

CONSOLIDATED BALANCE SHEETS

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and cash equivalents	¥1,626,235	¥1,264,324	\$13,899,444
Marketable securities (Note 3)	243,285	257,796	2,079,359
Notes and accounts receivable—			
Trade notes	21,137	19,509	180,658
Trade accounts	207,887	197,141	1,776,812
Due from affiliates	7,656	8,764	65,436
Allowance for doubtful receivables	(309)	(271)	(2,641)
Total	236,371	225,143	2,020,265
Inventories (Note 4)	98,258	94,565	839,812
Deferred tax assets (Note 12)	135,019	93,857	1,154,009
Other current assets	32,802	34,230	280,359
Total current assets	2,371,970	1,969,915	20,273,248
Property, plant and equipment (Notes 5 and 6):			
Land	44,853	44,500	383,359
Buildings and structures	247,106	257,419	2,112,017
Machinery and equipment	218,161	241,495	1,864,624
Tools and fixtures	61,888	60,162	528,957
Construction in progress	20,260	20,927	173,162
Total	592,268	624,503	5,062,119
Accumulated depreciation	(376,598)	(404,370)	(3,218,786)
Net property, plant and equipment	215,670	220,133	1,843,333
Investments and other assets:			
Investment securities (Note 3)	335,895	254,954	2,870,897
Investments in and advances to affiliates (Note 3)	52,069	48,890	445,034
Real estates for lease	23,354	24,460	199,607
Deferred tax assets (Note 12)	12,609	12,542	107,769
Other assets	30,727	14,541	262,625
Total investments and other assets	454,654	355,387	3,885,932
TOTAL	¥3,042,294	¥2,545,435	\$26,002,513

See notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Bank loans (Note 6)	¥ 3,370	¥ 5,992	\$ 28,803
Current portion of long-term debt (Note 6)	2,076	2,309	17,744
Notes and accounts payable—			
Trade notes	3,666	4,640	31,333
Trade accounts	50,719	45,735	433,496
Due to affiliates	23,675	20,228	202,350
Total	78,060	70,603	667,179
Income taxes payable	151,947	80,790	1,298,692
Accrued expenses	167,195	139,579	1,429,017
Other current liabilities	85,579	66,227	731,445
Total current liabilities	488,227	365,500	4,172,880
Long-term liabilities:			
Long-term debt (Note 6)	3,473	5,561	29,684
Reserve for retirement benefits (Note 7)	36,948	41,643	315,795
Reserve for SMON compensation (Note 8)	4,486	4,664	38,342
Deferred tax liabilities (Note 12)	106,223	75,493	907,889
Other long-term liabilities	7,314	6,324	62,512
Total long-term liabilities	158,444	133,685	1,354,222
Minority interests	47,194	44,836	403,368
Commitments and contingencies (Note 16)			
Shareholders' equity (Notes 9 and 17):			
Common stock	63,541	63,541	543,085
authorized, 3,500,000,000 shares;			
issued, 889,272,395 shares in 2006 and 2005			
Capital surplus	49,641	49,638	424,282
Retained earnings	2,062,226	1,834,931	17,625,863
Unrealized gain on available-for-sale securities	171,844	125,342	1,468,752
Foreign currency translation adjustments	4,223	(69,130)	36,095
Treasury stock, at cost;	(3,046)	(2,908)	(26,034)
4,073,004 shares in 2006,			
4,050,415 shares in 2005			
Total shareholders' equity	2,348,429	2,001,414	20,072,043
TOTAL	¥ 3,042,294	¥ 2,545,435	\$ 26,002,513

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Net sales (Note 3)	¥1,212,207	¥1,122,960	¥1,086,431	\$10,360,744
Operating costs and expenses:				
Cost of sales (Note 3)	282,102	279,179	269,395	2,411,128
Selling, general and administrative (Note 10)	527,296	458,503	445,403	4,506,804
Total operating costs and expenses	809,398	737,682	714,798	6,917,932
Operating income	402,809	385,278	371,633	3,442,812
Other income (expenses):				
Interest and dividend income	34,211	18,098	10,896	292,402
Interest expenses	(365)	(334)	(359)	(3,120)
Equity in earnings of affiliates (Note 3)	54,184	45,431	72,663	463,111
Gain on sales of property, plant and equipment	145	1,070	1,814	1,239
Gain on sales of shares of subsidiaries and affiliates (Note 11)	12,048	—	—	102,974
Gain on transfer of the substitutional portion of the governmental pension program (Note 7)	20,411	—	—	174,453
Losses on bulk vitamin and other cartel cases (Note 14)	—	(2,079)	(614)	—
Loss on impairment of long-lived assets (Note 5)	—	—	(1,139)	—
Other – net	(5,486)	(6,362)	(8,750)	(46,888)
Other income (expenses) – net	115,148	55,824	74,511	984,171
Income before income taxes and minority interests	517,957	441,102	446,144	4,426,983
Income taxes (Note 12):				
Current	240,449	172,867	173,457	2,055,119
Deferred	(39,088)	(12,636)	(15,546)	(334,085)
Total income taxes	201,361	160,231	157,911	1,721,034
Income before minority interests	316,596	280,871	288,233	2,705,949
Minority Interests	3,347	3,433	2,969	28,607
Net income	¥ 313,249	¥ 277,438	¥ 285,264	\$ 2,677,342

	Yen			U.S.dollars (Note 1)
Amounts per common share (Note 13):				
Net income	¥ 353.47	¥ 313.01	¥ 321.86	\$ 3.02
Cash dividends applicable to the year	106.00	88.00	77.00	0.91

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Common stock:				
Balance, beginning of year	¥ 63,541	¥ 63,541	¥ 63,541	\$ 543,085
Balance, end of year	¥ 63,541	¥ 63,541	¥ 63,541	\$ 543,085
Capital surplus:				
Balance, beginning of year	¥ 49,638	¥ 49,638	¥ 49,638	\$ 424,256
Disposal of treasury stock	3	—	—	26
Balance, end of year	¥ 49,641	¥ 49,638	¥ 49,638	\$ 424,282
Retained earnings:				
Balance, beginning of year	¥1,834,931	¥1,616,676	¥ 1,392,640	\$15,683,171
Net income	313,249	277,438	285,264	2,677,342
Increase in retained earnings due to fiscal year-end change for subsidiaries and affiliates	—	16,132	—	—
Cash dividends paid: ¥97.00 (\$0.83) — 2006, ¥85.00 — 2005 and ¥69.00 — 2004 (per share)	(85,561)	(74,979)	(60,867)	(731,291)
Bonuses to directors and corporate auditors	(393)	(336)	(361)	(3,359)
Balance, end of year	¥2,062,226	¥1,834,931	¥1,616,676	\$17,625,863
Unrealized gain on available-for-sale securities				
Balance, beginning of year	¥ 125,342	¥ 127,658	¥ 72,794	\$ 1,071,299
Net change	46,502	(2,316)	54,864	397,453
Balance, end of year	¥ 171,844	¥ 125,342	¥ 127,658	\$ 1,468,752
Foreign currency translation adjustments				
Balance, beginning of year	¥ (69,130)	¥ (73,761)	¥ (8,217)	\$ (590,855)
Net change	73,353	4,631	(65,544)	626,950
Balance, end of year	¥ 4,223	¥ (69,130)	¥ (73,761)	\$ 36,095
Treasury stock (Note 9):				
Balance, beginning of year	¥ (2,908)	¥ (2,742)	¥ (2,664)	\$ (24,855)
Repurchase of treasury stock	(156)	(166)	(78)	(1,333)
Disposal of treasury stock	18	—	—	154
Balance, end of year	¥ (3,046)	¥ (2,908)	¥ (2,742)	\$ (26,034)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Operating activities:				
Income before income taxes and minority interests	¥ 517,957	¥ 441,102	¥ 446,144	\$ 4,426,983
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes paid	(161,843)	(194,758)	(163,403)	(1,383,274)
Depreciation and amortization	28,728	31,226	28,083	245,538
Loss (gain) on sales and disposals of property, plant and equipment	2,005	(600)	(1,295)	17,137
Equity in loss (earnings) of affiliates	(11,541)	7,301	(1,434)	(98,641)
Gain on sales of shares of subsidiaries and affiliates	(12,048)	—	—	(102,974)
Gain on transfer of the substitutional portion of the governmental pension program	(20,411)	—	—	(174,453)
Loss on impairment of long-lived assets (Note 5)	—	—	1,139	—
In-process research and development expense of Syrrx, Inc.	—	20,637	—	—
Changes in assets and liabilities:				
Increase in notes and accounts receivable	(13,156)	(23,399)	(8,653)	(112,444)
Increase in inventories	(5,647)	(3,398)	(3,974)	(48,265)
Increase (decrease) in notes and accounts payable	8,789	(1,815)	(3,635)	75,120
Other	40,742	19,243	18,150	348,222
Total Adjustments	(144,382)	(145,563)	(135,022)	(1,234,034)
Net cash provided by operating activities	373,575	295,539	311,122	3,192,949
Investing activities:				
Payments for purchases of marketable securities	(468,274)	(377,079)	(251,232)	(4,002,342)
Proceeds from sales and maturities of marketable securities	484,011	395,793	163,738	4,136,846
Increase in time deposits	(29,900)	—	(30,000)	(255,556)
Decrease in time deposits	29,900	5,000	50,000	255,556
Payments for purchases of property, plant and equipment	(32,093)	(53,669)	(54,160)	(274,299)
Proceeds from sales of property, plant and equipment	899	2,622	3,094	7,684
Payments for purchases of investment securities	(1,588)	(14,211)	(22,717)	(13,573)
Proceeds from sales of investment securities	13,245	72	2,097	113,205
Proceeds from sales of shares of subsidiaries	10,772	—	—	92,068
Payments for purchases of shares of subsidiaries	—	(29,093)	—	—
Other	(406)	(1,740)	(142)	(3,470)
Net cash provided by (used in) investing activities	6,566	(72,305)	(139,322)	56,119
Financing activities:				
Net increase (decrease) in short-term bank loans	(884)	(289)	2,560	(7,556)
Proceeds from long-term debt	1,850	3,541	900	15,812
Repayments of long-term debt	(3,218)	(553)	(936)	(27,504)
Dividends paid	(85,529)	(74,958)	(60,869)	(731,017)
Other	(1,509)	(1,653)	(999)	(12,897)
Net cash used in financing activities	(89,290)	(73,912)	(59,344)	(763,162)
Effect of exchange rate changes on cash and cash equivalents (Note 2)	71,060	15,199	(59,330)	607,350
Net increase in cash and cash equivalents	361,911	164,521	53,126	3,093,256
Cash and cash equivalents, beginning of year	1,264,324	1,076,084	1,022,958	10,806,188
Increase in cash and cash equivalents due to fiscal year end change for subsidiaries	—	23,719	—	—
Cash and cash equivalents, end of year	¥1,626,235	¥1,264,324	¥1,076,084	\$13,899,444
Additional cash flow information:				
Interest paid	¥ 365	¥ 338	¥ 366	\$ 3,120
Assets and liabilities decreased by sales of shares of subsidiaries				
Current assets	¥10,272	¥ —	¥ —	\$ 87,795
Non-current assets	3,336	—	—	28,513
Current liabilities	(5,237)	—	—	(44,761)
Non-current liabilities	(1,794)	—	—	(15,333)
Minority interests	(39)	—	—	(333)
Foreign currency translation adjustment	61	—	—	521
Unrealized gain on available-for-sale securities	(89)	—	—	(761)
Unrealized gain	(585)	—	—	(5,000)
Gains on sales of shares of subsidiaries	6,236	—	—	53,299
Sales price	12,161	—	—	103,940
Cash and cash equivalents	(1,389)	—	—	(11,872)
Proceeds from sales of shares of subsidiaries	¥ 10,772	¥ —	¥ —	\$ 92,068

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations. Takeda Pharmaceutical Company Limited (the "Company") and its domestic subsidiaries and affiliates maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, while its overseas subsidiaries and affiliates do so in conformity with those of the countries of their domicile.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries (together, the "Companies"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. All significant intercompany balances, transactions and unrealized profit are eliminated in consolidation.

During the year ended March 31, 2004, the Company established one new subsidiary and liquidated one subsidiary and one affiliated company. In addition, due to mergers among consolidated subsidiaries, the number of consolidated subsidiaries was reduced by three.

During the year ended March 31, 2005, the Company acquired one subsidiary.

During the year ended March 31, 2006, the Company established one new subsidiary and one affiliated company. Further, during the year ended March 31, 2006, the Company sold the shares of three subsidiaries and four affiliated companies.

Starting with the year ended March 31, 2005, the majority of December year-end overseas subsidiaries and affiliates including Takeda Pharmaceuticals North America, Inc. ("TPNA") and TAP Pharmaceutical Products Inc. ("TAP") have changed their year-end from December 31 to March 31 or, alternatively, performed a hard close as of March 31.

In the past, the Company had consolidated the overseas subsidiaries and affiliates using their December 31 financial statements as allowed by the accounting standards generally accepted in Japan. Instead of consolidating 15 months of operating results in the year ended March 31, 2005 for such subsidiaries, the Company accounted for the financial results of the three-month period from January 1 to March 31, 2004 as an adjustment to the beginning retained earnings as of April 1, 2004, which amounted to ¥16,132 million.

Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit, commercial paper, mutual funds investing in bonds and bond repurchase agreements that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; ii) held-to-maturity debt securities, in which the Companies have the positive intent and ability to hold to maturity, are reported at amortized cost; and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of shareholders' equity.

The cost of securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

Inventories

All inventories are stated at the lower of cost or market. The average cost method is used to determine cost for the majority of inventories.

Property, Plant, Equipment and Real Estate for Lease

Property, plant, equipment and real estate for lease are stated at cost. Depreciation of

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117 to U.S.\$1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

property, plant, equipment and real estate for lease of the Company and its domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired by the domestic companies after April 1, 1998, and is principally applied to the property, plant and equipment of foreign subsidiaries. The range of useful lives is from 15 to 50 years for buildings and structures, and from 4 to 15 years for machinery and equipment.

Goodwill

The excess of the purchase price over the fair value of the net assets ("goodwill") of an acquired subsidiary is amortized using the straight-line method principally over five years. Goodwill amounts at March 31, 2006 were ¥1,568 million (\$13,402 thousand), net of amortization of ¥6,273 million (\$53,615 thousand), and are included in Other assets.

Long-Lived Assets

The Companies have adopted "Accounting for Impairment of Fixed Assets" and "Guidance for Accounting Standard for Impairment of Fixed Assets," which became applicable to the consolidated financial statements for the year ended March 31, 2004. In accordance with the accounting standard for impairment of fixed assets, the Companies review long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Reserve for Retirement Benefits

Employees of the Companies terminating their employment either voluntarily or upon reaching the mandatory retirement age are entitled to severance payments based on the rate of pay at the time of termination, length of service and certain other factors.

The Company and domestic subsidiaries have adopted an accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

Actuarial gains or losses are amortized primarily by the straight-line method over a period within the average remaining years of service of the employees (generally five years).

With respect to the substitutional portion of the welfare pension fund, the Company received approval of the exemption from obligation for payments of benefits related to future and also to past employee services from the Minister of Health, Labour and Welfare on March 26, 2004 and on May 1, 2005, respectively. The Company transferred the substitutional portion of pension plan assets to the government on September 13, 2005.

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. These amounts are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code.

Research and Development costs

Research and development costs are charged to income as incurred.

Stock and Bond Issue Costs

Stock and bond issue costs are charged to income as incurred.

Foreign Currency Transactions

The Companies have adopted "Accounting Standard for Foreign Currency Transactions."

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date.

Revenue and expense items denominated in foreign currencies are translated using the rate on the date of the transaction. Related exchange gains or losses are credited or charged to income as incurred.

Foreign Currency Financial Statements

The financial statements of overseas subsidiaries and affiliates are translated into Japanese yen by the following methods set forth in an accounting standard for foreign currency translation.

The balance sheet accounts of overseas subsidiaries and affiliates are translated into Japanese yen at the current exchange rates as of the balance sheet date except for inter-company investments and shareholders' equity, which are translated at historical rates. Revenue and expense accounts of overseas subsidiaries and affiliates are translated into Japanese yen at the average exchange rate for the year.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Income Taxes

Current income taxes are provided based on amounts currently payable for each year. Deferred income taxes arising from temporary differences in the recognition of assets and liabilities for tax and financial reporting purposes are reflected in the consolidated financial statements. A deferred tax liability is recognized on undistributed earnings of overseas subsidiaries and affiliates, which are not deemed to be permanently invested.

Derivative Financial Instruments

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency options, interest rate swaps, interest rate options, interest rate futures and treasury futures are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

The Companies have adopted "Accounting Standard for Financial Instruments" and "Accounting Standard for Foreign Currency Transactions." These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, with gains or losses on these derivative transactions being recognized in the statement of income, and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting due to high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on these derivative transactions are deferred until maturity.

Foreign exchange forward contracts employed to hedge foreign exchange exposures related to export sales and royalties are measured at fair value and the related unrealized gains and losses are recognized in income.

Certain accounts denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

Certain accounts denominated in foreign currencies for which currency options are used to hedge the foreign currency fluctuations are measured at fair value and the related unrealized gains and losses are deferred until maturity.

Interest rate swaps, interest rate options, interest rate futures, and treasury futures employed to hedge interest rate fluctuations are measured at fair value and the related unrealized gains and losses are recognized in income.

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

Appropriations of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the financial statements for the following year upon shareholders' approval.

Cash Dividends

Cash dividends charged to retained earnings are those actually paid during the year and consist of year-end dividends for the preceding year and interim dividends for the current year.

New Accounting Pronouncements

(1) Business Combination and Business Separation

In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, Accounting for Business Combinations, and on December 27, 2005 the Accounting Standards Board of Japan (ASBJ) issued Accounting Standard for Business Separations and ASBJ Guidance No.10, Guidance for Accounting Standard for Business Combinations and Business Separations. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- the consideration for the business combination consists solely of common shares with voting rights,
- the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

(2) Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, Accounting treatment for bonuses to directors and corporate auditors, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

Reclassifications

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2006 issued domestically. In addition, the consolidated financial statements for 2005 and 2004 have been reclassified to conform to the 2006 presentation.

3. MARKETABLE AND INVESTMENT SECURITIES

The costs and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

2006	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Trading	¥ —	¥ —	¥ —	¥ 23,624
Available-for-sale:				
Equity securities	35,047	285,453	1	320,499
Debt securities	214,675	26	32	214,669
Held-to-maturity	1,509	7	27	1,489

2005	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Trading	¥ —	¥ —	¥ —	¥ 20,760
Available-for-sale:				
Equity securities	34,073	207,083	10	241,146
Debt securities	237,036	30	29	237,037
Held-to-maturity	1,510	5	4	1,511

2006	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Trading	\$ —	\$ —	\$ —	\$ 201,915
Available-for-sale:				
Equity securities	299,548	2,439,769	9	2,739,308
Debt securities	1,834,830	222	274	1,834,778
Held-to-maturity	12,897	60	231	12,726

Significant available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Cost		Cost
	2006	2005	2006
Equity securities	¥13,802	¥12,191	\$117,966

The carrying amounts of debt securities by contractual maturities at March 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006		
Due in one year or less	¥219,268		\$1,874,086
Due in one to five years	392		3,350
Due after five years	1,509		12,897
Total	¥221,169		\$1,890,333

Investments in and advances to affiliates at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Investments at cost	¥35,307	¥37,324
Equity in undistributed earnings	16,762	10,126	143,265
Total	52,069	47,450	445,034
Advances	—	1,440	—
Total	¥52,069	¥48,890	\$445,034

Financial information with respect to affiliates, recorded based on the equity method at March 31, 2006 and 2005 and for each of the three years in the period ended March 31, 2006, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Current assets	¥311,657	¥256,370
Other assets	149,120	166,809	1,274,530
Total	460,777	423,179	3,938,265
Current liabilities	247,328	221,804	2,113,914
Other liabilities	56,302	57,030	481,214
Net assets	¥157,147	¥144,345	\$1,343,137

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
	Net sales	¥677,378	¥630,036	¥740,991
Net income	105,994	93,571	146,039	905,932

Sales to and purchases from affiliates were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
	Sales	¥104,522	¥110,862	¥125,355
Purchases	72,076	63,906	64,023	616,034

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished products and merchandise	¥39,485	¥39,526	\$337,479
Semi-finished products and work-in-process	31,338	29,974	267,846
Raw materials and supplies	27,435	25,065	234,487
Total	¥98,258	¥94,565	\$839,812

5. LONG-LIVED ASSETS

The Companies recorded an impairment loss on the following asset group in the year ended March 31, 2004.

Location	Description	Classification
Hikari Factory (Hikari-shi, Yamaguchi)	Bulk vitamin manufacturing facility, etc.	Machinery and equipment, Buildings and structures

The Companies aggregate the long-lived assets into asset groups (by product categories) whose operating results are regularly reviewed. With respect to the manufacturing facility and related equipment listed above, the Companies had planned to discontinue manufacturing in the near future. Accordingly, the Companies reduced the carrying amount of the assets to a recoverable amount, recognized an impairment loss and included such

loss in other expenses. The amount consisted of machinery and equipment of ¥646 million, buildings and structures ¥457 million, and other ¥36 million. The Companies evaluated the recoverability of the assets based on the estimated future cash flows for the remaining useful life discounted at 7.0%.

6. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2006 and 2005 consisted of notes to banks.

The weighted average annual interest rates of short-term bank loans at March 31, 2006 and 2005 were 1.5% and 1.1%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unsecured loans from banks and financial institutions			
Due 2007 to 2009, weighted-average rate 1.3% in 2006 and 1.2% in 2005	¥3,799	¥3,672	\$32,470
Secured loans from banks and financial institutions			
Due 2007 to 2011, weighted-average rate 2.0% in 2006 and 2.2% in 2005	1,750	4,198	14,958
Total	5,549	7,870	47,428
Less current portion	2,076	2,309	17,744
Long-term debt, less current portion	¥3,473	¥5,561	\$29,684

The annual maturities of long-term debt as of March 31, 2006 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥2,076	\$17,744
2008	1,400	11,966
2009	800	6,838
2010	—	—
2011	1,273	10,880
Total	¥5,549	\$47,428

At March 31, 2006, assets pledged as collateral for long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥2,270	\$19,402

As is customary in Japan, security must be given if requested by a lending bank. Certain banks have the right to offset cash deposited with them against any debt or obligation that becomes due, or in case of default and certain other specified events, against all

other debt payable to the banks. None of the lenders has ever exercised this right against the Companies' obligations.

7. RETIREMENT BENEFITS

The Company has a contributory trustee pension plan that is interrelated with the Japanese government social welfare program, which consists of a basic portion requiring employee and employer contributions, plus an additional portion established by the Company. With respect to the substitutional portion of the welfare pension fund, the Company received approval of the exemption from obligation for payments of benefits related to future and also to past employee services from the Minister of Health, Labour and Welfare on March 26, 2004 and on May 1, 2005, respectively. The Company trans-

ferred the substitutional portion of pension plan assets to the government on September 13, 2005. In connection with the transfer of the substitutional portion of welfare pension funds, a gain of ¥20,411 million (\$174,453 thousand) from such transfer has been recorded as other income. The Company and certain subsidiaries also have non-contributory trustee pension plans and certain other subsidiaries have unfunded retirement benefit plans.

Reserve for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥ 275,585	¥ 303,754	\$ 2,355,427
Fair value of plan assets	(292,243)	(262,917)	(2,497,802)
Unrecognized actuarial gain (loss)	31,671	(13,350)	270,692
Unrecognized prior service cost	1,220	12,372	10,427
Net liability	¥ 16,233	¥ 39,859	\$ 138,744
Prepaid pension costs	(18,886)	—	(161,419)
Reserve for employees' retirement benefits	¥ 35,119	¥ 39,859	\$ 300,163

The components of net periodic retirement benefit costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 5,251	¥ 6,850	\$ 44,880
Interest cost	5,603	6,058	47,890
Expected return on plan assets	(4,957)	(4,798)	(42,368)
Recognized actuarial loss	1,327	10,715	11,342
Amortization of prior service cost	8	(3,019)	68
Net periodic retirement benefit costs	¥ 7,232	¥ 15,806	\$ 61,812
Gain on transfer of the substitutional portion of the governmental pension program	(20,411)	—	(174,453)
Total	¥ (13,179)	¥ 15,806	\$ (112,641)

Assumptions used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	2.0% – 2.5%	2.0% – 2.5%
Expected rate of return on plan assets	0.8% – 2.5%	0.6% – 2.5%
Recognition period of prior service cost	5 years	5 years
Recognition period of actuarial gain/loss	5 years	5 years

Retirement allowances for directors and corporate auditors are included in Reserve for retirement benefits in the consolidated balance sheets. The amounts were ¥1,829 million (\$15,632 thousand) and ¥1,784 million at March 31, 2006 and 2005, respectively.

8. RESERVE FOR SMON COMPENSATION

The Company was a co-defendant with the Japanese government and other pharmaceutical companies in legal actions in Japan. The plaintiffs claimed that a certain medicine, a product of one of the co-defendants, which was distributed by the Company, was a cause of SMON (Sub-acute Myelo Optical Neuropathy), a neurological disease affecting the plaintiffs.

Compromise settlements have been made with all the plaintiffs through December 25, 1996.

The Company has recorded a provision in the accompanying consolidated financial statements for estimated future medical treatment payments over the remaining lives of the parties entitled under the compromise settlements.

9. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥1,468,448 million (\$12,550,838 thousand) as of March 31, 2006, based on the amount recorded in the par-

ent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of

such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred. Research and development costs for the years ended March 31, 2006, 2005 and 2004 were ¥169,645 million

(\$1,449,957 thousand), ¥141,453 million and ¥129,652 million, respectively.

11. SALES OF SHARES OF SUBSIDIARIES AND AFFILIATES

During the year ended March 31, 2006, the Company sold all the shares of its subsidiaries and affiliates engaged in the life-environment business and a portion of its

shares of "Wyeth K.K." and "Takeda-Kirin Foods Corporation," resulting in a gain of ¥12,048 million (\$102,974 thousand) for the year ended March 31, 2006.

12. INCOME TAXES

The effective income tax rates of the Companies differed from the statutory tax rates for the following reasons:

	2006	2005	2004
Statutory tax rate	40.9 %	40.9 %	42.1 %
Expenses not deductible for tax purposes	0.6	0.7	0.8
Loss in subsidiaries	0.0	0.1	0.2
Equity in earnings of affiliates	(3.3)	(3.2)	(5.3)
Non-taxable dividend income	(0.1)	0.0	0.0
Tax credits primarily for research and development costs	(1.6)	(2.6)	(2.1)
Other — net	2.4	0.4	(0.3)
Effective tax rate	38.9 %	36.3 %	35.4 %

Deferred tax assets and liabilities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Retirement benefits	¥ 12,989	¥ 13,674	\$ 111,017
Bonuses	11,021	10,240	94,197
Research and development costs	30,185	23,330	257,991
Enterprise taxes	12,918	7,664	110,410
Unrealized intercompany profits	10,603	7,747	90,624
Tax loss carryforwards	4,037	9,086	34,504
Other	110,544	76,329	944,821
Total	192,297	148,070	1,643,564
Valuation allowance	(3,270)	(3,681)	(27,949)
Total deferred tax assets	189,027	144,389	1,615,615
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries and affiliates	(19,860)	(11,930)	(169,744)
Unrealized gain on available-for-sale securities	(113,921)	(81,671)	(973,683)
Reserve for reduction of fixed assets	(11,893)	(12,026)	(101,650)
Other	(10,125)	(9,344)	(86,538)
Total deferred tax liabilities	(155,799)	(114,971)	(1,331,615)
Net deferred tax assets	¥ 33,228	¥ 29,418	\$ 284,000

On March 31, 2003, Cabinet Order No.9 entitled "Reform of a Portion of Local Tax Law" was issued, and this reform was applied to fiscal years beginning on or after April 1, 2004.

As a result of this reform, the statutory income tax rate to be used for the calculation

of deferred income taxes concerning temporary differences, which are expected to be realized or settled on or after April 1, 2004, was changed from 42.1% to 40.9%.

This change did not have a material effect on the Companies' consolidated financial statements.

13. AMOUNTS PER COMMON SHARE

The computations of net income per common share were based on the weighted-average number of common shares outstanding during the year. The number of shares used in the computations was 885,210 thousand shares, 885,241 thousand shares and 885,264 thousand shares for the years ended March 31, 2006, 2005 and 2004, respectively.

The Company did not have securities or contingent stock agreements that could potentially dilute net income per common share in the years ended March 31, 2006, 2005 and 2004.

Cash dividends per common share are the amounts applicable to the respective years.

14. LITIGATION

Civil litigation in the United States and Canada is ongoing, concerning the bulk vitamin cartel issue and the food flavor enhancer cartel issue.

Other expenses in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 included ¥2,079 million and ¥614 million, respectively, for amounts paid and expected to be paid related to the above matters. Because certain of the lawsuits are still ongoing, the total payments that will result from their ultimate resolution cannot be estimated with certainty.

Regarding losses alleged to have been sustained as a result of marketing and sales practices for *Leuprorelin* (U.S. brand name: *Lupron Depot*), a treatment for prostate cancer and endometriosis by TAP Pharmaceutical Products Inc. (TAP), in which Takeda America Holdings Inc., the Company's wholly owned subsidiary, owns a 50 percent stake (the other 50 percent is owned by Abbott Laboratories), civil (class) actions have been brought against TAP, Abbott Laboratories and the Company in federal and state courts by patients, insurance companies and others, in which plaintiffs claim damages due to price discrepancies between the AWP (Average Wholesale Price) as made public by independent industry compendia and the actual sales prices (lawsuits alleging similar causes of action are sometimes collectively called "AWP Suits"). In November 2004, TAP, Abbott, and the Company concluded a settlement agreement with plaintiff attorneys under which TAP agreed to pay a total of US\$150 million. This settlement was finally approved by the Boston District Court in the U.S. in August 2005.

Separately from this settlement, there are industry-wide AWP lawsuits involving major U.S. pharmaceutical companies. As part of this litigation, TAP and Takeda Pharmaceuticals North America, Inc. (TPNA) are named as defendants, although for dif-

ferent drugs, in federal and state courts in lawsuits claiming the payment of damages. The Company is also a defendant in certain lawsuits together with TAP and TPNA.

Near the end of June 2005, Abbott Laboratories filed a lawsuit for damages against the Company in a federal court in Chicago, claiming that the Company is receiving excessive profit by forcing the continuance of supply transactions of *Lansoprazole* to TAP. In February 2006, the court dismissed the claim by Abbott, stating that the claim by Abbott should be filed with a Japanese court in accordance with the provision of venue designation stipulated in the shareholders' agreement between the Company and Abbott. In March 2006, Abbott filed an appeal to the 7th Federal Circuit Court of Appeals, challenging this judgment.

In Japan, in October 2004, a lawsuit claiming remuneration for employee invention, regarding pharmaceutical patents for *Leuplin*, was brought against the Company in the 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 (\$317,949 thousand) from a deceased ex-employee. The complainants have claimed ¥100 million (\$85 thousand) as an initial part of the amount that the Company allegedly owes. In December 2005, the claimed amount was raised to ¥500 million (\$4,274 thousand), and in addition, another claimant filed a lawsuit against the Company in the Tokyo District Court, claiming payment of ¥1 billion (\$8,547 thousand) as an initial part of remuneration for employee invention, alleging that she inherited the right for the remuneration for employee invention totaling ¥74.5 billion (\$636,752 thousand) from the deceased ex-employee. These two lawsuits have been consolidated by the court.

15. SEGMENT INFORMATION

The Companies have classified their businesses into two segments: "Pharmaceuticals" and "Other," based on the actual business management structure. The pharmaceuticals segment is composed of those operations involved in the production and sales of ethical and over-the-counter pharmaceuticals and quasi-drugs. The other segment is composed of those operations involved in the production and sales of reagents, clinical diagnostics, inorganic industrial chemicals, beverages, and health foods etc.

From the year ended March 2006, the Companies have changed the method of allocating operating expenses. Corporate administrative expenses were previously included

under "Eliminations/Corporate." During the year ended March 31, 2006, following the completion of business reorganization by transfer of the shares of the five consolidated subsidiaries and equity-method affiliates of the life-environmental business, the Companies reviewed the business management so that the headquarter functions can concentrate its operations into the pharmaceutical business. Consequently, it was determined that such operating expenses shall be stated mainly under "Pharmaceuticals." In response to this change, segment information in the year ended March 31, 2005 is restated according to the new method.

Summarized financial information by business segment for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen	
	Net sales	
	2006	2005
Pharmaceuticals	¥1,074,519	¥ 970,477
Other	137,688	152,483
Consolidated	¥1,212,207	¥1,122,960

	Millions of yen	
	Operating income	
	2006	2005
Pharmaceuticals	¥388,068	¥377,654
Other	14,720	7,598
Eliminations	21	26
Consolidated	¥402,809	¥385,278

	Thousands of U.S. dollars	
	Net sales	Operating income
	2006	2006
Pharmaceuticals	\$ 9,183,923	\$3,316,821
Other	1,176,821	125,812
Eliminations	—	179
Consolidated	\$10,360,744	\$3,442,812

There were no significant inter-segment sales.

	Millions of yen	
	Identifiable assets	
	2006	2005
Pharmaceuticals	¥ 776,825	¥ 647,496
Other	231,906	254,605
	1,008,731	902,101
Corporate	2,033,563	1,643,334
Consolidated	¥3,042,294	¥2,545,435

	Millions of yen	
	Depreciation and amortization	
	2006	2005
Pharmaceuticals	¥20,790	¥19,582
Other	6,831	11,644
Corporate	1,107	—
Consolidated	¥28,728	¥31,226

	Millions of yen	
	Capital expenditures	
	2006	2005
Pharmaceuticals	¥29,200	¥42,024
Other	3,416	7,206
Corporate	—	—
Consolidated	¥32,616	¥49,230

	Thousands of U.S. dollars		
	Identifiable assets	Depreciation and amortization	Capital expenditures
	2006	2006	2006
Pharmaceuticals	\$ 6,639,530	\$177,692	\$249,572
Other	1,982,103	58,385	29,197
Corporate	8,621,633	236,077	278,769
Consolidated	\$26,002,513	\$245,538	\$278,769

Note:

- In January 2006, all shares in BASF Takeda Vitamin, K.K, engaged in the vitamin business, were transferred to BASF Japan, Ltd.
- In the year ended March 31, 2006, shares of five consolidated subsidiaries and equity-method affiliates including Japan Enviro Chemicals, Ltd., which were conducting life-environmental business, were transferred to Osaka Gas Chemicals Co., Ltd., a subsidiary of Osaka Gas Co., Ltd.
- In April 2006, the beverage and food business of Takeda Food Products, Ltd. was transferred to House Wellness Foods Corporation, Ltd., a joint venture between the Company and House Foods Corp.
- In June 2005, all shares in Takeda Schering-Plough Animal Health, engaged in the animal health drug business, were transferred to Schering-Plough, K.K.

Corporate assets included in "Corporate" consisted principally of surplus operating capital (cash and marketable securities) and long-term investments (investment securities) of the Company and a holding company in the United States and other subsidiaries.

From the year ended March 31, 2006, geographical segments, which consisted of "Japan," "North America" and "Europe and Asia" in the past, have been reclassified into the four regions of "Japan," "North America," "Europe" and "Asia," as the European business has become increasingly important for the Companies.

In connection with this, the results for the year ended March 31, 2005 were restated in accordance with this new classification of four regions.

Geographic segment data are as follows:

	Millions of yen	
	Net sales	
	2006	2005
Japan	¥ 872,990	¥ 841,762
North America	214,203	170,247
Europe	116,669	103,110
Asia	8,345	7,841
Eliminations/Corporate	—	—
Consolidated	¥1,212,207	¥1,122,960

	Millions of yen	
	Operating income	
	2006	2005
Japan	¥ 517,299	¥ 461,526
North America	32,589	44,413
Europe	24,591	17,689
Asia	1,622	1,390
Eliminations/Corporate	(173,292)	(139,740)
Consolidated	¥ 402,809	¥ 385,278

Main countries and regions included in each segment:

North America: United States

Europe: Germany, France, Italy, United Kingdom, Ireland and others

Asia: Taiwan, Indonesia, China and others

The Companies have been endeavoring to build a unique, simple and efficient business management organization. From the year ended March 2006, the Companies started centralized and global management of research and development activities, led by the head office of the Company in Japan, while the sales function is controlled on a regional basis according to the regional division of Japan, the U.S. and Europe.

This approach is based on the idea that regardless of where they are conducted, research and development activities will contribute to the sales growth in the future throughout all regions where the Companies serve. In accordance with this idea, we believe that it is appropriate to record research and development expenses as Corporate expenses for the purpose of the segment-based accounting.

For this reason, research and development expenses are excluded from operating expenses of each region, and included in "Eliminations/Corporate."

In line with the above change, assets related to research and development activities are excluded from assets of each region and now included in "Eliminations/Corporate."

In addition, corporate administrative expenses, which were previously included in "Eliminations/Corporate," are now included in the segment of Japan where the Corporate Department resides, in accordance with the change in the classification of business segments.

In connection with these changes, segment information for the year ended March 2005 is restated according to the new classification.

	Millions of yen	
	Identifiable assets	
	2006	2005
Japan	¥ 761,523	¥ 703,980
North America	154,694	113,253
Europe	122,642	101,360
Asia	13,256	11,753
Eliminations/Corporate	1,990,179	1,615,089
Consolidated	¥3,042,294	¥2,545,435

	Thousands of U.S. dollars		
	Net sales	Operating income	Identifiable assets
	2006	2006	2006
Japan	\$ 7,461,453	\$ 4,421,359	\$ 6,508,744
North America	1,830,795	278,538	1,322,171
Europe	997,171	210,179	1,048,222
Asia	71,325	13,863	113,299
Eliminations/Corporate	—	(1,481,127)	17,010,077
Consolidated	\$10,360,744	\$ 3,442,812	\$26,002,513

Geographic data for net sales to customers outside Japan are as follows:

	Millions of yen			Thousands of U.S. dollars
	Net sales to customers outside Japan			Net sales to customers outside Japan
	2006	2005	2004	2006
North America	¥335,922	¥287,382	¥296,004	\$2,871,128
Europe	180,223	171,643	147,334	1,540,368
Other	20,979	19,408	18,582	179,307
Total	¥537,124	¥478,433	¥461,920	\$4,590,803

	Percentage of consolidated net sales		
	2006	2005	2004
North America	27.7%	25.6%	27.2%
Europe	14.9	15.3	13.6
Other	1.7	1.7	1.7
Total	44.3%	42.6%	42.5%

16. COMMITMENTS AND CONTINGENCIES

Commitments outstanding at March 31, 2006 for the purchase of property, plant and equipment amounted to approximately ¥6,761 million (\$57,786 thousand).

At March 31, 2006, contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of Loans	¥3,791	\$32,402
Notes and export drafts discounted and endorsed	13	111

17. SUBSEQUENT EVENTS

1. Takeda Food Products, Ltd.'s business transfer

In April 2006, Takeda Food Products, Ltd., a wholly-owned subsidiary of the Company, established House Wellness Foods Corporation by means of a corporate division and transferred its food and beverage business to the new company. House Foods Corporation and the Company acquired 66% and 34% of the new company's stock, respectively. House Foods Corporation acquired its shares for ¥20 billion (\$170,940 thousand) and the Companies are expected to record a consolidated gain of approximately ¥19 billion for the year ending March 31, 2007.

2. Repurchase of treasury stock

The Company's Board of Directors resolved to purchase treasury stock at the Board of Director's meeting on May 11, 2006, to improve capital efficiency and allow for agile financial policies in accordance with the business environment. The Company subsequently repurchased 11,140,000 shares of common stock for ¥79,916 million (\$683,043 thousand) on the Tokyo Stock Exchange from May 15 to June 20, 2006.

3. Conversion of Daiwa Real Estate Company, Ltd. ("Daiwa") and Shinwa Real Estate Company, Ltd. ("Shinwa") to wholly owned subsidiaries

On May 11, 2006, the Company entered into a share exchange agreement with Daiwa, a 50%-owned consolidated subsidiary of the Company, to convert Daiwa into a wholly-owned subsidiary for the purpose of improving operational agility and flexibility. The Company executed the share exchange on June 23, 2006. As a result of this transaction,

Shinwa, a consolidated subsidiary owned 50% each by the Company and Daiwa, also became a wholly-owned subsidiary of the Company. A total of 6,340,000 shares of treasury stock was allocated for this transaction based on a ratio of 634 Company shares to one Daiwa share.

4. Correction for transfer pricing taxation

On June 28, 2006, the Company received a notice of correction for transfer pricing taxation from the Osaka Regional Taxation Bureau (ORTB). ORTB concluded profits earned in the U.S. market in relation to product supply and license transactions between the Company and TAP Pharmaceutical Products Inc., a 50-50 joint venture with Abbott Laboratories Inc., were under-allocated to the Company over the six years beginning with the year ended March 2000 through the year ended March 2005.

The total taxable income assessed was ¥122.3 billion (\$1,045,299 thousand) and the additional tax due including local and other taxes was approximately ¥57 billion (\$487,179 thousand). The Company will pay these additional taxes in July 2006, however, intends to pursue a reversal of this correction notice through the legal process.

5. Appropriations of retained earnings

On June 29, 2006, the shareholders of the Company approved payment of a year-end cash dividend of ¥53.00 (\$0.45) per share to holders of record at March 31, 2006, totaling ¥47,103 million (\$402,590 thousand) and bonuses to directors and corporate auditors of ¥233 million (\$1,991 thousand).