixed assets	1,604	14,991
Current Liabilities	(1,349)	(12,607)
Net	5,043	47,131
Additional payment	1,000	9,346
Acquisition cost	¥6,043	$56,477

The following is a summary of the transferred assets and liabilities as of March 31, 2004 with related to nutritional and personal care products business and food and roses business which were sold during the year ended March 31, 2005.

	Millions of yen			Thousands of U.S. dollars		
	Nutritional and personal care products	Food and roses	Total	Nutritional and personal care products	Food and roses	Total
Current assets	¥20,479	¥10,605	¥31,084	$191,393	$ 99,112	$290,505
Non-current assets	19,652	20,783	40,435	183,663	194,234	377,897
Total assets	¥40,131	¥31,388	¥71,519	$375,056	$293,346	$668,402
Current liabilities	¥ 7,922	¥10,024	¥17,946	$ 74,037	$ 93,683	$167,720
Long-term liabilities	10,795	925	11,720	100,888	8,645	109,533
Total liabilities	¥18,717	¥10,949	¥29,666	$174,925	$102,328	$277,253
Minority interest	¥ 2,462	—	¥ 2,462	$ 23,009	—	$ 23,009

15. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2005 and 2004 are as follows:

Marketable held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	**¥3,003**	**¥3,015**	**¥12**	**$28,065**	**$28,178**	**$112**
Corporate bonds	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥3,003**	**¥3,015**	**¥12**	**$28,065**	**$28,178**	**$112**

	Millions of yen		
	2004		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ 600	¥ 600	—
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	¥ 600	¥ 600	—
Securities whose carrying value exceeds their fair value:			
Government bonds	¥2,401	¥2,397	¥(4)
Corporate bonds	—	—	—
Others	—	—	—
Subtotal	¥2,401	¥2,397	¥(4)
Total	¥3,001	¥2,997	¥(4)

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	**¥14,058**	**¥34,003**	**¥19,945**	**$131,383**	**$317,785**	**$186,402**
Debt securities	**4,000**	**4,004**	**4**	**37,383**	**37,421**	**38**
Other	**131**	**147**	**16**	**1,225**	**1,373**	**148**
Subtotal	**¥18,189**	**¥38,154**	**¥19,965**	**$169,991**	**$356,579**	**$186,588**
Securities whose acquisition cost exceeds their carrying value:						
Stock	**¥ 334**	**¥ 231**	**¥ (103)**	**$ 3,121**	**$ 2,159**	**$ (962)**
Debt securities	**6,000**	**5,996**	**(4)**	**56,075**	**56,037**	**(38)**
Other	**5,000**	**4,743**	**(257)**	**46,729**	**44,328**	**(2,401)**
Subtotal	**¥11,334**	**¥10,970**	**¥ (364)**	**$105,925**	**$102,524**	**$ (3,401)**
Total	**¥29,523**	**¥49,124**	**¥19,601**	**$275,916**	**$459,103**	**$183,187**

	Millions of yen		
	2004		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥19,538	¥43,068	¥23,530
Debt securities	2,000	2,000	—
Other	131	146	16
Subtotal	¥21,669	¥45,214	¥23,546
Securities whose acquisition cost exceeds their carrying value:			
Stock	¥ 53	¥ 44	¥ (10)
Debt securities	9,200	9,185	(15)
Other	5,000	4,960	(40)
Subtotal	¥14,253	¥14,189	¥ (65)
Total	¥35,922	¥59,403	¥23,481

Sales amounts of securities classified as other securities and the related aggregate gain and loss for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Proceeds from sales	**¥11,279**	¥69,826	¥101,951	**$105,411**
Gains on sales	**5,722**	8,188	6	**53,477**
Losses on sales	**0**	73	150	**0**

The redemption schedule for securities with maturities classified as other securities and held-to-maturity debt securities as of March 31, 2005 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	¥2,600	¥2,403	—	$24,299	$22,458	—
Corporate bonds	6,999	1,000	—	65,411	9,355	—
Others	—	—	—	—	—	—
Total	¥9,599	¥3,403	—	$89,710	$31,813	—

16. Derivative Transactions

The Company utilizes derivatives for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange 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, 2005 and 2004 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. The Company sold all of its shares of subsidiaries in Japan and the U.S. which engage in nutritional and personal care products business and food and roses business during the year ended March 31, 2005. Such transfer was accounted for as if the sale of shares had taken place at the beginning of the current fiscal year.

The business and geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2005, 2004, and 2003 is outlined as follows:

Business segments

	Millions of yen				
Year ended March 31, 2005	Pharmaceuticals	Other	Total	Eliminations	Consolidated
I. Sales and operating income					
Sales to third parties	¥443,313	¥ 3,738	¥447,051	—	¥447,051
Intergroup sales and transfers	6	4,663	4,669	¥ (4,669)	—
Total sales	443,319	8,401	451,720	(4,669)	447,051
Operating expenses	335,825	7,320	343,145	(4,984)	338,161
Operating income	¥107,494	¥ 1,081	¥108,575	¥ 315	¥108,890
II. Assets, depreciation and capital expenditures					
Total assets	¥864,668	¥59,983	¥924,651	¥(11,088)	¥913,563
Depreciation and amortization	15,661	1,690	17,351	—	17,351
Capital expenditures	16,836	421	17,257	—	17,257

	Thousands of U.S. dollars				
Year ended March 31, 2005	Pharmaceuticals	Other	Total	Eliminations	Consolidated
I. Sales and operating income					
Sales to third parties	$4,143,112	$ 34,935	$4,178,047	—	$4,178,047
Intergroup sales and transfers	56	43,579	43,635	$ (43,635)	—
Total sales	4,143,168	78,514	4,221,682	(43,635)	4,178,047
Operating expenses	3,138,551	68,411	3,206,962	(46,579)	3,160,383
Operating income	$1,004,617	$ 10,103	$1,014,720	$ 2,944	$1,017,664
II. Assets, depreciation and capital expenditures					
Total assets	$8,081,009	$560,589	$8,641,598	$(103,626)	$8,537,972
Depreciation and amortization	146,364	15,795	162,159	—	162,159
Capital expenditures	157,346	3,934	161,280	—	161,280

Year ended March 31, 2004	Millions of yen						
	Pharma-ceuticals	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, 2003	Millions of yen						
	Pharma-ceuticals	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

Geographical areas

Year ended March 31, 2005	Millions of yen						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥310,388	¥ 8,714	¥120,472	¥7,477	¥447,051	—	¥447,051
Intergroup sales and transfers	40,390	19,568	4,280	48	64,286	¥(64,286)	—
Total sales	350,778	28,282	124,752	7,525	511,337	(64,286)	447,051
Operating expenses	244,084	29,654	120,907	6,537	401,182	(63,021)	338,161
Operating income (loss)	¥106,694	¥ (1,372)	¥ 3,845	¥ 988	¥110,155	¥ (1,265)	¥108,890
Total assets	¥680,854	¥87,428	¥146,658	¥9,030	¥923,970	¥(10,407)	¥913,563

Year ended March 31, 2005	Thousands of U.S. dollars						
	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	$2,900,822	$ 81,439	$1,125,907	$69,879	$4,178,047	—	$4,178,047
Intergroup sales and transfers	377,477	182,878	40,000	449	600,804	$(600,804)	—
Total sales	3,278,299	264,317	1,165,907	70,328	4,778,851	(600,804)	4,178,047
Operating expenses	2,281,158	277,140	1,129,972	61,094	3,749,364	(588,981)	3,160,383
Operating income (loss)	$ 997,141	$ (12,823)	$ 35,935	$ 9,234	$1,029,487	$ (11,823)	$1,017,664
Total assets	$6,363,121	$817,084	$1,370,636	$84,392	$8,635,233	$ (97,261)	$8,537,972

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

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

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, 2005, 2004 and 2003 are summarized as follows:

	Millions of yen				
Year ended March 31, 2005	North America	Europe	Asia	Other	Total
Overseas sales	**¥42,116**	**¥88,553**	**¥10,380**	**¥3,696**	**¥144,745**
Consolidated net sales					**447,051**

	Thousands of U.S. dollars				
Year ended March 31, 2005	North America	Europe	Asia	Other	Total
Overseas sales	**$ 393,607**	**$827,598**	**$97,009**	**$34,544**	**$1,352,758**
Consolidated net sales					**4,178,047**
Overseas sales as a percentage of consolidated net sales	**9.4%**	**19.8%**	**2.3%**	**0.9%**	**32.4%**

	Millions of yen				
Year ended March 31, 2004	North America	Europe	Asia	Other	Total
Overseas sales	¥110,759	¥76,210	¥7,423	¥1,934	¥196,326
Consolidated net sales					511,208
Overseas sales as a percentage of consolidated net sales	21.7%	14.9%	1.4%	0.4%	38.4%

	Millions of yen				
Year ended March 31, 2003	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%

18. Subsequent Events

a. Pursuant to the resolution made by general shareholders' meeting of the Company and Fujisawa Pharmaceutical Co., Ltd. ("Fujisawa") held on June 24, 2004 to approve the merger agreement, the Company merged with Fujisawa effective April 1, 2005 and changed its name to Astellas Pharma Inc.

The following summarizes the descriptions of the merger.

1) The Company issued 209,473,788 shares of common stock and allotted them to shareholders of Fujisawa registered in the shareholders register as of the day prior to the effective date of merger at the rate of one share of the Company in exchange for 0.71 share of common stock of Fujisawa. Among the shares that were allotted to the shareholders of Fujisawa, 29 million shares were from the Company's common stock in treasury. No share of the Company was allotted to Fujisawa's common stock in treasury.
2) The Company will pay ¥11 ($0.1) per share as a cash payment upon the merger, in lieu of the dividend to be paid for the fiscal year ended March 31, 2005 to the shareholders of Fujisawa, who were registered in the shareholders register as of the day prior to the effective date of merger as soon as the general shareholders meeting is held on June 24, 2005.
3) Following the merger, capital surplus, legal reserve and voluntary reserve of the Company increased by ¥59,897 million ($559,785 thousand), ¥6,464 million ($60,411 thousand) and ¥210,782 million ($1,969,925 thousand), respectively. As a result, capital surplus, legal reserve and voluntary reserve of the Company amounted to ¥174,311 million ($1,629,075 thousand), ¥16,826 million ($157,252 thousand) and ¥772,884 million ($7,223,215 thousand), respectively.
4) The assets acquired and liabilities assumed from Fujisawa were as follows:

Total assets	¥491,505 million	($4,593,505 thousand)
Current assets —	¥208,829 million	($1,951,673 thousand)
Noncurrent assets —	¥282,675 million	($2,641,822 thousand)
Total liabilities	¥102,320 million	($956,262 thousand)
Current liabilities —	¥95,067 million	($888,477 thousand)
Noncurrent liabilities —	¥7,252 million	($67,776 thousand)

b. The following appropriations of retained earnings of the Company were approved at a shareholders' meeting held on June 24, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥31=US$0.29 per share)	¥5,252	$49,084
Bonuses to directors and corporate auditors	44	411
	¥5,296	$49,495

Report of Independent Auditors

The Board of Directors
Astellas Pharma Inc.

We have audited the accompanying consolidated balance sheets of Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd.) (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, 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 Astellas Pharma Inc. (formerly Yamanouchi Pharmaceutical Co., Ltd.) and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 18, the Company merged with Fujisawa Pharmaceutical Co., Ltd. effective April 1, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.

June 24, 2005

Ernst & Young ShinNihon

Summarized Financial Review (Former Fujisawa)

■ Net sales

Net sales totaled ¥414.9 billion (US$3,878 million), an increase of 4.9% over the previous period.

In Japan, sales decreased 1.1% to ¥219.2 billion (US$2,049 million). In ethical pharmaceuticals, sales of the cardin antifungal agent Funguard®, the antipsycotic agent Seroquel®, the anti-allergic Intal® and the hypnotic Myslee® showed substantial increases, while the immunosuppressant Prograf®, the antidepressant Luvox® and other products made good headway. In addition, extra shipments ahead of a temporary shut-down in ordering and delivery systems (just before the merger with Yamanouchi) had the effect of increasing sales by about ¥2.5 billion (US$23 million). Overall, however, sales declined as a result of the transfer in October 2004 of OTC drug operations to Zepharma Inc., a company jointly established with Yamanouchi, as well as of the virtually total withdrawal from the chemicals business in the previous period.

Overseas, sales in North America climbed 11.6% to ¥121.0 billion (US$1,131 million) on strong growth in three main products, Prograf®, the pharmacologic stress imaging agent Adenoscan® and the treatment for atopic dematitis Protopic®, despite appreciation of the yen against the U.S. dollar. Sales also climbed in Europe, rising 14.4% to ¥65.9 billion (US$616 million) thanks to sales growth of Prograf® and Protopic®, the main products sold by Fujisawa GmbH, and to the yen's weakening against the euro.

Net sales by geographic area

Year ended March 31	¥ billion		US$ million
	2005	2004	**2005**
Japan	**¥219.2**	¥221.7	**$2,049**
North America	**121.0**	108.4	**1,131**
Europe	**65.9**	57.6	**616**
Asia	**8.7**	7.5	**81**
Consolidated	**¥414.9**	¥395.4	**$3,878**

■ Operating income

Operating income was ¥83.3 billion (US$778 million), a rise of 47.0% over the previous period. The overall increase of ¥26.6 billion reflected a rise of ¥22.3 billion in gross profit, which is attributable to growth in sales and an improvement in gross margin resulting from changes in product mix and a decline of ¥4.3 billion in SG&A expenses from the previous period. Extra shipments ahead of the merger accounted for approximately ¥1.4 billion (US$13 million) of the operating income.

Operating income:

Year ended March 31	¥ billion		US$ million
	2005	2004	**2005**
Japan	**¥54.4**	¥35.4	**$509**
North America	**24.4**	20.6	**228**
Europe	**7.9**	1.4	**74**
Asia	**1.3**	1.0	**12**
Eliminations	**(4.8)**	(1.8)	**(45)**
Consolidated	**¥83.3**	¥56.7	**$778**

Net income

Net income declined 37.7% to ¥25.8 billion (US$241 million) due to ¥39.4 billion (US$368 million) in expenses for the business integration. The main components were personnel expenses, costs of withdrawing from the home care business and IT-related costs.

Top-selling ethical pharmaceuticals

Year ended March 31	¥ billion		US$ million
	2005	2004	**2005**
Prograf®	**¥122.9**	¥104.4	**$1,148**
Adenoscan®	**33.1**	28.3	**309**
Cefzon®	**23.6**	27.8	**220**
Protopic®	**21.5**	17.3	**200**
Myslee®	**14.7**	12.2	**137**
Funguard®	**13.8**	11.1	**128**
Seroquel®	**13.1**	10.4	**122**
Intal®	**11.9**	9.2	**111**
Luvox®	**8.8**	7.8	**82**
AmBisome®	**8.8**	8.9	**82**

Fujisawa Pharmaceutical Company Limited and Consolidated Subsidiaries

Consolidated Statements of Income (Unaudited)

For the Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Net sale	**¥414,960**	¥395,401	¥382,079	**$3,878,131**
Cost of sales	**138,141**	140,917	137,198	**1,291,038**
Gross profit	**276,819**	254,484	244,881	**2,587,093**
Selling, general and administrative expenses	**124,467**	123,794	119,968	**1,163,242**
Research and development expenses	**68,780**	73,643	62,426	**642,804**
Amortization of excess of cost over net assets acquired	**223**	344	344	**2,084**
Operating income	**83,349**	56,703	62,143	**778,963**
Other income (expenses)				
Interest and dividend income	**1,369**	1,322	1,797	**12,794**
Interest expenses	**(124)**	(403)	(625)	**(1,159)**
Equity in earnings of affiliated companies	**971**	899	668	**9,075**
Gain on sales of investments in affiliated companies	**—**	—	4,717	**—**
Gain on sales of fixed assets	**—**	1,563	—	**—**
Gain on the return of the substitutional portion of the welfare pension fund	**—**	13,934	—	**—**
Gain on sales of cleaning and hygiene product business for the food and beverage industry	**—**	511	—	**—**
Loss on disposal of fixed assets	**(3,064)**	—	—	**(28,636)**
Loss on devaluation of investments in securities	**—**	—	(6,830)	**—**
Loss on disposal of obsolete inventories	**(1,272)**	(894)	(1,362)	**(11,888)**
Loss on withdrawal of the chemicals business in US	**—**	(3,443)	—	**—**
Expenses for business integration	**(39,439)**	—	—	**(368,589)**
Expenses related to transfer of OTC drugs business	**—**	(1,625)	—	**—**
Expenses related to closing the Kuanyin plant	**—**	(1,277)	—	**—**
Expenses related to implementation of measures reinforcing the Japanese business	**—**	—	(14,700)	**—**
Other, net	**2,851**	1,848	(1,118)	**26,646**
Income before income taxes and minority interests	**44,641**	69,138	44,690	**417,206**
Income taxes				
Current	**21,319**	18,372	27,229	**199,243**
Deferred	**(2,562)**	9,425	(11,275)	**(23,944)**
	18,757	27,797	15,954	**175,299**
Income before minority interests	**25,884**	41,341	28,736	**241,907**
Minority interest in consolidated subsidiaries	**(69)**	127	(101)	**(645)**
Net income	**¥ 25,815**	¥ 41,468	¥ 28,635	**$ 241,262**
		Yen		U.S. dollars
Amounts per share:				
Net income				
Basic	**¥77.42**	¥125.63	¥86.62	**$0.72**
Diluted	**76.88**	123.65	85.37	**0.72**
Cash dividends	**22.00**	22.00	18.00	**0.21**

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.$1, the approximate exchange rate as of March 31, 2005.

Fujisawa Pharmaceutical Company Limited and Consolidated Subsidiaries

Consolidated Balance Sheets (Unaudited)

March 31, 2005 and 2004

ASSETS	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars 2005
Current assets:			
Cash and cash equivalents	**¥ 65,323**	¥ 39,104	**$ 610,495**
Trade receivables —			
Notes	**7,022**	7,043	**65,626**
Accounts	**85,475**	77,987	**798,832**
Allowance for doubtful receivables	**(189)**	(222)	**(1,766)**
Marketable securities and short-term investments —			
Marketable securities	**29,591**	23,758	**276,551**
Short-term investments	**23,659**	19,782	**221,112**
Inventories	**50,145**	49,771	**468,645**
Deferred taxes	**28,257**	20,959	**264,084**
Prepaid expenses and other current assets	**15,031**	18,577	**140,477**
Total current assets	**304,314**	256,759	**2,844,056**
Property, plant and equipment, at cost:			
Land	**13,480**	14,499	**125,981**
Buildings	**94,599**	96,024	**884,103**
Machinery and equipment	**132,625**	133,600	**1,239,487**
Construction in progress	**3,965**	3,932	**37,056**
Total	**244,669**	248,055	**2,286,627**
Less accumulated depreciation	**(156,742)**	(156,688)	**(1,464,879)**
Property, plant and equipment, net	**87,927**	91,367	**821,74**
Investments and other assets:			
Excess of cost over net assets acquired	**1,041**	1,265	**9,729**
Goodwill and proprietary technology	**9,218**	10,895	**86,150**
Investments in affiliated companies	**9,144**	2,792	**85,458**
Marketable securities	**106,673**	91,619	**996,944**
Other investments in securities	**7,648**	7,707	**71,477**
Deferred taxes	**3,561**	3,874	**33,280**
Other assets	**26,709**	33,415	**249,616**
Total investments and other assets	**163,994**	151,567	**1,532,654**
Cash and cash equivalents	**¥ 65,323**	¥ 39,104	**$ 610,495**
Total	**¥556,235**	¥499,693	**$5,198,458**

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.$1, the approximate exchange rate as of March 31, 2005.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current liabilities:			
Short-term borrowings	**¥ 587**	¥ 1,112	**$ 5,486**
Current portion of long-term debt	**1,501**	14,062	**14,028**
Trade payables —			
Notes	**1,085**	628	**10,140**
Accounts	**61,351**	44,560	**573,374**
Accrued income taxes	**6,882**	2,980	**64,318**
Accrued expenses	**31,300**	17,532	**292,523**
Accrued bonuses	**9,300**	8,769	**86,916**
Other current liabilities	**12,245**	5,056	**114,439**
Total current liabilities	**124,251**	94,699	**1,161,224**
Long-term liabilities:			
Long-term debt	**422**	1,475	**3,944**
Accrued retirement benefits for employees	**11,481**	21,488	**107,299**
Accrued severance indemnities for the directors and corporate auditors	**34**	1,154	**318**
Other long-term liabilities	**10,003**	4,382	**93,486**
Total long-term liabilities	**21,940**	28,499	**205,047**
Minority interest in consolidated subsidiaries	**130**	551	**1,215**
Shareholders' equity:			
Common stock —			
Authorized — 800,000,000 shares			
Issued 2005 — 336,389,665 shares	**44,291**		**413,935**
Issued 2004 — 330,190,106 shares		38,594	
Capital surplus	**62,933**	57,237	**588,159**
Retained earnings	**298,295**	280,508	**2,787,803**
Foreign currency translation adjustments	**(8,171)**	(12,667)	**(76,364)**
Net unrealized gain on securities	**13,920**	13,553	**130,093**
Less treasury stock, at cost —			
2005 — 511,089 shares	**(1,354)**		**(12,654)**
2004 — 483,425 shares		(1,281)	
Shareholders' equity, net	**409,914**	375,944	**3,830,972**
Contingent liabilities and commitments			
Total	**¥556,235**	¥499,693	**$5,198,458**

Fujisawa Pharmaceutical Company Limited and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity (Unaudited)

For the Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Common stock:				
Balance at beginning of year	**¥ 38,594**	¥ 38,588	¥ 38,588	**$ 360,692**
Shares issued upon conversion of debentures	**5,697**	6	0	**53,243**
Balance at end of year	**¥ 44,291**	¥ 38,594	¥ 38,588	**$ 413,935**
Capital surplus:				
Balance at beginning of year	**¥ 57,237**	¥ 57,231	¥ 57,231	**$ 534,925**
Increase due to conversion of debentures	**5,696**	6	0	**53,234**
Balance at end of year	**¥ 62,933**	¥ 57,237	¥ 57,231	**$ 588,159**
Retained earnings:				
Balance at beginning of year	**¥280,508**	¥242,351	¥219,707	**$2,621,570**
Net income	**25,815**	41,468	28,635	**241,262**
Adjustment due to change of the fiscal year-end of foreign subsidiaries	**—**	3,008	—	**—**
Cash dividends	**(7,981)**	(6,264)	(5,941)	**(74,590)**
Bonuses to the directors and corporate auditors	**(47)**	(55)	(50)	**(439)**
Balance at end of year	**¥298,295**	¥280,508	¥242,351	**$2,787,803**
Foreign currency translation adjustments	**¥ (8,171)**	¥ (12,667)	¥ (5,704)	**$ (76,364)**
Net unrealized gain on securities	**¥ 13,920**	¥ 13,553	¥ 4,081	**$ 130,093**
Treasury stock, at cost	**¥ (1,354)**	¥ (1,281)	¥ (1,210)	**$ (12,654)**

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.$1, the approximate exchange rate as of March 31, 2005.

Fujisawa Pharmaceutical Company Limited and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

For the Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Cash flows from operating activities:				
Net income	**¥25,815**	¥41,468	¥28,635	**$241,262**
Adjustments to reconcile net income to net cash provided by operating activities —				
Depreciation and amortization	**19,482**	20,340	21,176	**182,075**
Expenses related to implementation of measures reinforcing the Japanese business	**—**	—	14,700	**—**
Gain on sales of fixed assets	**—**	(1,563)	—	**—**
Gain on the return of the substitutional portion of the welfare pension fund	**—**	(13,934)	—	**—**
Gain on sales of cleaning and hygiene product business for the food and beverage industry	**—**	(511)	—	**—**
Gain on sales of investments in affiliated companies	**—**	—	(4,716)	**—**
Equity in earnings of affiliated companies, net	**(971)**	(899)	(668)	**(9,075)**
Foreign exchange loss	**418**	679	329	**3,907**
Dividends earned from affiliated companies	**501**	503	256	**4,682**
Loss on disposal of fixed assets	**3,064**	—	—	**28,636**
Loss on disposal of obsolete inventories	**1,272**	894	1,362	**11,888**
Loss on devaluation of investments in securities	**—**	—	6,830	**—**
Loss on withdrawal of the chemicals business in US	**—**	3,443	—	**—**
Expenses for business integration	**28,077**	—	—	**262,402**
Expenses related to transfer of OTC drugs business	**—**	1,625	—	**—**
Expenses related to closing the Kuanyin plant	**—**	1,277	—	**—**
Changes in assets and liabilities —				
Decrease (increase) in trade receivables	**(9,330)**	3,357	(7,015)	**(87,196)**
Decrease (increase) in inventories	**(2,688)**	3,391	(3,114)	**(25,121)**
Decrease (increase) in deferred tax assets	**(2,751)**	10,776	(10,971)	**(25,710)**
(Increase) decrease in other current assets	**4,959**	(7,597)	1,841	**46,346**
(Decrease) increase in trade payables	**6,082**	(3,687)	306	**56,841**
(Decrease) increase in accrued income taxes	**2,965**	(7,628)	2,544	**27,710**
(Decrease) increase in other current liabilities	**10,919**	(21,830)	7,458	**102,047**
Decrease in accrued retirement benefits for employees	**(10,616)**	(7,695)	(2,314)	**(99,215)**
Other	**(1,522)**	(8,013)	293	**(14,227)**
Total adjustments	**49,861**	(27,072)	28,297	**465,990**
Net cash provided by operating activities	**75,676**	14,396	56,932	**707,252**
Cash flows from investing activities:				
Acquisition of property, plant and equipment	**(11,623)**	(12,890)	(15,412)	**(108,626)**
Decrease (increase) in marketable securities and short-term investments	**4,662**	4,353	(10,682)	**43,570**
Proceeds from sales of non-current marketable securities	**5,755**	11,979	13,065	**53,785**
Acquisition of non-current marketable securities	**(33,730)**	(35,659)	(17,323)	**(315,234)**
Proceeds from sales of other investments in securities	**39**	3,440	5,047	**364**
Acquisition of other investments in securities	**(59)**	(61)	(3,002)	**(551)**
Increase in other investments	**(7,103)**	(2,232)	(1,076)	**(66,383)**
Other	**2,624**	3,959	780	**24,524**
Net cash used in investing activities	**(39,435)**	(27,111)	(28,603)	**(368,551)**
Cash flows from financing activities:				
Net decrease in short-term borrowings	**(3,231)**	(3,059)	(1,846)	**(30,196)**
Borrowings of long-term debt	**490**	—	—	**4,579**
Repayments of long-term debt	**(115)**	—	(100)	**(1,075)**
Dividends paid	**(8,016)**	(6,312)	(5,987)	**(74,916)**
Other	**(73)**	(92)	(987)	**(682)**
Net cash used in financing activities	**(10,945)**	(9,463)	(8,920)	**(102,290)**
Effect of exchange rate changes on cash and cash equivalents	**923**	(2,037)	(1,577)	**8,626**
Net (decrease) increase in cash and cash equivalents	**26,219**	(24,215)	17,832	**245,037**
Cash and cash equivalents at beginning of year	**39,104**	69,140	51,308	**365,458**
Cash and cash equivalents of the subsidiaries excluded from consolidation	**—**	(39)	(0)	**—**
Decrease in cash and cash equivalents upon change of fiscal year-end of foreign subsidiaries	**—**	(5,782)	—	**—**
Cash and cash equivalents at end of year	**¥65,323**	¥39,104	¥69,140	**$610,495**

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107=U.S.$1, the approximate exchange rate as of March 31, 2005.

Principal Subsidiaries and Affiliates

(as of July 2005)

North America

Holding Company in North America

Astellas US Holding, Inc.
Three Parkway North, Deerfield, IL 60015-2548, U.S.A.
TEL: +1-847-317-8800 FAX: +1-847-317-7296

Headquarters in North America

Astellas US LLC
Three Parkway North, Deerfield, IL 60015, U.S.A.
TEL: +1-847-317-8800 FAX: +1-847-317-7296

Astellas Pharma US, Inc.
Three Parkway North, Deerfield, IL 60015-2548, U.S.A.
TEL: +1-847-317-8800 FAX: +1-847-317-7296

Astellas Pharma Canada, Inc.
625 Cochrane Drive, Suite 1000, Markham, Ontario L3R9R9, Canada
TEL: +1-905-470-7990 FAX: +1-905-470-7799

Astellas Pharma Manufacturing, Inc.
3125 Staley Road, Grand Island, NY 14072, U.S.A.
TEL: +1-716-775-2200 FAX: +1-716-775-2205

Astellas Pharma Technologies, Inc.
3300 Marshall Avenue, Norman, OK 73072, U.S.A.
TEL: +1-405-217-6400 FAX: +1-405-217-7906

Astellas Research Institute of America LLC
1801 Maple Avenue, BIRL Building, Northwestern University Evanston Research Park, Evanston, IL 60201-3135, U.S.A.
TEL: +1-847-467-4470 FAX: +1-847-467-4471

Astellas Venture Capital LLC
P.O. Box H, Los Altos, CA 94023, U.S.A.

Europe

(Some entities are in the legal process of changing their names to include "Astellas")

Holding Company in Europe

Astellas B.V.
Elisabethhof 19, 2353EW, Leiderdorp, The Netherlands
TEL: +31-71-545-5745 FAX: +31-71-545-5800

Headquarters in Europe

Astellas Pharma Europe Ltd.
Lovett House, Lovett Road, Staines, Middlesex, TW18 3AZ, UK
TEL: +44-1784-4194-00 FAX: +44-1784-4194-01

Astellas Pharma Europe B.V.
Elisabethhof 19, 2353EW, Leiderdorp, The Netherlands
TEL: +31-71-545-5745 FAX: +31-71-545-5800

Astellas Pharma International
Elisabethhof 19, 2353EW, Leiderdorp, The Netherlands
TEL: +31-71-545-5745 FAX: +31-71-545-5800

Astellas Pharma B.V.
Elisabethhof 19, 2353EW, Leiderdorp, The Netherlands
TEL: +31-71-545-5745 FAX: +31-71-545-5800

Astellas Pharma GmbH
Neumarkter Str. 61, 81673 Munich, Germany
TEL: +49-89-45-44-06 FAX: +49-89-45-44-21-20

Astellas Pharma Ltd.
Lovett House, Lovett Road, Staines, Middlesex, TW18 3AZ, UK
TEL: +44-1784-4194-00 FAX: +44-1784-4194-01

Astellas Ireland Co., Ltd.
Damastown Road, Damastown Industrial Park, Mulhuddart,
Dublin 15, Ireland
Tel: +353-1-8030800 Fax: +353-1-8030801

Astellas Pharma Co., Ltd.
25 The Courtyard, Kilcarberry Business Park, Clondalkin,
Dublin 22, Ireland
TEL : +353-1-4761555 FAX : +353-1-4671550

Astellas Pharma B.V. Branch
Erasmus Office Park, Square Marie Curie 50, Building 5, 1st floor, 1070 Brussels, Belgium
TEL: +32-2-558-07-11 FAX: +32-2-524-37-23

Astellas Pharma A.G.
Grindelstrasse 6, CH-8304 Wallisellen, Switzerland
TEL : +41-43-233-60-20 FAX : +41-43-233-60-30

Astellas Pharma S.A.S
Le Malsherbe, 114 rue Victor Hugo, 92686, Lavallois-Perret, France
TEL : +33-1-55-91-75-00 FAX : +33-1-55-91-75-69

Astellas Pharma S.p.A.
Via Delle Industrie no 1, 20061, Carugate (MI), Italy
TEL: +39-02-92-138-1 FAX: +39-02-92-138-200

Astellas Pharma S.A.
Centro Empresarial 'La Finca' Paseo del Club Deportivo, 1 Bloque 14, 2 Planta, 28223 Pozuelo de Alfacon Madrid, Spain
TEL: +34-91-495-2700 FAX: +34-91-495-2711

Astellas Pharma AE
10th Klm National Road Athens, Lamia 14451 Metamorfosi, Greece
TEL: +30-210-281-2640 FAX: +30-210-283-5342

Astellas Farma Limitada
Edificio Cinema – Rua José Fontana, nº1 – 1 andar, 2770-101 Paço de Arcos, Portugal
TEL: +351-21-440-13-00 FAX: +351-21-440-13-01

Astellas Pharma AB
Haraldsgatan 5, 41314 Gothenburg, Sweden
TEL: +46-31-741-61-68 FAX: +46-31-711-07-57

Astellas Pharma A/S
Naverland 4, P.O. Box 1322, 2600 Glostrup, Denmark
TEL: +45-43430355 FAX: +45-43432224

Astellas Pharma Ges.mbH
Linzer Str 221-227, 1140 Vienna, Austria
TEL: +43-1-877-26-68 FAX: +43-1-877-16-36

Astellas Pharma s.r.o
Radimova 36, 16900 Praha 6, Praha, Czech Republic
TEL: +420-220-516-7723 FAX: +420-220-516-776

Astellas Pharma Sp.z.O.O.
Ul. Pokeczki 21, 02-822 Warsaw, Poland
TEL: +48-22-545-11-11 FAX: +48-22-545-11-10

ZAO Astellas Pharma
Marksistskaya Ulitsa 16, 109147, Moscow, Russia
TEL : +7-095-737-0755 FAX : +7-095-737-0758

Astellas Pharma Pty.
Gillooly's View, Block A, 1st Floor, 5 Osborne Lane, Bedfordview, 2007, South Africa
TEL: +011-6159433 FAX: +011-6159427

Asia

Astellas Pharma Korea, Inc.
6/F Kumha Bldg., 41-2 Chungdam-Dong Kangnam-Ku, Seoul, 135-766 Korea
TEL: +82-2-3448-0504 FAX: +82-2-3448-0510

Astellas Pharma Taiwan, Inc.
(to be established by the merger of the following 2 companies by the end of 2005)

Taiwan Yamanouchi Pharmaceutical Co., Ltd.
Shin Kong World Commercial Bldg., 6/F, 287 Sec. 3 Nanking East Road, Taipei, Taiwan
TEL: +886-2-2719-2480 FAX: +886-2-2715-4431

Fujisawa Taiwan Co.,Ltd.
3/F, No. 325 Sec. 1 Tun-Hwa S.Rd., Taipei 106 Taiwan
TEL: +886-2-2709-1980 FAX: +886-2-2700-1330

Yamanouchi Pharmaceutical (China) Co., Ltd.*
No. 3 Jia 6 Road 10, Shenyang Economic & Technological Development Zone, Shenyang City, Liaoning Province, 110141, People's Republic of China
TEL: +86-24-2581-4488 FAX: +86-24-2581-5211

Fujisawa Pharmaceutical (China) Co., Ltd.*
Suite 708-709, 7/F, Prudential Tower, The Gateway, Harbour City, Kowloon, Hong Kong
TEL: +852-2377-9801 FAX: +852-2856-1440
* *These entities will change their names to include "Astellas."*

Astellas Pharma Philippines, Inc.
17B Multinational Bancorporation Center, 6805 Ayala Avenue, Makati City, Metro Manila, The Philippines
TEL: +63-2-845-1558 FAX: +63-2-845-1567

Astellas Pharma (Thailand) Co., Ltd.
10/F, Wave Place, 55 Wireless Road, Lumpini, Patumwan, Bangkok 10330, Thailand
TEL: +66-2-655-4050 FAX: +66-2-655-4051

P.T. Astellas Pharma Indonesia
Wisma Kyoei Prince 11/F, Jl. Jend. Sudirman Kav. 3, Jakarta 10220, Indonesia
TEL: +62-21-572-4344 FAX: +62-21-572-4345

Japan

(Astellas Toyama Co., Ltd. and Astellas Shizuoka Co., Ltd. are in legal process of changing their names to include "Astellas")

Astellas Tokai Co., Ltd.
Astellas Toyama Co., Ltd.
Astellas Shizuoka Co., Ltd.
Zepharma Inc.

Investor Information

(as of April 1, 2005)

Astellas Pharma Inc.

Head Office

3-11, Nihonbashi-Honcho 2-chome, Chuo-ku, Tokyo 103-8411,
Japan
TEL: +81-3-3244-3000
http://www.astellas.com

Common Stock

Authorized: 2,000,000,000
Issued: 571,428,003

Stock Exchange Listing

Tokyo (Ticker Code: 4503), Osaka, Nagoya, Sapporo
Euronext Paris

Independent Certified Public Accountants

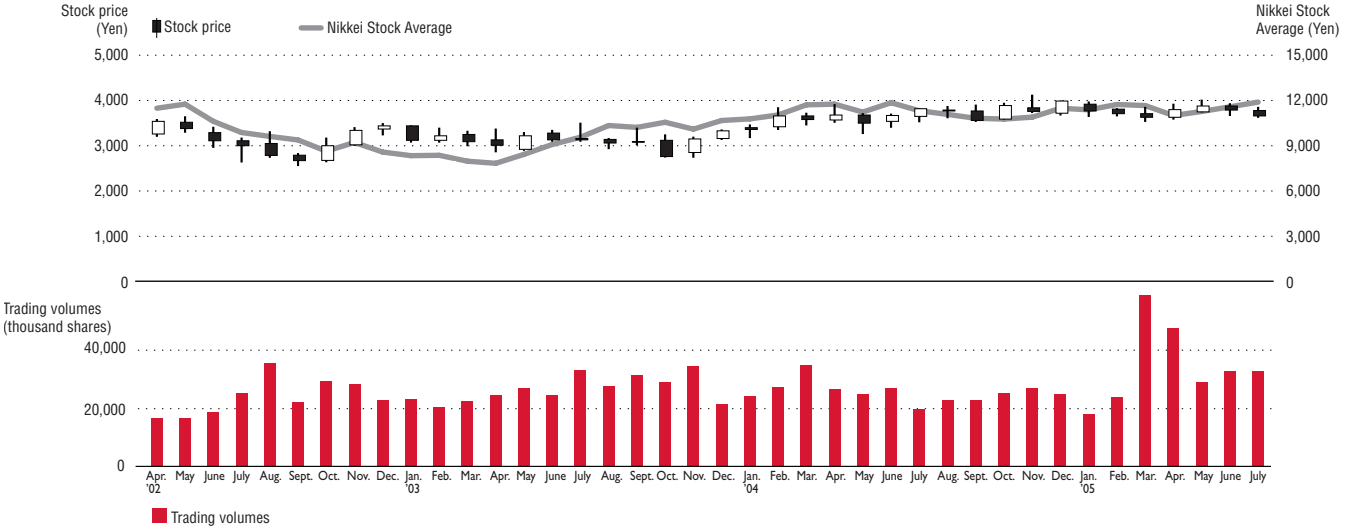
Shin Nihon & Co.
Osaka Kokusai Bldg., 3-13, Azuchi-machi 2-chome, Chuo-ku, Osaka 541-0052, Japan

Transfer Agent for Common Stock in Japan

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

Stock Prices and Trading Volumes on the Tokyo Stock Exchange

(highest/lowest in the month; yen)



Astellas Pharma Inc.

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

Printed in Japan on recycle paper