

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

Takeda Pharmaceutical Company Limited and Subsidiaries
Year ended March 31, 2005 (Fiscal 2004)

The growth rate of the ethical pharmaceuticals industry, which is Takeda's core business, is slowing worldwide as measures to constrain healthcare expenditures such as lowering drug prices are taken in many countries. In the United States, downward pressure on prices of branded products is becoming even greater as the federal and state governments and insurance companies encourage the use of generic drugs. In addition, competition is becoming even more heated in Takeda's core fields of peptic ulcers, prostate cancer and endometriosis because of generic drugs, and also the over-the-counter (OTC) versions of the proton pump inhibitors in the peptic ulcer market. In Japan, the growth rate of the pharmaceuticals market is the lowest among industrialized countries because of periodic government drug price reductions and measures to promote the use of generic drugs. Drug price reductions, the promotion of generic drugs and other cost-cutting measures are being enacted in Europe, too. These actions, along with the increase in parallel imports of drugs, are holding down the growth of the pharmaceuticals market.

Due to slowing growth in markets as well as the rising cost of creating and developing new drugs, pharmaceutical companies in Japan and overseas are conducting many mergers

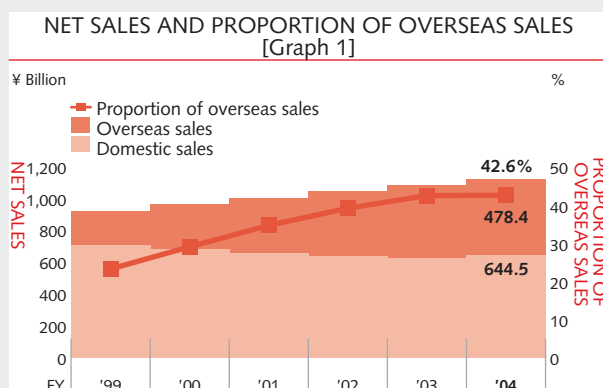
and acquisitions to pursue scale merit in their operations, and the competition among companies is becoming even more intense.

NET SALES

In fiscal 2004, net sales increased ¥36.5 billion, or 3.4%, to ¥1,123.0 billion, thus recording fourteen years of consecutive growth. [Graph 1]

Ethical drug sales increased ¥37.7 billion, or 4.3%, mainly because of higher sales of in-house drugs in Japan and Europe, contributing to growth of total consolidated sales. Regarding foreign exchange rates, the yen weakened slightly against the euro but strengthened against the U.S. dollar. Overall, changes in foreign exchange rates had the net effect of reducing net sales by ¥13.6 billion.

Sales in Japan increased ¥20.0 billion, or 3.2%, to ¥644.5 billion as sales of mainstay ethical drugs offset the impact of National Health Insurance (NHI) price revisions and posted steady growth. Overseas sales also increased ¥16.5 billion, or 3.6%, to ¥478.4 billion. This was the net result of higher sales of mainstay ethical drugs, which outweighed the negative effect on sales of changes in foreign exchange rates. Overseas sales were 42.6% of total sales. [Table 1, Graph 1]



NET SALES BY REGION [Table 1]

¥ Billion	Fiscal 2004	Fiscal 2003	Fiscal 2002	% change 04/03	% change 03/02
Japan	644.5 57.4%	624.5 57.5%	636.2 60.8%	3.2 %	(1.8) %
North America	287.4 25.6%	296.0 27.2%	262.2 25.1%	(2.9) %	12.9 %
Europe	171.6 15.3%	147.3 13.6%	129.8 12.4%	16.5 %	13.5 %
Others	19.4 1.7%	18.6 1.7%	17.8 1.7%	4.5 %	4.3 %

Notes: 1. Lower figures refer to % proportion.
2. Figures in parentheses indicate a decrease.

NET SALES BY BUSINESS SEGMENT [Table 2]**PHARMACEUTICALS SEGMENT**

The pharmaceuticals segment consists of the ethical drugs business, consumer healthcare (OTC products and others) business.

Segment sales increased ¥35.2 billion, or 3.8%, to ¥970.5 billion. [Graph 2]

Ethical drug sales increased ¥37.7 billion, or 4.3%, to ¥914.8 billion. This includes royalty income of ¥49.9 billion, ¥0.1 billion less than in the previous fiscal year.

In Japan, Takeda concentrated on increasing sales of mainstay products, responding to rising competition in all therapeutic areas through high-quality promotional activities. These activities resulted in a sales increase of ¥22.2 billion, or 5.2%, to ¥451.9 billion despite the negative impact on sales of the April 2004 NHI price revisions in Japan. Sales of the hypertension treatment *Blopress* increased ¥10.8 billion to ¥103.5 billion; sales of the peptic ulcer treatment *Takepron* increased ¥5.3 billion to ¥47.5 billion; sales of *Basen*, which improves postprandial hyperglycemia in diabetes, increased ¥4.6 billion to ¥61.5 billion; sales of the anti-diabetic drug *Actos* increased ¥3.9 billion to ¥15.5 billion; and higher sales were posted by other mainstay products including the osteoporosis treatment *Benet* and the prostate cancer and endometriosis treatment *Leuplin*. In May 2004, Takeda launched *Glufast* tablets, a

short-acting insulin secretion enhancer that was created and developed by Kissei Pharmaceutical Co., Ltd. under a co-promotion scheme. In addition, Japanese equity-method affiliate Wyeth K.K. and Takeda launched etanercept (brand name: *ENBREL*) in March 2005, a treatment for rheumatoid arthritis (RA). *ENBREL* is being sold through a co-promotion agreement between Wyeth K.K. and Takeda.

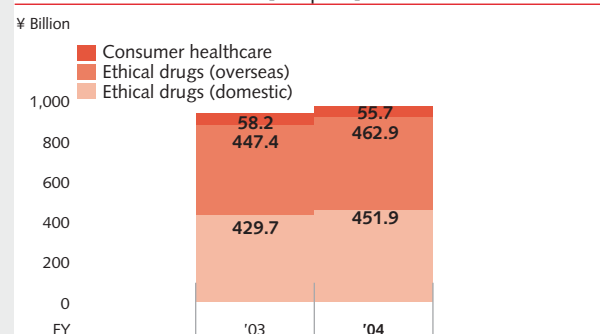
In April 2005, Takeda sold one-quarter of its 40% equity interest in Wyeth K.K. to Wyeth Corporation of the United States. Takeda plans to transfer its remaining 30% equity interest to Wyeth Corporation in stages over the next several years.

In North America, there was a decline in export sales of lansoprazole (Japanese brand name: *Takepron*) to TAP Pharmaceutical Products Inc. (TAP), which is owned jointly by Takeda and Abbott Laboratories of the United States. There was also a decrease in royalty income and a negative impact on sales due to the yen's appreciation relative to the U.S. dollar. On the positive side, consolidated subsidiary Takeda Pharmaceuticals North America, Inc. (TPNA) reported a US\$165 million increase in sales of *Actos* to US\$1,529 million. In Europe, lansoprazole, *Actos*, leuprolide (domestic brand name: *Leuplin*) and other mainstay products posted higher sales. As a result, overseas sales increased ¥15.5 billion, or 3.5%, to ¥462.9 billion.

SALES BY BUSINESS SEGMENT [Table 2]

¥ Billion	Fiscal 2004	Fiscal 2003	% change 2004/2003
Pharmaceuticals	970.5	935.3	3.8 %
• Ethical drugs	914.8	877.1	4.3 %
• Consumer healthcare	55.7	58.2	(4.3) %
Other	152.5	151.1	0.9 %
• Bulk vitamin	11.5	11.0	4.9 %
• Life-environment	14.6	14.0	3.8 %
• Others	126.4	126.1	0.2 %

Note: Figure in parentheses indicates a decrease.

NET SALES IN THE PHARMACEUTICALS SEGMENT [Graph 2]

Sales of in-house ethical drugs* decreased ¥63.4 billion, or 5.9%, to ¥1,017.7 billion. This decrease was due in part to lower sales of lansoprazole at TAP. [Graph 3, Table 3]

By region, sales were down ¥107.5 billion in the Americas. However, sales decreased ¥67.2 billion after excluding the negative effect of approximately ¥40.4 billion due to the yen's appreciation relative to the U.S. dollar. Sales increased ¥19.7 billion in Europe and Asia and ¥24.6 billion in Japan. In general, sales continued to climb with growth driven primarily by international strategic products. [Graph 3, Table 4]

In the consumer healthcare business, Takeda began selling the cold remedies *Benza Block S* and *Benza Block L* in September 2004 and the nasal decongestants *Benza Bien Yaku α* (twice-a-day type) and *Benza Bien Spray* in December 2004. These *Benza* products thus led to an increase in fiscal 2004 sales. In addition, sales increased for *Actage AN Jo* (tablets), an oral medication for joint and nerve pain. However, market slowdowns and intense competition impacted sales of *Alinamin* and *Hicee* products. As a result, consumer healthcare sales decreased ¥2.5 billion, or 4.3%, to ¥55.7 billion.

Sales in the pharmaceuticals segment, including ethical pharmaceuticals and healthcare products, increased ¥35.2 billion, or 3.8%, to ¥970.5 billion, rising 0.3 percentage points to 86.4% of total sales. [Graph 4]

OTHER SEGMENT

The other businesses segment represents the manufacture and sale of bulk vitamins, reagents, activated carbon, wood preservatives, etc.

Net sales in this segment increased ¥1.3 billion, or 0.9%, to ¥152.5 billion.

* Includes sales of equity-method affiliates, which are not included in consolidated net sales because Takeda's ownership is 50% or less.

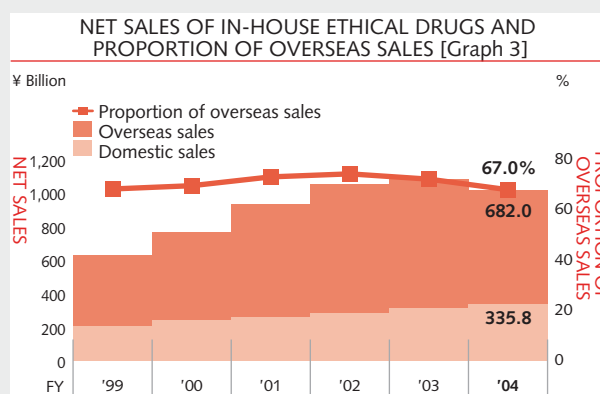
GROSS PROFIT

Gross profit increased ¥26.7 billion, or 3.3%, to ¥843.8 billion, the result of sales growth of ¥36.5 billion and a ¥9.8 billion increase in cost of sales. The gross margin declined by 0.1 percentage point to 75.1%. Foreign exchange rate fluctuations and other items outweighed the benefits of growth in the share of sales from the pharmaceuticals business and in sales of international strategic products, which have higher added value.

OPERATING INCOME

Fiscal 2004 operating income increased ¥13.6 billion, or 3.7%, to ¥385.3 billion. [Graph 5]

In March 2005, Takeda acquired an R&D biotechnology



NET SALES OF INTERNATIONAL STRATEGIC PRODUCTS [Table 3]

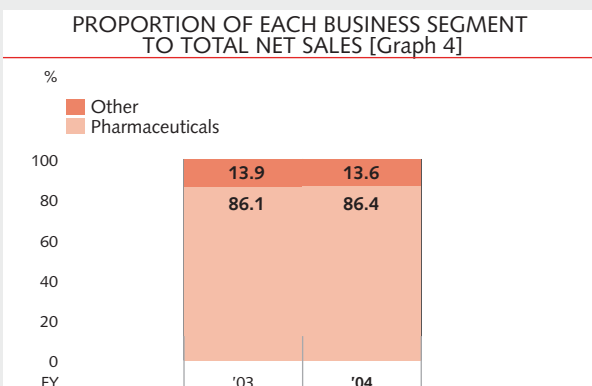
¥ Billion	Fiscal 2004	Fiscal 2003	Fiscal 2002	% change 04/03	% change 03/02
Leuprolide [Lupron Depot]	115.9 178.1	109.0 181.1	105.1 194.1	6.3 % (1.6) %	3.7 % (6.7) %
Lansoprazole [Prevacid]	160.0 373.5	156.0 459.0	133.3 471.3	2.6 % (18.6) %	17.1 % (2.6) %
Candesartan [Blopress]	152.4 152.7	141.3 141.5	105.4 105.6	7.8 % 7.9 %	34.1 % 34.1 %
Pioglitazone [Actos]	193.0 193.2	177.6 177.7	155.3 155.4	8.7 % 8.7 %	14.4 % 14.4 %

Notes: 1. Names in square brackets refer to representative brand names.
2. Upper figures are consolidated net sales, lower figures are global net sales including affiliates accounted for by the equity method.
3. Figures in parentheses indicate a decrease.

NET SALES OF IN-HOUSE ETHICAL DRUGS BY REGION [Table 4]

¥ Billion	Fiscal 2004	Fiscal 2003	Fiscal 2002	% change 04/03	% change 03/02
Japan	335.8 33.0%	311.2 28.8%	281.3 26.7%	7.9 %	10.6 %
Americas	526.8 51.8%	634.3 58.7%	658.2 62.5%	(17.0) %	(3.6) %
Europe	142.1 14.0%	123.6 11.4%	103.8 9.8%	15.0 %	19.1 %
Asia	13.2 1.3%	12.0 1.1%	10.1 1.0%	9.4 %	19.6 %

Notes: 1. Lower figures refer to % proportion.
2. Figures in parentheses indicate a decrease.



venture firm, Syrrx, Inc. (currently Takeda San Diego, Inc.). Of the purchase price, ¥20.6 billion was allocated to R&D expenses and treated as an operating expense. This acquisition and other items resulted in a ¥13.1 billion increase in selling, general and administrative (SG&A) expenses compared with fiscal 2003. However, operating income was higher because of the increase in gross profit, enabling Takeda to record its thirteenth consecutive year of growth in operating income. [Graph 6]

In the pharmaceuticals segment, the increase in gross profit from mainstay products in Japan and overseas was greater than the increase in R&D expenditures and other costs. The result was an increase of ¥16.1 billion, or 4.2%, in operating income to ¥397.4 billion.

In the other businesses segment, operating income decreased ¥0.5 billion, or 3.6%, to ¥13.7 billion.

As a result, the pharmaceuticals segment accounted for 96.7% of total operating income. [Table 5]

Research and development expenses for fiscal 2004 increased ¥11.8 billion, or 9.1%, from the previous fiscal year to ¥141.5 billion.

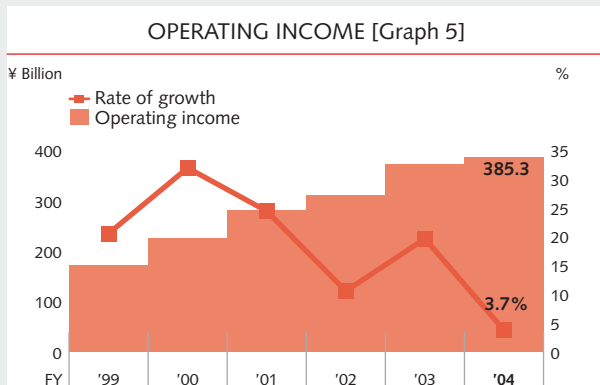
R&D expenses, as a percentage of total sales and ethical pharmaceuticals sales, were 12.6% and 14.8%, respectively. [Graph 7]

Concerning R&D activities, resources are being concentrated in a number of strategic areas. Among these are strengthening research programs associated with lifestyle-related diseases, one of the core therapeutic areas for Takeda, strengthening its ability to identify drug discovery targets through genomic information and other means, and accelerating development projects.

In September 2004, Takeda submitted an application to the U.S. Food and Drug Administration (FDA) earlier than initially planned for approval to sell TAK-375 (generic name ramelteon), a drug for insomnia. TAK-375 is to be sold by TPNA, which is currently increasing its sales force and taking other steps to prepare to sell this product following its approval.

In October 2004, Takeda completed a new discovery research facility at its Osaka Plant facilities. The objective is to strengthen the ability to create hit/lead compounds and conduct research in the compound optimization stage.

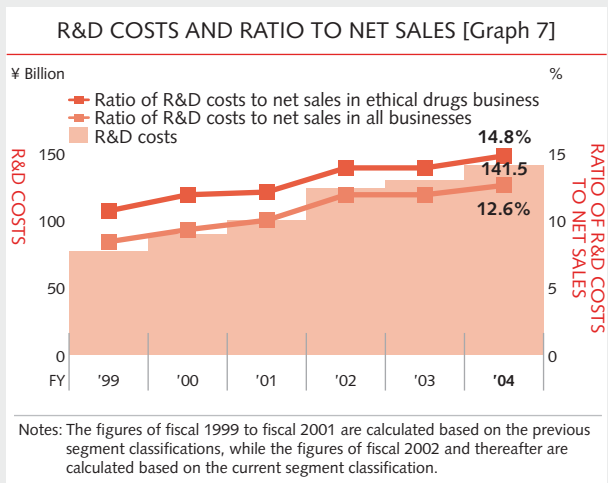
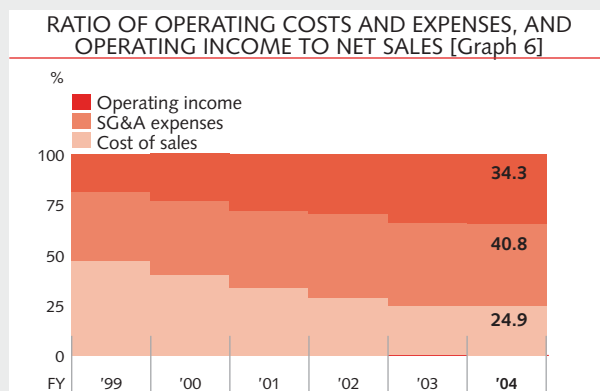
In March 2005, Takeda acquired a U.S. biotechnology venture firm, Syrrx, Inc. (currently Takeda San Diego, Inc.). This company has the world's most advanced technology in high throughput protein crystallography. It is conducting drug-discovery research that targets cancer, diabetes and other metabolic disorders, and has a prominent R&D pipeline.



OPERATING INCOME BY BUSINESS SEGMENT [Table 5]

¥ Billion	Fiscal 2004	Fiscal 2003	% change 2004/2003
Pharmaceuticals	397.4 96.7%	381.3 96.4%	4.2 %
Other	13.7 3.3%	14.2 3.6%	(3.6) %

Notes: 1. Lower figures refer to % proportion.
2. Figure in parentheses indicates a decrease.



Takeda has positioned this company as its R&D base in the United States, which will work closely with R&D bases in Japan to raise the efficiency of processes extending from discovery and searches through drug creation. This collaboration will enhance Takeda's R&D pipeline in terms of both quality and quantity.

By adding new indications and formulations, Takeda is working hard on maximizing the added value of existing products. During fiscal 2004, Takeda received approval in fourteen European countries in August 2004 to sell candesartan cilexetil (Japanese brand name: *Blopress*) in the 32-mg high-dosage form. In addition, based on the results from an outcome study, CHARM Program, approval was received in Europe in November 2004 and in February 2005 in the United States for the additional indication of chronic heart failure. In October 2004, TPNA, through its subsidiary Takeda Global Research and Development Center Inc., applied to the FDA for approval of *Actoplusmet*, a combination drug of *Actos* and metformin.

Along with in-house R&D, Takeda is conducting in-licensing and alliance activities to enhance its R&D pipeline. [Table 6]

In December 2004, TAP applied to the FDA for approval of febuxostat, a drug created by Teijin Pharma Limited for the management of hyperuricemia in patients with chronic gout.

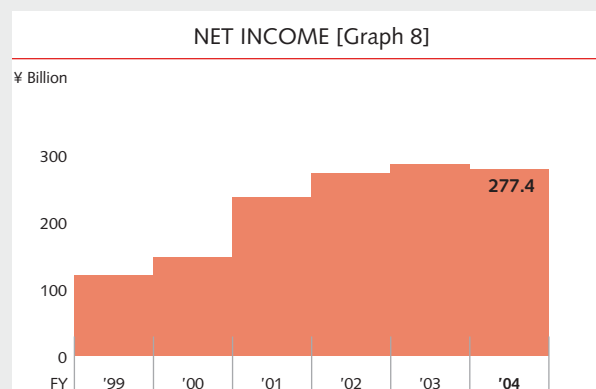
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

Fiscal 2004 income before income taxes and minority interests decreased ¥5.0 billion, or 1.1% to ¥441.1 billion. Equity in earnings of affiliates decreased ¥27.2 billion to ¥45.4 billion. TAP accounted for ¥27.1 billion of this decline. Due to weakening market conditions and intense competition with products of other companies, TAP's fiscal 2004 net sales dropped US\$716 million to US\$3,263 million and its net income fell US\$450 million to US\$712 million. Since Takeda has a 50% equity interest in TAP, this resulted in a US\$225 million drop in equity-method earnings on a foreign-currency basis but a ¥27.1 billion decline when translated into yen.

NET INCOME

Net income decreased ¥7.8 billion, or 2.7%, to ¥277.4 billion. [Graph 8] Although income before income taxes and minority interests was lower, the effective tax rate increased by 0.9 percentage point from 35.4% to 36.3% because of the decrease in equity in earnings of affiliates and other factors. Due to this increase, income taxes were ¥2.3 billion higher than in fiscal 2003.

Earnings per share (EPS) decreased ¥8.9, or 2.7%, to ¥313.0. The return on equity (ROE) declined 2.3 percentage points to 14.7%. [Graph 9]



IN-LICENSING AND ALLIANCE ACTIVITIES (MAJOR CONTRACTS CONCLUDED DURING THE SUBJECT FISCAL YEAR) [Table 6]

Date	Partner	Agreement
July 2004	Lexicon Genetics, Inc. (U.S.)	Joint research for the discovery of new drug targets for hypertension treatment
Oct. 2004	BioNumerik Pharmaceuticals, Inc. (U.S.)	In-licensed <i>Tavocept</i> (generic name: dimesna), a chemoprotective agent
Oct. 2004	Sucampo Pharmaceuticals, Inc. (U.S.)	In-licensed lubiprostone, a treatment for chronic idiopathic constipation (CIC) and constipation-predominant irritable bowel syndrome. In March 2005, Sucampo submitted an application to the FDA for approval to market lubiprostone as an indication for CIC.
Feb. 2005	3M Pharmaceuticals (U.S.)	Joint development and marketing of potential treatment for cervical high-risk human papillomavirus (HPV) infection and cervical dysplasia
Mar. 2005	Toray Industries, Inc.	Joint development and marketing of TAK-363 (Takeda's development code), an investigational compound for frequent urination/urinary incontinence found through joint research with Toray

CASH DIVIDENDS [Graph 10]

Takeda's basic policy is to return profits each fiscal year in line with its consolidated results of operations for that year. This return also takes into consideration the medium and long-term outlook for capital requirements for investments needed to increase corporate value and the outlook for the financial position. Accordingly, Takeda strives to increase distributions with a targeted payout ratio of 30%.

Retained earnings are used for investments that will lead to new sources of growth, such as ethical drug R&D activities and the reinforcement of business infrastructure in the United States and Europe.

Takeda paid cash dividends per share applicable to fiscal 2004 of ¥88, the sum of a term-end dividend of ¥44 and an interim dividend of ¥44. This is ¥11 more than the dividends applicable to the prior fiscal year.

CAPITAL EMPLOYMENT AND FINANCING [Table 7]

As of March 31, 2005, total assets amounted to ¥2,545.4 billion. There was a decrease of ¥29.6 billion in investment securities, but an improvement in cash flows led to an increase of ¥199.4 billion in liquidity on hand (cash and cash equivalents + time deposits) and marketable securities. Along with

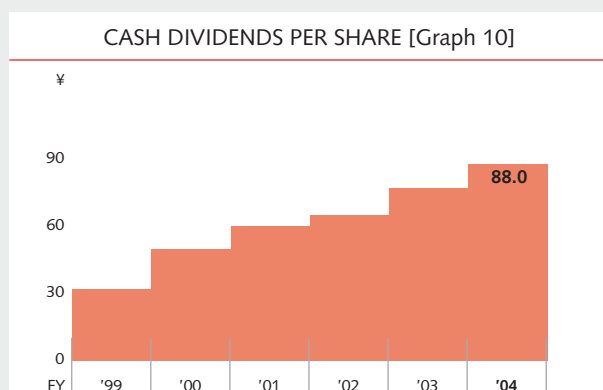
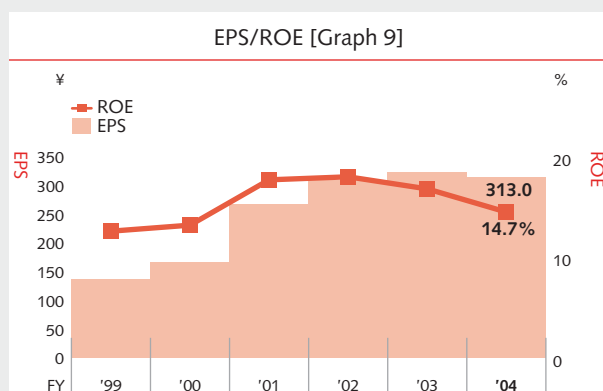
other factors, the result was an increase of ¥209.8 billion in total assets. [Graph 11]

Notes and accounts receivable increased ¥15.6 billion to ¥225.4 billion. The notes and accounts receivable turnover ratio decreased by 0.20 times to 4.98 times.

Property, plant and equipment decreased ¥10.4 billion to ¥220.1 billion despite capital expenditures of ¥49.2 billion. The decrease was the result of the reclassification of real estate for leasing from property, plant and equipment to investments and other assets. Major components of capital expenditures were ¥9.0 billion for construction of a new discovery research facility at the Osaka Plant site, ¥6.0 billion for construction of a new facility for manufacturing vaccine solutions at the Hikari Plant, and ¥3.5 billion for construction of a new production facility for Takeda Healthcare Products Co., Ltd.

Regarding fund procurement activities, total liabilities decreased ¥13.0 billion to ¥499.2 billion.

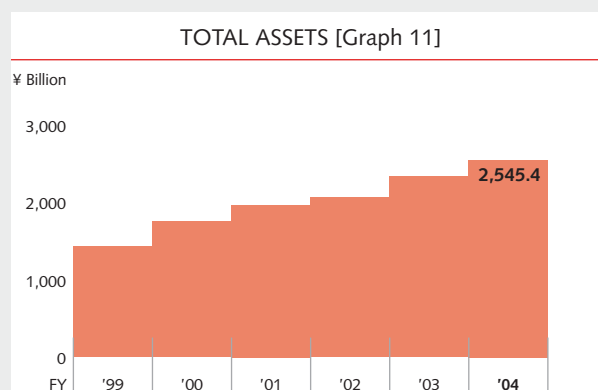
While Takeda currently has no loans or bonds outstanding, some consolidated subsidiaries have loans. Debt at the end of fiscal 2004 was ¥8.3 billion in short-term bank loans, including the current portion of long-term loans, and ¥5.6 billion in long-term loans.



BALANCE SHEET HIGHLIGHTS [Table 7]

¥ Billion	Fiscal 2004	Fiscal 2003	Fiscal 2002	% change 04/03	% change 03/02
Current assets	1,969.9	1,730.1	1,542.2	13.9 %	12.2 %
Property, plant and equipment	220.1	230.5	203.3	(4.5) %	13.4 %
Investments and other assets	355.4	375.0	313.9	(5.2) %	19.5 %
Total assets	2,545.4	2,335.7	2,059.4	9.0 %	13.4 %
Liabilities	499.2	512.2	451.0	(2.5) %	13.6 %
Minority interests	44.8	42.5	40.6	5.6 %	4.6 %
Shareholders' equity	2,001.4	1,781.0	1,567.7	12.4 %	13.6 %

Notes: 1. Lower figures refer to % proportion.
2. Figures in parentheses indicate a decrease.



Shareholders' equity increased ¥220.4 billion to ¥2,001.4 billion, mainly because growth in earnings raised retained earnings by ¥218.3 billion.

The shareholders' equity ratio increased from 76.3% at the previous year-end to 78.6%, and book value per share increased ¥249.0 to ¥2,260.5. [Graph 12]

CASH FLOWS [Table 8]

In fiscal 2004, net cash provided by operating activities decreased ¥15.6 billion to ¥295.5 billion. The main reasons were a ¥5.0 billion decline in income before income taxes and minority interests and a ¥31.4 billion increase in income taxes paid.

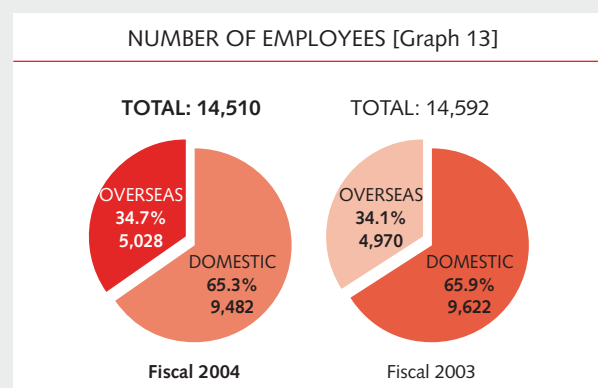
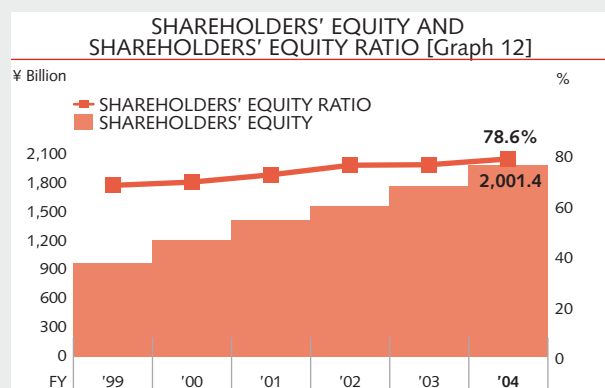
Net cash used in investing activities decreased ¥67.0 billion to ¥72.3 billion. There were payments of ¥29.1 billion to purchase stock of Syrrx to make this company a consolidated subsidiary, but proceeds from sales or maturities of marketable securities were greater than payment for purchases of marketable securities.

Net cash used in financing activities increased ¥14.6 billion to ¥73.9 billion, mainly reflecting an increase of ¥14.1 billion in dividends paid.

As a result, after the inclusion of ¥15.2 billion for the effect of exchange rate changes on yen translations of cash and cash equivalents at overseas subsidiaries, net cash inflows totaled ¥164.5 billion. Cash inflows included an additional ¥23.7 billion, the result of an irregular accounting period due to the change to March 31 of the fiscal year-ends of overseas group companies that had a December 31 fiscal year-end. As a result, cash and cash equivalents (marketable securities and time deposits with original maturities of three months or less) increased ¥188.2 billion to ¥1,264.3 billion at the end of the fiscal year.

EMPLOYEES [Graph 13]

The total number of employees of Takeda and its subsidiaries was 14,510 as of March 31, 2005, a net decrease of 82 compared with one year earlier. In the pharmaceuticals segment, there was a net increase of 62 employees. In Japan, the number of employees decreased 140 to 9,482 and the number of employees outside Japan increased 58 to 5,028.



CASH FLOW HIGHLIGHTS [Table 8]

¥ Billion	Fiscal 2004	Fiscal 2003	Fiscal 2002
Net cash provided by operating activities	295.5	311.1	263.4
Net cash provided by (used in) investing activities	(72.3)	(139.3)	140.1
Net cash used in financing activities	(73.9)	(59.3)	(59.0)
Effect of exchange rate changes on cash and cash equivalents	15.2	(59.3)	(20.0)
Net increase in cash and cash equivalents	164.5	53.1	324.6
Increase in cash and cash equivalents due to fiscal year end change for subsidiaries	23.7	0.0	0.0
Increase in cash and cash equivalents, end of year	188.2	53.1	324.6

Note: Figures in parentheses indicate a decrease.

LITIGATION

Class action lawsuits (the so-called AWP lawsuits), demanding compensation from TAP, Abbott Laboratories and Takeda for alleged damages, have been brought by patients, insurance companies and others in several U.S. federal and state courts. The plaintiffs allege that they incurred damages due to price discrepancies between the average wholesale prices (AWP), and the actual selling prices of leuprolide acetate (U.S. product name: *Lupron Depot*), a treatment for prostate cancer and endometriosis distributed by TAP. On November 15, 2004, TAP, Abbott Laboratories, and Takeda concluded a settlement agreement with plaintiff attorneys under which TAP agreed to pay a total of US\$150 million. On November 24, 2004, the U.S. District Court for the District of Massachusetts granted preliminary approval of the proposed settlement, and a review for final approval is now under way. Separately from this settlement, there are AWP lawsuits involving many major U.S. pharmaceutical companies. As part of this litigation, TAP and TPNA are named as defendants, although for different drugs, in federal and state courts in lawsuits asking for the payment of damages. Takeda is also a defendant in certain lawsuits together with TAP and TPNA.

In addition, regarding pharmaceutical patents for *Leuplin*, a lawsuit claiming remuneration for employee invention has been brought against Takeda in Tokyo District Court by complainants who allege that they inherited the right to claim consideration of the employee invention in the amount of ¥37.2 billion from the deceased ex-employee. The complainants have filed a complaint with Tokyo District Court demanding ¥100 million as an initial part of the amount that Takeda allegedly owes.

Takeda is diligently coping with these matters.

OUTLOOK

In fiscal 2005, Takeda is projecting an increase in net sales of ¥32.0 billion, or 2.9%, to ¥1,155.0 billion. Net sales will be negatively affected by the strengthening of the yen against the U.S. dollar and euro, and by the transfer of the life-environmental business. In Japan, Takeda expects continued growth in sales of mainstay products such as *Blopress* and *Takepron*. Outside Japan, continued growth in local currencies is expected for *Actos* in the United States. As a result, total net sales are projected to increase.

R&D expenditures are expected to increase ¥18.5 billion to ¥160.0 billion to enhance and strengthen the R&D pipeline, Takeda's highest priority. In addition, SG&A expenses are expected to increase at TPNA, which is preparing for the launch of new products. However, these higher expenses are

expected to be off-set by growth in gross profit due to higher sales of ethical drugs, a recovery in equity in earnings of affiliates from TAP, and an improvement in non-operating income and expenses. Furthermore, Takeda expects to record a gain on the return of the substitutional portion of its employees pension fund, a gain on the partial sale of Wyeth K.K. stock, and gains on the sale of stock in consolidated subsidiaries and equity-method affiliates in the life-environmental business. Based on this outlook, net income is expected to increase ¥17.6 billion, or 6.3%, to ¥295.0 billion.

This outlook is based on fiscal 2005 exchange rates of US\$1 = ¥105 and 1 euro = ¥130.

These forecasts are calculated in accordance with judgments based on information currently available to management. Actual results may differ from these forecasts due to the existence of a number of risks and uncertainties.

RISK FACTORS IN BUSINESS

Takeda's business performance is exposed to various risks at present and in the future, and may experience unexpected fluctuations due to occurrence of those risks. Below is a discussion of assumed main risks Takeda might face in its business activities. Takeda intends to work to prevent such occurrence, insofar as possible—while fully identifying these potential risks—and will ensure a precise response in the event of their occurrence. In addition, the future events contained in these items are envisioned as of the end of fiscal 2004.

RISK IN R&D

While Takeda strives for efficient R&D activities aimed at launching new products in the trilateral markets of Japan, the United States and Europe as early as possible, ethical drugs are in nature only allowed placement on the market when they are approved through rigorous investigations of efficacy and safety as stipulated by the competent authorities, irrespective of in-house or licensed compounds. If it turns out that the efficacy and safety of such compounds do not meet the required level for approval, or if reviewing authorities express concern regarding the nonconformity of such compounds, Takeda will have to give up R&D activities for such compounds at that point, or will conduct additional clinical or non-clinical testing. As a result, Takeda might be exposed to risk of uncollectibility of costs incurred, experience delay in launching new products, or be forced to revise its R&D strategy.

RISK IN INTELLECTUAL PROPERTY RIGHTS

Takeda's products are protected by two or more patents covering substance, processes, formulations and uses for a certain period. While Takeda strictly manages intellectual property rights, including patents, and always keeps careful watch for potential infringement by a third party, expected earnings may be lost if the intellectual property rights held by Takeda are infringed by a third party. Moreover, if Takeda's in-house product proves to infringe a third party's intellectual property rights, Takeda might be asked for compensation.

RISK OF SALES DECREASE FOLLOWING PATENT EXPIRATIONS

While Takeda takes active measures to extend product life cycles, including the addition of new indications and formulations, generic drugs inevitably penetrate the market following patent expirations of most branded products. In addition, the increasing use of generic drugs and prescription-to-OTC switches also intensifies competition, both in domestic and overseas markets, especially in the U.S. market. Takeda's sales of ethical drugs may drop sharply, depending on such influences.

RISK OF SIDE EFFECTS

Although ethical drugs are only allowed placement on the market after approval for production and marketing following rigorous investigation by the competent authorities around the world, accumulated data during the post-marketing period might expose side effects not confirmed at launch. If new side effects are identified, Takeda will be required to describe such side effects in a "precautions" section of the package insert or to restrict usage of such drugs, or will be forced to discontinue sale of or recall such products.

RISK OF PRICE-LOWERING DUE TO MEASURES FOR REDUCING DRUG PRICES

In the U.S. market, which is the world's largest, federal and state governments, as well as private insurance companies, implement various measures to reduce drug costs, further increasing the pressure to reduce prices of branded products. In Japan, National Health Insurance (NHI) prices for drugs have been reduced every other year. In the European market, drug prices have been reduced in a similar way, due to strong measures to control drug costs in each country, and the expansion of parallel imports. Price reduction as a result of drug cost-restrictive measures taken by each country can significantly influence the business performance and financial standing of the Takeda Group.

INFLUENCE OF EXCHANGE FLUCTUATIONS

The Takeda Group's overseas net sales in fiscal 2004 amounted to ¥478.4 billion, which accounted for 42.6% of total consolidated sales. Among others, sales in North America were ¥287.4 billion, which accounted for 25.6% of total consolidated sales. Moreover, with regard to TAP, the "equity in earnings of affiliates" (non-operating income) was ¥40.3 billion. For this reason, Takeda Group's business performance and financial standings are considerably affected by currency rates, especially fluctuations in the dollar-yen conversion rate.

RISK OF DEVELOPMENT OF LAWSUITS

Civil litigations by patients and insurance companies etc. seeking damages (sometimes called 'AWP Suit'), which involve numerous major U.S. pharmaceutical companies, are currently under dispute on an industry-wide scale. The complainants claim damages due to price discrepancies between the average wholesale prices (AWP) as publicized by independent industry compendia and the actual selling prices. As part of the civil litigations, actions have been brought against TAP and TPNA for damages in federal and state courts; Takeda has also faced part of such litigations. The progress of these suits may affect Takeda's business performance and financial standing.

If Takeda's mainstay products, *Leuplin*, lansoprazole, candesartan and *Actos*, are involved in the above risk occurrence, Takeda's business performance might be greatly affected.