



Consolidated Financial Report for the Year Ended December 31, 2004 (Unaudited)

AnGes MG, Inc. <http://www.anges-mg.com>

Listings: Mothers of the Tokyo Stock Exchange, Code 4563

Head Office: 4F, Saito Bio-Incubator, 7-7-15, Saito-Asagi, Ibaraki, Osaka, 567-0085, Japan

Adoption of the U.S.GAAP: None

1. Business Results for Fiscal Year 2004 (From Jan. 1, 2004 to Dec. 31, 2004)

(1) Results of Operations (Figures are rounded down to the nearest million yen)

	Revenues		Operating loss		Ordinary loss		Net loss	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal Year 2004	2,696	9.9	(1,561)	-	(1,558)	-	(1,541)	-
Fiscal Year 2003	2,453	36.7	(948)	-	(953)	-	(978)	-

	Net loss per share	Diluted net loss per share	Ratio of net loss / stockholders' equity	Ratio of ordinary loss / total assets	Ratio of ordinary loss / revenues
	Yen	Yen	%	%	%
Fiscal Year 2004	(16,083.36)	-	(17.0)	(14.9)	(57.8)
Fiscal Year 2003	(11,300.35)	-	(14.0)	(11.5)	(38.9)

Notes) 1. Equity in net income of unconsolidated subsidiaries and affiliates

Fiscal year 2004: - million yen Fiscal year 2003: - million yen

2. Average number of shares issued during the period ended (consolidated)

Fiscal year 2004: 95,843 shares Fiscal year 2003: 86,585 shares

3. Change in accounting policies: None

4. Percentages for Revenues, Operating loss, Ordinary loss and Net loss indicate changes from the previous term.

(2) Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
Dec. 31, 2004	10,009	8,656	86.5	88,530.64
Dec. 31, 2003	10,974	9,454	86.2	100,670.11

Notes) 1. Number of shares issued at end of period (consolidated)

Dec. 31, 2004: 97,780 shares Dec. 31, 2003: 93,914 shares

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, at end
	Million yen	Million yen	Million yen	Million yen
Fiscal Year 2004	(1,433)	2,962	899	7,003
Fiscal Year 2003	(689)	(4,484)	5,927	4,572

(4) Scope of consolidation and application of the equity method

Number of consolidated subsidiaries: 3

Number of non-consolidated subsidiaries accounted for under the equity method: N/A

Number of affiliates accounted for under the equity method: N/A

(5) Changes in the scope of consolidation and application of the equity method

Number of consolidated subsidiaries: Increase N/A Decrease N/A

Number of affiliates accounted for under the equity method: Increase N/A Decrease N/A

2. Earnings Forecast for the Fiscal Year 2005 (From Jan. 1, 2005 to Dec. 31, 2005)

	Revenues	Ordinary loss	Net loss
	Million yen	Million yen	Million yen
Full-year	2,200-3,200	(1,900)-(900)	(1,900)-(900)

**Since descriptions about future events, for instance, earnings forecast for FY 2005, are estimation, results may differ from this estimation due to changes of several economic conditions.*

***This financial report has been translated from Japanese "Kessan Tanshin" which has been prepared in accordance with generally accepted accounting principles in Japan, for reference purposes only. Also some changes are added to this report in order to present in a form more familiar to the readers outside Japan.*

AnGes MG, Inc.

Operational and financial results for the year ended December 31, 2004

1. Summary

(1) Overview

Although corporate profits are improving, the Japanese economy is recovering at a moderate pace because Exports have been weakening, especially to the EU. As for short-term prospects, the economic recovery in Japan is expected to continue as the world economy recovers due to an improvement of corporate profits and progress in capital stock adjustment while the unemployment rate still remains at high level.

The pharmaceutical industry in Japan faces an ever-increasing challenge to develop innovative products, which can be accepted in the global market, while the domestic market could be reduced based on the government policy to control healthcare cost and is exposed to offensive of foreign company.

The following are a summary of the financial results of the AnGes group companies for the year ended December 31, 2004, during which AnGes has made steady progress in product development and initiated negotiations to establish alliances and partnerships.

	Revenue	Operating Profit/(Loss)	Ordinary Profit/(Loss)	Net Income / (Loss)	R&D Expenses
Fiscal Year 2004	¥ 2,696	¥ (1,561)	¥ (1,558)	¥ (1,541)	¥ 3,679
Fiscal Year 2003	¥ 2,453	¥ (948)	¥ (953)	¥ (978)	¥ 2,807

(2) Revenue

For the year ended December 31, 2004, total revenue has increased by 9.9% over the previous year to reach ¥2,696 Million. Pre-clinical and/or clinical studies have been conducted for HGF and NF-κB decoy oligonucleotide. AnGes has licensed and/or joint R&D agreements with Daiichi Pharmaceutical Co., Ltd., Seikagaku Corporation and Goodman Co., Ltd., from which AnGes received R&D support payments and milestone payments. These payments are accounted for as operating revenues.

Regarding the reagents business, AnGes has a license agreement on HVJ-E vector with Ishihara Sangyo Kaisha, Ltd. and is entitled to receive royalties from them. In addition to Ishihara Sangyo, AnGes has non-exclusive license agreements on NF-κB decoy with two bio ventures, Gene Design Inc. and Hokkaido System Science Co., Ltd. AnGes is entitled to receive royalty payments from these agreements.

(3) R&D expense

For the year ended December 31, 2004, R&D expenses have increased by 31.0% over the previous year to reach ¥ 3,679 Million. The ratio of R&D expenses to operating revenue reached to 136.4%.

<Major developments>

For HGF development, clinical development programs for PAD (Peripheral Arterial Disease) and IHD (Ischemic Heart Disease) have been advanced both in Japan and the US. Regarding PAD, while Phase-II clinical trial studies started in the US since April, 2003, Phase III clinical studies also started in Japan in March 2004. Further, the US IHD Phase I clinical trial started in November, 2004. AnGes was also in the preparation for IND of IHD clinical trial in Japan.

AnGes signed an exclusive licensing agreement with NeoChemir Inc. (hereinafter "NeoChemir") to distribute their new carbon dioxide generating wound dressing for the Japanese market, in June 2004. The dioxide generating wound dressing patent was filed by NeoChemir. The goal of this joint development is to use it as the adjuvant therapy of HGF plasmid for the patients with ischemic skin ulcers. The introduction at this time of this new wound dressing for the treatment of ischemic ulcers and other diseases is expected to reinforce our product lineup, and help us continue to address the needs of the medical industry in the field of ischemic diseases

The pre-clinical studies including efficacy, toxicology and stability, for NF-κB decoy oligonucleotide have been conducted to verify safety, stability and characterization of pharmacological properties of the agents supporting the possible indications of Atopic dermatitis, psoriasis, rheumatic arthritis, and (degenerative) osteoarthritis. Preparations to initiate the clinical trials in Japan are in progress. The study of the efficient method of administration for NF-κB decoy oligonucleotide using the drug delivery system has also started.

As to Atopic dermatitis, AnGes is in the preparation for Phase I clinical trial studies in Japan so as to start it in 2005. The Pharmaceuticals and Medical Devices Agency (the PMDA, a certified independent administrative institution in Japan) has selected this project as one of its supported research programs. AnGes MG will be able to receive funding for three years to develop a therapeutic agent for Atopic dermatitis.

In order to effectively deliver the NF-κB decoy oligonucleotide for new applications, AnGes is actively working with drug delivery industry leaders to develop effective administration methods. In June 2004, AnGes and Shimadzu Corporation signed a joint research agreement to use Shimadzu's "Shima JET" needleless hypodermic pressure injector for NF-κB decoy oligonucleotide for the application of treating patients with psoriasis.

AnGes initiated a joint development with Gene Design Inc. to develop the next-generation

decoy nucleotides. Nucleotide is not suitable to be administered intravenously because it is relatively easily broken down by the nuclease in blood. So, its use is limited to diseases for which topical administrations or local administrations are possible. In this joint development, AnGes is aiming to develop the next-generation decoy nucleotides to be easily administered intravenously or orally for treating either cancers or Inflammatory Bowel disease (IBD).

<R&D projects and its current status>

Project	Target indications	Region	Development stage	Alliance partners
HGF	PAD	Japan	Phase III clinical trials	Daiichi Pharmaceutical
		US	Phase II clinical trials	
	IHD	US	Phase I clinical trials	
	Parkinson disease		Pre-clinical trials	Yet to be decided
NF-κB decoy oligonucleotide	Atopic dermatitis		Preparing for clinical trials	Yet to be decided
	Psoriasis		Pre-clinical trials	Yet to be decided
	Rheumatic arthritis		Preparing for clinical trials	Seikagaku Corporation
	Degenerative osteoarthritis		Pre-clinical trials	
	Prevention of restenosis		Preparing for clinical trials	Goodman

HVJ-E vector technologies have been developed by the subsidiary, GenomIdea, Inc. In collaboration with Prof. Kaneda of University of Osaka Medical School and National Institute of Advanced Industrial Science and Technology (AIST) Kansai, GenomIdea developed the device for DNA-screening to identify new DNA candidates for drug development. The drug design system for next-generation nucleic acid medicines (siRNA) has been developed in collaborations with Osaka University, AIST Kansai and Mitsubishi Space Software Co., Ltd. The drug design service using this system will start in April, 2005.

Process & assay development and manufacturing of HVJ-E have been advanced by using the cell culture in stirred tank bioreactor and a scalable purification process. The development will enable using HVJ-E for future therapeutic applications such as cancer and vaccine. Lately, the GMP Master Cell Bank and Master Virus Bank have been successfully manufactured, and the final releases are completed. Further, the pre-clinical studies including efficacy and toxicology, for HVJ-E have been conducted to verify safety and characterization of pharmacological properties of the vector applying in a clinical setting. As a result, new research has revealed that HVJ-E could be applied in a cancer and IBD.

(4) Operating and ordinary profit/ (loss)

For the year ended December 31, 2004, operating loss was ¥1,561 Million compared to loss of

¥948 Million of the previous year. The operating loss is widened mainly due to the increase in R&D expenses incurred for NF-κB decoy oligonucleotide and HVJ-E using own fund as well as HGF using R&D support payment funded by the business partner.

For the year ended December 31, 2004, ordinary loss was ¥1,558 Million compared to loss of ¥953 Million of the previous year.

For the year ended December 31, 2004, net loss was ¥1,541 Million compared to loss of ¥978 Million of the previous year. Loss on dispositions of property and equipment and intangible assets was recorded as extraordinary loss due to the relocation of the research center whereas extraordinary gain was recorded due to issuance of common stock by the subsidiary, GenomIdea.

(5) Outlook for 2005

We aim to make further progress in the current major projects and establish an alliance with new partners to increase revenues including license payments. The financial outlook depends upon uncertain factors such as progress of the current R&D project proceeds and the contract negotiations with new partnering companies. The projected revenue and income for the year ending December 31, 2005 are as follows;

< Consolidated basis >

Revenue.....	¥ 2,200 ~ ¥ 3,200 Million
Ordinary income/ (loss).....	¥ (1,900) ~ ¥ (900) Million
Net income / (loss).....	¥ (1,900) ~ ¥ (900) Million

**Since descriptions about future events, for instance, earnings forecast for FY 2005, are estimation, results may differ from this estimation due to changes of several economic conditions.*

2. Financials and Cash flows

(1) Asset and Liability/Equity (In millions, except per share data)

	December 31,		Changes
	2004	2003	
Total asset.....	¥ 10,009	¥ 10,974	¥ (964)
Stockholders' equity.....	¥ 8,656	¥ 9,454	¥ (797)
Stockholders' equity per share.....	¥ 88,530.64	¥ 100,670.11	¥ (12,139.47)
Stockholders' equity ratio.....	86.5%	86.2%	0.3%

Stockholders' equity has decreased owing to the net loss of ¥1,541 Million while it has increased ¥743 million because of the exercising of employee stock options.

(2) Cash flows (In millions)

	As of and for the year ended December 31,		Changes
	2004	2003	
Cash flows from operating activities.....	¥ (1,433)	¥ (689)	¥ (744)
Cash flows from investing activities.....	2,962	(4,484)	7,446
Cash flows from financing activities.....	899	5,927	(5,027)
Changes in cash and cash equivalents.....	2,431	742	1,688
Cash and cash equivalents at end of period.....	¥ 7,003	¥ 4,572	¥ 2,431

For the year ended December 31, 2004, cash and cash equivalents increased by ¥2,431 Million, as a result, as of December 31 2004, cash and cash equivalents was ¥ 7,003 Million.

(Cash flows from operating activities)

For the year ended December 31, 2004, net cash used in operating activities decreased by ¥744 Million compared with the previous year to ¥1,433 Million. This change was mainly due to the increase of net loss before income taxes and minority interests which increased by ¥562 Million to ¥1,540 Million.

(Cash flows from investing activities)

For the year ended December 31, 2004, net cash provided by investing activities increased by ¥7,446 Million compared to the previous year to ¥2,962 Million. This change was mainly due to the proceeds from repayment of time deposit of ¥1,500 Million and the proceeds from redemption of marketable securities of ¥2,300 Million.

(Cash flows from financing activities)

For the year ended December 31, 2004, net cash provided by financing activities decreased by ¥5,027 Million compared with the previous year to ¥899 Million. Net proceeds from issuance of common stock of ¥738 Million were recorded due to the exercising of employee stock options and net proceeds from issuance of common stock to minority shareholders of ¥161 Million were recorded due to the issuance of common stock by GenomIdea in this fiscal year, although net proceeds from issuance of common stock of ¥5,927 Million were recorded mainly due to public offering in the previous year.

<Financial ratios>

	As of December, 31		
	2004	2003	2002
Stockholders' equity ratio to total asset.....	86.5%	86.2%	79.5%
Market value of stockholders' equity to total asset	516.77%	700.03%	678.86%

AnGes MG, Inc
Consolidated Balance Sheets
(In thousands)
(Unaudited)

	December 31,	
	2004	2003
Assets		
Current assets:		
Cash and bank deposits.....	¥ 7,003,451	¥ 6,072,021
Marketable securities.....	499,100	2,298,748
Beneficial interest in trust.....	500,000	500,000
Accounts receivable.....	82,122	84,765
Inventories.....	544,684	530,167
Advances.....	656,659	935,523
Other current assets.....	202,354	175,007
Allowance for doubtful accounts.....	—	(116)
Total current assets.....	9,488,373	10,596,116
Property and equipment, net.....	219,492	198,059
Goodwill, net.....	12,773	20,361
Other intangible assets, net.....	235,940	106,094
Other assets.....	52,786	53,492
Total assets.....	¥ 10,009,364	¥ 10,974,124
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable.....	117,289	107,939
Accrued liabilities.....	137,661	106,146
Customer advances.....	978,379	1,272,617
Other current liabilities.....	6,982	7,049
Total current liabilities.....	1,240,312	1,493,753
Minority interest.....	112,526	26,037
Stockholders' equity:		
Common stock.....	5,156,314	4,784,341
Capital surplus.....	6,453,707	6,081,734
Accumulated deficit.....	(2,940,607)	(1,399,134)
Unrealized losses on securities.....	(900)	(1,957)
Foreign currency translation adjustments.....	(11,989)	(10,651)
Total stockholders' equity.....	8,656,525	9,454,332
Total liabilities and stockholders' equity.....	¥ 10,009,364	¥ 10,974,124

*See accompanying notes.

AnGes MG, Inc
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Year ended December 31,	
	2004	2003
Operating revenues	¥ 2,696,299	¥ 2,453,440
Operating expenses:		
Research and development.....	3,679,079	2,807,757
Selling, general and administrative.....	578,263	593,962
Total operating expenses.....	4,257,342	3,401,719
Operating loss.....	(1,561,043)	(948,278)
Non-operating income (expenses):		
Interest income.....	5,670	605
Grant.....	2,030	19,929
Foreign currency transaction (loss) gain, net.....	(4,827)	9,502
Stock issuance cost.....	(6,741)	(35,925)
Other items, net.....	5,920	218
Ordinary loss.....	(1,558,989)	(953,947)
Extraordinary gain (loss):		
Reversal of allowance for doubtful accounts, net.....	116	224
Gain on change in holding ratio of subsidiary.....	62,850	—
Loss on write-down of advances.....	—	(24,541)
Loss on dispositions of property and equipment and intangible assets.....	(44,844)	(188)
Loss before income taxes and minority interest.....	(1,540,866)	(978,452)
Provision for Income taxes – Current.....	10,228	4,571
Deferred.....	—	(482)
Minority interest loss.....	9,623	4,100
Net loss.....	¥ (1,541,472)	¥ (978,440)
Loss per share:		
Basic.....	¥ (16,083.36)	¥ (11,300.35)
Diluted.....	—	—
Shares used in calculation of loss per share data:		
Basic.....	95,843	86,585
Diluted.....	—	—

*See accompanying notes.

**Diluted loss per share data is not calculated because the impact was anti-dilutive.

AnGes MG, Inc
Consolidated Statements of Capital surplus and Accumulated Deficit
(In thousands)
(Unaudited)

	Year ended December 31,	
	2004	2003
Capital surplus:		
Balance at beginning of period.....	¥ 6,081,734	¥ 3,099,940
Issuance of common stock upon public offering.....	—	2,930,147
Issuance of common stock upon exercise of stock options.....	371,973	51,647
Balance at end of period.....	6,453,707	6,081,734
Accumulated deficit:		
Balance at beginning of period.....	(1,399,134)	(420,693)
Net loss.....	(1,541,472)	(978,440)
Balance at end of period.....	¥ (2,940,607)	¥ (1,399,134)

*See accompanying notes.

AnGes MG, Inc
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Year ended December 31,	
	2004	2003
Cash flows from operating activities:		
Loss before income taxes and minority interest.....	¥ (1,540,866)	¥ (978,452)
Depreciation and amortization.....	145,523	138,084
Amortization of goodwill.....	4,050	1,071
Decrease in allowance for doubtful accounts.....	(116)	(224)
Interest income.....	(5,670)	(605)
Foreign currency transaction (gain) loss, net.....	(4,379)	6,296
Loss on dispositions of property and equipment and intangible assets.....	44,844	188
Stock issuance cost.....	6,741	35,925
Gain on change in holding ratio of subsidiary.....	(62,850)	—
Decrease in accounts receivable.....	2,642	73,183
(Increase) Decrease in inventories.....	(14,517)	267,980
Decrease (Increase) in other current assets.....	253,461	(599,450)
Increase (Decrease) in accounts payable.....	9,350	(87,723)
(Decrease) Increase in other current liabilities.....	(274,109)	456,136
Subtotal.....	(1,435,896)	(687,589)
Interest income received.....	6,863	234
Income taxes paid.....	(4,515)	(1,707)
Net cash used in operating activities.....	(1,433,547)	(689,062)
Cash flows from investing activities:		
Payment into time deposit (over 3 months).....	—	(1,500,000)
Proceeds from repayment of time deposit (over 3 months).....	1,500,000	—
Purchases of marketable securities.....	(500,000)	(2,300,845)
Proceeds from redemption of marketable securities.....	2,300,000	—
Purchases of beneficial interest in trust.....	(1,000,000)	(500,000)
Proceeds from redemption of beneficial interest in trust.....	1,000,000	—
Purchases of property and equipment.....	(165,881)	(141,791)
Purchases of intangible assets.....	(160,657)	(32,944)
Purchase of investments in securities.....	—	(1,000)
Increase in long-term prepaid expense.....	(16,147)	(6,765)
Proceeds from security deposits received.....	5,208	778
Payment for security deposits.....	(350)	(2,222)
Net cash provided by (used in) investing activities.....	2,962,171	(4,484,790)
Cash flows from financing activities:		
Net proceeds from issuance of common stock.....	738,385	5,927,663
Net proceeds from issuance of common stock to minority shareholders.....	161,319	—
Net cash provided by financing activities.....	899,705	5,927,663
Effect of exchange rate changes on cash and cash equivalents.....	3,101	(11,296)
Net increase in cash and cash equivalents.....	2,431,430	742,513
Cash and cash equivalents at beginning of period.....	4,572,021	3,829,508
Cash and cash equivalents at end of period.....	¥ 7,003,451	¥ 4,572,021

*See accompanying notes.

AnGes MG, Inc
Notes to Consolidated Financial Statements (Unaudited)
December 31, 2004

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of AnGes MG, Inc (“AnGes”) and its consolidated subsidiaries (collectively, the “Company”) are basically an English version of those which have been prepared in accordance with generally accepted accounting principles in Japan and filed with the Tokyo Stock Exchange as “*Kessan Tanshin*” (including attachments).

The accompanying consolidated financial statements incorporate certain reclassifications of figures from those included in the *Kessan Tanshin* in order to present in a form more familiar to the readers outside Japan. Certain amounts in the accompanying consolidated financial statements from prior year have been reclassified to conform to the current year presentation. In addition, the notes to consolidated financial statements included certain information which is not required under Japan GAAP but is presented herein as additional information.

The amounts presented in the consolidated financial statements are rounded down to the nearest thousand yen.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of AnGes and its subsidiaries in which AnGes has a controlling financial interest and exercise control over its operation. All intercompany transactions and balances have been eliminated in consolidation.

The list of consolidated subsidiaries as of and for the year ended December 31, 2004 is as follows:

Name of subsidiary	Location	% of ownership
AnGes, Inc.	U.S.A	100.0%
AnGes Euro Limited	UK	100.0%
GenomIdea Inc.	Japan	61.6%

AnGes has no equity investment which is accounted for under the equity method.

AnGes and its subsidiaries have fiscal year-ends of December 31.

Cash and Cash equivalents

For the purpose of consolidated statements of cash flows, “Cash and cash equivalents” consist of cash on hands, demand deposits, and certain investments which are readily convertible to cash, and which mature within three months or less from date of purchase with virtually no risk of loss of values.

“Cash and bank deposits” on the consolidated balance sheets and “Cash and cash equivalents” on the consolidated statements of cash flows are reconciled as follows (in thousands):

	December 31,	
	2004	2003
Cash and bank deposits.....	¥ 7,003,451	¥ 6,072,021
Less: Time deposits with original maturities of more than three months.....	—	(1,500,000)
Cash and cash equivalents.....	¥ 7,003,451	¥ 4,572,021

Marketable securities and investments in securities

The Company considers its marketable securities and investments in securities as available-for-sale securities which are not held for trading purposes and not held to maturity with the positive intent and ability to hold maturity. Available-for-sale securities of which the fair market values are readily determinable are recorded at fair market value. Unrealized gains and losses are reported in a separate component of stockholders' equity. Available-for-sale securities of which the fair market values are not readily determinable are recorded at cost. The cost of securities sold is based on the moving average method.

Inventories

Inventories are principally stated at cost. The cost of raw materials is determined using the moving average method, the cost of work in process is determined using the specific identification method, and the cost of supplies is determined using the last purchase price method.

Depreciation and Amortization

Property and equipment

Depreciation of "Property and equipment" is calculated using the declining-balance method at rates based on the estimated useful lives of the assets which are prescribed by the Japanese Income Tax Laws. Useful lives by asset category are as follows:

Asset category	Years
Buildings and improvements.....	3-15
Machinery.....	3 - 4
Furniture, Laboratory and office equipment.....	3-15

Property and equipment consisted of the following (in thousands):

Asset category	December 31,	
	2004	2003
Buildings and improvements.....	¥ 106,532	¥ 185,659
Machinery.....	86,344	86,344
Furniture, Laboratory and office equipment.....	269,226	151,955
	462,103	423,959
Less: Accumulated depreciation.....	(242,611)	(225,899)
	¥ 219,492	¥ 198,059

Intangible assets and goodwill

Intangible assets and goodwill are carried at cost less accumulated amortization. Capitalized costs for software for internal use are amortized using the straight-line method over 5 years. Goodwill is amortized using the straight-line method over 5 years.

Deferred charges

Stock issuance costs are expensed as incurred.

Allowance for doubtful accounts

“Allowance for doubtful accounts” is maintained for the amounts deemed uncollectible based on solvency analyses and for estimated delinquency based on collection rates projected from historical credit loss experiences, and for the amounts to cover specific accounts that are estimated to be uncollectible.

Translation of foreign currency balances and transactions

Foreign currency transactions are translated using foreign exchange rate prevailing at the transaction dates. Receivables and payables denominated in foreign currencies were translated at the current rate at the balance sheets date. The differences of the prevailing rate between the transaction date and balance sheets date are involved in or charged to income accordingly.

All the assets and liabilities of foreign subsidiaries are translated at current rates at the balance sheets dates. All the income and expense accounts are translated at weighted-average rate. Adjustments arising from translating financial statements of overseas subsidiaries denominated in foreign currencies into Japanese yen are reported in a separate component of stockholders' equity.

Lease transactions

Finance leases, other than those which involve transferring of ownership of the leased assets to the lessee, are accounted for in a manner similar to operating leases.

Consumption taxes

Consumption taxes are excluded from the amounts in the consolidated statements of operations.

3. Fair value of financial instruments

The fair values of available-for-sale securities by type of security and contractual maturity as of December 31, 2003 and 2004 are as follows (in thousands):

<u>December 31, 2004</u>	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>
Type of security				
Corporate debt securities.....	¥ 500,000	¥ —	¥ 900	¥ 499,900
	<u>¥ 500,000</u>	<u>¥ —</u>	<u>¥ 900</u>	<u>¥ 499,900</u>
<u>December 31, 2003</u>	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Estimated fair value</u>
Type of security				
Corporate debt securities.....	¥ 2,300,705	¥ —	¥ 1,957	¥ 2,298,748
	<u>¥ 2,300,705</u>	<u>¥ —</u>	<u>¥ 1,957</u>	<u>¥ 2,298,748</u>

As of December 31, 2003 and 2004, carrying amounts of investments in securities which have no fair market value were ¥1,000 thousand. Investments in securities are classified into "other assets" of consolidated balance sheets.

4. Leases

Finance leases without transfer of ownership as lessee

Pro forma data as of December 31, 2003 and 2004 as to acquisition cost, accumulated depreciation and net book value of leased assets are summarized as follows (in thousands):

	December 31,	
	2004	2003
Pro forma acquisition cost.....	¥ 230,926	¥ 219,584
Pro forma accumulated depreciation.....	137,829	60,313
Pro forma net book value.....	¥ 93,096	¥ 159,271

Future minimum lease payments under finance leases without transfer of ownership are summarized as follows (in thousands):

	December 31,	
	2004	2003
Due within one year.....	¥ 54,257	¥ 75,058
Thereafter.....	41,845	86,749
	¥ 96,103	¥ 161,807

Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows (in thousands):

	Year ended December 31,	
	2004	2003
Lease expenses.....	¥ 84,489	¥ 90,488
Pro forma depreciation expenses.....	80,867	86,111
Pro forma interest expenses.....	4,246	5,796

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value. The difference between the total lease expenses and the pro forma acquisition cost of leased assets is assumed to be pro forma interest expense and the allocation to each period is based on the interest method.

Operating lease transactions as lessee

Future minimum lease payments under operating leases are summarized as follows (in thousands):

	December 31,	
	2004	2003
Due within one year.....	¥ 722	¥ 742
Thereafter.....	180	928
	¥ 903	¥ 1,671