

REVIEW OF OPERATIONS AND FINANCIAL CONDITION

Takeda Pharmaceutical Company Limited and Subsidiaries
Year ended March 31, 2007 (Fiscal 2006)

In Japan, the ethical drug market recorded negative growth for the first time in six years under the tough environment due to implementation of measures specifically promoting the use of generic drugs, and also to special price reductions and re-pricing, for those drugs that have generic versions, in addition to the usual price revisions under the National Health Insurance (NHI) in April 2006. For the future, it is estimated that the market growth will remain as low as the level ranging from one through two percent (1%-2%) under the environment in which the measures for constraint of expenditures for drugs will be promoted as indicated by ongoing discussion on the possibility of an annual revision of NHI drug prices instead of current biannual frequency, the reduction of drug prices separately from the actual market prices, and an introduction of prospective payment system for medical services for elderly outpatients, etc.

In the United States, which accounts for nearly fifty percent (50%) of the world's ethical drug market, although the market growth has increasingly slowed due to the expiration of patents of several major products and the subsequent expansion of usage of generic products, and the impact of prescription-to-OTC switches, the market growth last year was eight percent (8%) due to the implementation of Medicare Part D* which went into effect in January 2006. Each of the market segmentations for core thera-

*Outpatient prescription plans under the public medical insurance system for the elderly.
While the coverage of Medicare was previously specified to cover the "expenses of hospitalization" and "medical services fees for outpatients," the inclusion of "prescription drug fees for outpatients" in such coverage has been received favorably because the elderly will have easier access to the medication they require.

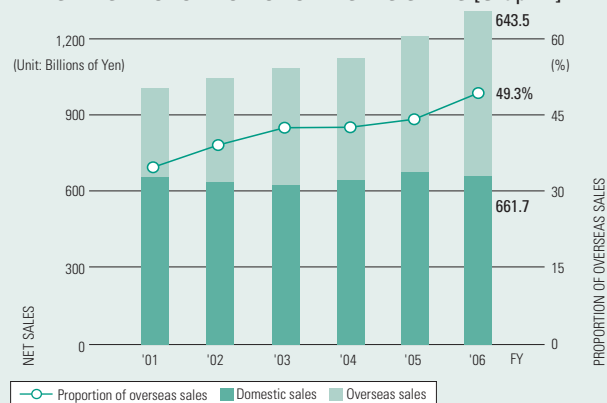
peutic areas, which the Company focuses on, recorded a growth, however, the competition among the products has been intensifying partially because of the substantial expansion of generic products, etc.

Likewise, in the European market, the growth rate is moderate by one through two percent (1%-2%) due to the continued policy of constraint of expenditures for drugs enforced in each country and parallel imports being active from the countries in which the drug prices are lower.

On the one hand, with respect to research and development, the pharmaceutical industry worldwide seems to face difficulty in achieving technical innovation and the number of new product launch tends to be decreased while the patents for the existing major products are being expired. Accordingly, competition among companies has been further intensifying. Against this backdrop, the trend toward corporate integration has continued for such purposes as strengthening pipelines by acquiring products in the R&D process and covering growing R&D costs. Accordingly, competition among companies has been further intensifying.

Net sales increased ¥93.0 billion (7.7 percent), as compared to that of the previous fiscal year, to an amount totaling ¥1,305.2 billion (Graph 1, Table 1).

NET SALES PROPORTION OF OVERSEAS SALES [Graph 1]



NET SALES BY REGION [Table 1]

	(Unit: Billions of Yen)				
	Fiscal 2006	Fiscal 2005	Fiscal 2004	% change 06/05	% change 05/04
Japan	661.7 50.7%	675.1 55.7%	644.5 57.4%	(2.0)%	4.7%
North America	426.6 32.7%	335.9 27.7%	287.4 25.6%	27.0%	16.9%
Europe	192.0 14.7%	180.2 14.9%	171.6 15.3%	6.5%	5.0%
Others	25.0 1.9%	21.0 1.7%	19.4 1.7%	19.1%	8.1%
Total	1,305.2	1,212.2	1,123.0	7.7%	7.9%

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

- In addition to a substantial increase in the sales of Actos, a diabetes treatment, by the U.S. subsidiary, Takeda Pharmaceuticals North America, Inc. ("TPNA"), a steady expansion of Actos in Japan and Europe contributed to the growth in the sales of ethical drugs (Table 2).

- As a result of the weakened yen against the U.S. dollar and the euro, there was a positive impact in net sales by ¥22.8 billion.

- Sales of in-house ethical drugs, including sales by equity-method affiliates, increased ¥127.4 billion (11.3 percent), to ¥1,254.1 billion (Table 2, 3).

Gross profit on sales increased ¥95.4 billion (10.3 percent), as compared to that of the previous fiscal year, to an amount totaling ¥1,025.5 billion.

- Gross profit ratio increased 1.9 points, as compared to that of the previous fiscal year, to equal a rate of 78.6%, due to the transfer of the beverage and food business, in addition to an increase in the sales of ethical drugs.

NET SALES OF INTERNATIONAL STRATEGIC PRODUCTS [Table 2]

(Unit: Billions of Yen)

		Fiscal 2006	Fiscal 2005	Fiscal 2004	% change 06/05	% change 05/04
Leuprorelin	Consolidated	127.5	122.4	115.9	4.2%	5.5%
	Total global	184.8	182.5	178.1	1.2%	2.5%
Lansoprazole	Consolidated	150.7	159.9	160.0	(5.7)%	(0.1)%
	Total global	400.7	389.7	373.5	2.8%	4.4%
Candesartan	Consolidated	206.2	190.9	152.4	8.0%	25.3%
	Total global	206.9	191.3	152.7	8.1%	25.3%
Pioglitazone	Consolidated	336.3	243.8	193.0	37.9%	26.3%
	Total global	337.0	244.3	193.2	38.0%	26.4%

Notes: 1. Upper figures are consolidated net sales, lower figures are global net sales including affiliates accounted for by the equity method.
2. Figures in parentheses indicate a decrease.

NET SALES OF IN-HOUSE ETHICAL DRUGS BY REGION [Table 3]

(Unit: Billions of Yen)

		Fiscal 2006	Fiscal 2005	Fiscal 2004	% change 06/05	% change 05/04
Japan		382.5 30.5%	370.3 32.9%	335.8 33.0%	3.3%	10.3%
Overseas		871.6 69.5%	756.4 67.1%	682.0 67.0%	15.2%	10.9%
Americas		682.7 54.4%	584.7 51.9%	526.8 51.8%	16.8%	11.0%
Europe		168.0 13.4%	155.3 13.8%	142.1 14.0%	8.1%	9.3%
Asia		20.9 1.7%	16.4 1.5%	13.2 1.3%	27.6%	24.5%
Total		1,254.1	1,126.7	1,017.7	11.3%	10.7%

Notes: 1. Includes sales of equity-method affiliates.
2. Lower figures refer to proportion of net sales.

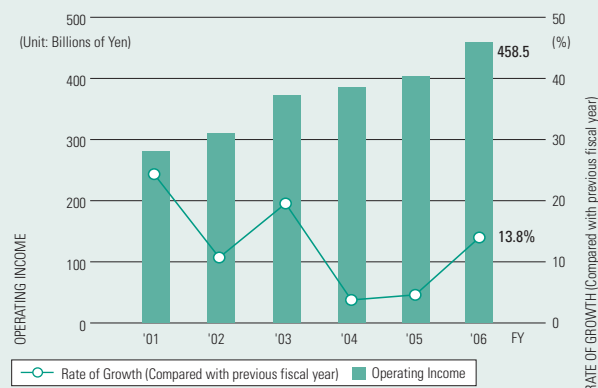
Operating income increased ¥55.7 billion (13.8 percent), as compared to that of the previous fiscal year, to an amount totaling ¥458.5 billion (Graph 2).

- Although selling, general and administrative expenses increased ¥39.7 billion (7.5 percent), as compared to that of the previous fiscal year, to an amount totaling ¥567.0 billion, an increase in gross profit on sales offset such increase in expenses and resulted in an overall operating income increase.

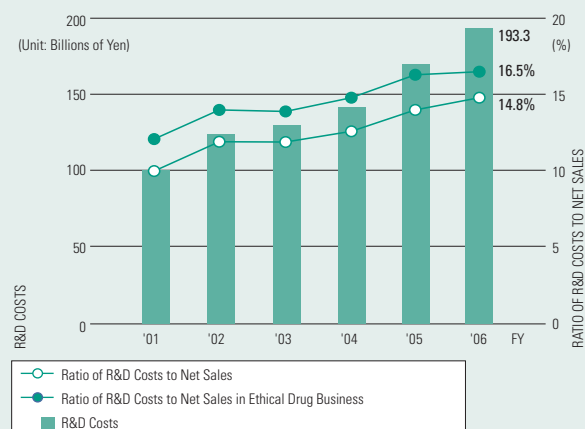
- R&D expenses increased ¥23.7 billion (13.9 percent), as compared to that of the previous fiscal year. An increase in these expenses were accelerated by an enhancement of research activities, promotion of development activities, and in-licensing and alliance activities, including the acquisition of a license to develop and market Hematide, treatment for chronic kidney disease/cancer related anemia, in overseas market (Graph 3).

- Apart from R&D expenses, selling, general and administrative expenses increased ¥16.1 billion (4.5 percent), as compared to that of the previous fiscal year, mainly due to an increase in selling

OPERATING INCOME [Graph 2]



R&D COSTS AND RATIO TO NET SALES [Graph 3]



costs arising from the launching of new products, commencing in 2005, such as Rozerem for treatment of insomnia, Actoplus Met and Duetact for treatment of type 2 diabetes, and Amitiza for treatment of chronic idiopathic constipation by TPNA.

Income before income taxes and minority interests

increased ¥107.4 billion (20.7 percent), as compared to that of the previous fiscal year, to an amount totaling ¥625.4 billion.

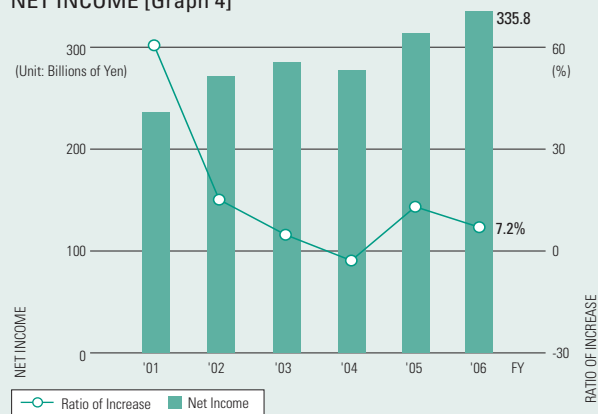
- Interest income increased ¥20.9 billion (68.2 percent) as compared to that of the previous fiscal year, to an amount totaling ¥51.7 billion, mainly due to a rise of the interest rate in the U.S.
- Equity in earnings of affiliates increased ¥12.0 billion (22.2 percent) as compared to that of the previous fiscal year, to an amount totaling ¥66.2 billion. Within this item, the equity in earnings of TAP Pharmaceutical Products Inc. ("TAP"), the U.S. equity-method affiliate, increased ¥8.9 billion (17.0 percent), as compared to that of the previous fiscal year, to an amount totaling ¥61.0 billion.
- There was a gain from transfer of the beverage and food business of Takeda Food Products, Ltd., which was a subsidiary of the

Company, to House Wellness Foods Corporation, a joint venture of House Foods Corporation and the Company, a gain from a partial transfer of the shares of Wyeth K.K. to Wyeth, in the U.S. and a gain from the transfer of shares of Mitsui Takeda Chemicals, Inc. to Mitsui Chemicals, Inc., all of which took place in April 2006, and were recorded as other income.

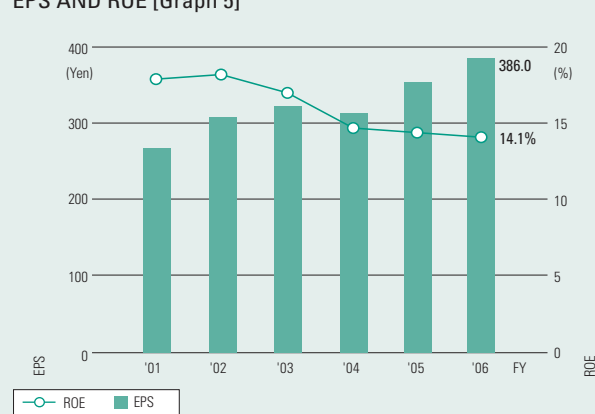
Net income increased ¥22.6 billion (7.2 percent), as compared to that of the previous fiscal year, to an amount totaling ¥335.8 billion (Graph 4).

- As a result of an increase of income before income taxes and minority interests, consolidated net income posted an increase, more than offsetting an increase in tax expenses, including additional tax of ¥57.1 billion paid during the first half based on the notice of correction issued by the tax bureau in Japan in accordance with the rules on transfer pricing taxation.
- Net income per share (EPS) was ¥386.00 with an increase of ¥32.53 as compared to that of the previous fiscal year (Graph 5).
- Return on equity (ROE) was 14.1 percent with a decrease of 0.3 points as compared to that of the previous fiscal year.

NET INCOME [Graph 4]



EPS AND ROE [Graph 5]



Results by Segment

1) Business Segments (Table 4, 5)

[Pharmaceuticals Segment]

The Pharmaceuticals segment posted net sales of ¥1,202.8 billion, an increase of ¥128.3 billion (11.9 percent) compared with the previous fiscal year, and operating income increased ¥60.1 billion (15.5 percent) compared with the previous fiscal year to amount totaling ¥448.2 billion.

- The Ethical Drugs Business posted net sales of ¥1,144.1 billion, an increase of ¥125.0 billion (12.3 percent) compared with the previous fiscal year.

The domestic sales of ethical drugs posted net sales of ¥514.9 billion, an increase of ¥21.5 billion (4.3 percent) compared with the previous fiscal year, absorbing the negative impact from the reduction in NHI prices implemented in April 2006, and from increasing competition with generic drugs.

While the reconstruction of Japan's regional medical care being underway with the background of the Law Relating to Structural Reform of Medical Care System in June 2006, the Company reorganized its domestic marketing organization, which used to consist of 13 branches and 156 sales offices, into a new one consisting of 12 branches, 19 regional groups and 74 sales offices in April 2007 in order to promptly respond to the needs of university hospitals and large hospitals that are highly specialized and have a great influence on local health care and to provide information more tailored to the needs in each geographic area.

Overseas sales of the Ethical Drugs Business posted net sales of ¥629.1 billion, an increase of ¥103.5 billion (19.7 percent) compared with the previous fiscal year.

In the United States, sales of Actos by TPNA posted net sales of \$2,368 million, an increase of \$584 million (32.8 percent) compared with the previous fiscal year, partly due to growth in the

oral anti-diabetic drug market influenced by the start of Medicare Part D and the contribution of sales of Actoplus Met which was launched in November 2005. In addition, Rozerem, which was launched in September 2005, posted net sales of \$88 million and Amitiza, which was launched in April 2006, posted net sales of \$49 million. These new products' sales contributed to growth in TPNA sales.

In Europe, sales of Actos and other mainstay products increased, but sales of Lansoprazole decreased facing competition with generic drugs since its patent expired in major countries.

In August 2006, the Company established Takeda Pharmaceuticals Europe Limited in the UK, with the aim of enhancing sales and marketing functions in Europe. The new company is responsible for developing and promoting medium- to long-term strategies for the entire region of Europe. The new president was appointed late last year, and accordingly the company has established a structure to carry our full-fledged operation.

The Consumer Healthcare Business posted net sales of ¥58.7 billion, an increase of ¥3.3 billion (5.9 percent) compared with the previous fiscal year. Although sales of Benza increased, sales of Alinamin drinks, Scorba products and Hicee products declined.

[Other Segment]

Net sales for Other Business decreased ¥35.3 billion (25.6 percent) compared with the previous fiscal year to an amount totaling ¥102.4 billion, and operating income decreased ¥4.5 billion (30.4 percent) compared with the previous fiscal year to an amount totaling ¥10.2 billion.

- The sharp decline in net sales for Other Business compared with the previous fiscal year was due to the transfer of the beverage and food business of Takeda Food Products, Ltd. to House Wellness Foods Corporation in April 2006. With this transfer of

SALES BY BUSINESS SEGMENT [Table 4]

	(Unit: Billions of Yen)				
	Fiscal 2006	Fiscal 2005	Fiscal 2004	% change 2006/2005	% change 2005/2004
Pharmaceuticals	1,202.8	1,074.5	970.5	11.9%	10.7%
· Ethical drugs	1,144.1	1,019.1	914.8	12.3%	11.4%
Domestic	514.9	493.5	451.9	4.3%	9.2%
Overseas	629.1	525.6	462.9	19.7%	13.5%
· Consumer healthcare	58.7	55.4	55.7	5.9%	(0.4)%
Other	102.4	137.7	152.5	(25.6)%	(9.7)%

Note: Figures in parentheses indicate a decrease.

OPERATING INCOME BY BUSINESS SEGMENT [Table 5]

	(Unit: Billions of Yen)				
	Fiscal 2006	Fiscal 2005	Fiscal 2004	% change 2006/2005	% change 2005/2004
Pharmaceuticals	448.2	388.1	377.7	15.5%	2.8%
Other	10.2	14.7	7.6	(30.4)%	93.7%

Notes: 1. Lower figures refer to proportion of operating income.

2. Figures in parentheses indicate a decrease.

3. Business segment classifications changed from fiscal 2005. Fiscal 2004 information shown as per post-change classifications.

the beverage and food business, the Company's sales to Takeda Food Products, Ltd., which were previously not included in the sales of the Consumer Healthcare Business and were recorded as intercompany sales, are included in the sales of the Consumer Healthcare Business to outside customers from this fiscal year, resulting in an effect of ¥5.0 billion.

2) Geographical Segments (Table 6)

Table 6 shows sales and operating income of each geographical segment.

Outlook for Fiscal 2007

[Consolidated net sales]

Consolidated net sales are expected to increase ¥84.8 billion (6.5 percent) from the previous year to an amount totaling ¥1,390.0 billion, mainly due to sales growth of products such as Actos, Blopess, Takepron and a drug for rheumatoid arthritis Enbrel in Japan, and Actos, Rozerem and Amitiza by TPNA in the U.S.

[Operating income]

Operating income is expected to increase ¥11.5 billion (2.5 percent) from the previous year to an amount totaling ¥470.0 billion. In addition to progress in development activities and in-licensing and alliance activities, Takeda Cambridge Limited and Takeda Singapore Pte. Ltd., both acquired by Takeda in March 2007, will newly incur research expenses, which will result in considerable increase in overall R&D expenses. However, such an expansion in expenses are expected to be offset by the growth of gross profit due to increase in ethical drug sales.

[Consolidated net income]

Consolidated net income is expected to increase ¥44.2 billion (13.2

SALES AND OPERATING INCOME OF EACH GEOGRAPHICAL SEGMENT [Table 6]

	(Unit: Billions of Yen)				
	Fiscal 2006	Fiscal 2005	Fiscal 2004	% change 2006/2005	% change 2005/2004
Net sales	1,305.2	1,212.2	1,123.0	7.7%	7.9%
Japan	854.6	873.0	841.8	(2.1)%	3.7%
North America	307.8	214.2	170.2	43.7%	25.8%
Europe	132.5	116.7	103.1	13.6%	13.1%
Asia	10.3	8.3	7.8	23.1%	6.4%
Operating income	458.5	402.8	385.3	13.8%	4.6%
Japan	530.4	517.3	461.5	2.5%	12.1%
North America	89.4	32.6	44.4	174.2%	(26.6)%
Europe	32.7	24.6	17.7	33.0%	39.0%
Asia	2.0	1.6	1.4	23.3%	16.7%
Eliminations/Corporate	(196.0)	(173.3)	(139.7)		

Note: Figures in parentheses indicate a decrease.

percent) from the previous year to an amount totaling ¥380.0 billion, though the equity in earnings of TAP is expected to decrease. In addition to extraordinary income from the transfer of shares in Wyeth K.K. and Takeda-Kirin Foods Corporations, ¥57.1 billion in the additional taxes paid in fiscal 2006 will have a positive impact as long as the comparison of fiscal 2006 and fiscal 2007 is concerned.

[Outlook assumptions]

This outlook is based on the projected foreign exchange rates of US\$1 = ¥115 and 1 euro = ¥155.

[Forward looking statements]

These projections for operating results are based on information currently available to management. Certain risks and uncertainties could cause actual results to differ from these projections.

Capital Employment and Financing (Table 7)

As of March 31, 2007, total assets increased ¥30.2 billion to ¥3,072.5 billion (Graph 6).

In contrast, total liabilities decreased ¥35.3 billion to ¥611.4 billion.

BALANCE SHEETS HIGHLIGHTS [Table 7]

	(Unit: Billions of Yen)				
	Fiscal 2006	Fiscal 2005	Fiscal 2004	% change 06/05	% change 05/04
Current assets	2,357.7	2,372.0	1,969.9	(0.6)%	20.4%
Property, plant and equipment	238.4	215.7	220.1	10.6%	(2.0)%
Investments and other assets	476.3	454.7	355.4	4.8%	27.9%
Total assets	3,072.5	3,042.3	2,545.4	1.0%	19.5%
Liabilities	611.4	646.7	499.2	(5.5)%	29.5%
Minority interests	—	47.2	44.8	—	5.3%
Shareholders' equity	2,461.1	2,348.4	2,001.4	—	17.3%

Notes: 1. From fiscal 2006, minority interests are included in net assets.
2. Figures in parentheses indicate a decrease.

TOTAL ASSETS [Graph 6]



While Takeda currently has no loans or bonds outstanding, some consolidated subsidiaries have loans. Debt at the end of fiscal 2006 was ¥5.0 billion in short-term bank loans, including the current portion of long-term loans, and ¥2.1 billion in long-term loans.

As of March 31, 2007, Total equity was ¥2,461.1 billion. The shareholders' equity ratio increased from 77.2% at the previous fiscal year-end to 78.8%, and book value per share (BPS) increased ¥163.7 to ¥2,816.3.

Cash Flows (Table 8)

Cash flows for fiscal 2006 resulted in positive ¥21.5 billion.

Cash flows decreased by ¥340.5 billion from the previous year. This reflected the additional taxes paid based on the notice of correction, in accordance with the rules on transfer pricing taxation, and increased payments associated with return to shareholders, such as cash dividends and share buyback, though net income before tax adjustments increased.

As a result, cash and cash equivalents (marketable securities and time deposits that mature or are redeemable within 3 months of the date of acquisition) as of March 31, 2007 totaled ¥1,647.7 billion.

Capital investments made during fiscal 2006 review amounted to ¥38.5 billion.

Meanwhile, TPNA's new head office building was completed in October 2006.

Employees (Graph 7)

The total number of employees of Takeda and its subsidiaries decreased by 76 people to 14,993 as of March 31, 2007. In Japan, the number of employees decreased by 531 to 8,629, while the number of employees outside of Japan increased by 455 to 6,364.

Basic Policy for Profit Distribution and Dividends for Fiscal 2006 and 2007

1) Basic Policy for Profit Distribution

In order to ensure sustainable growth in corporate value, Takeda will continue to make strategic investments with the aim of enhancing its R&D pipeline in a way suitable to an R&D-oriented, world-class pharmaceutical company, and of improving its business infrastructure both in Japan and overseas. As for profit distribution, Takeda plans to buy back shares as needed, in order to improve capital efficiency and promote expeditious financial strategies, taking into consideration its overall capital requirements, as well as the stable enhancement of the dividend payout ratio.

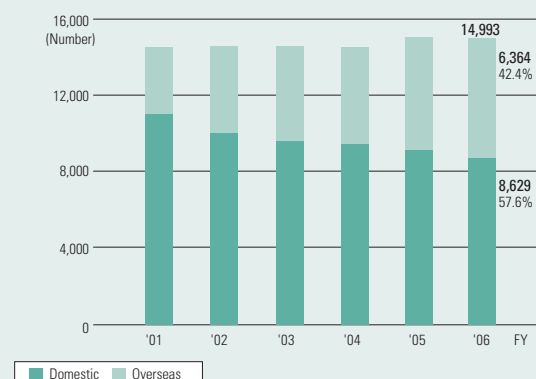
Takeda's basic dividend policy, from a long-term perspective, is to maintain stable profit distribution that is appropriate to the company's consolidated financial results. At the same time, we plan to gradually increase the consolidated dividend payout ratio, targeting around 45% in fiscal 2010, the final year of the 2006-2010 Medium-term Management Plan.

CASH FLOW HIGHLIGHTS [Table 8]

	(Unit: Billions of Yen)		
	Fiscal 2006	Fiscal 2005	Fiscal 2004
Net cash provided by operating activities	209.3	373.6	295.5
Net cash provided by (used in) investing activities	116.4	6.6	(72.3)
Net cash used in financing activities	(315.9)	(89.3)	(73.9)
Effect of exchange rate changes on cash and cash equivalents	11.7	71.1	15.2
Net increase in cash and cash equivalents	21.5	361.9	164.5
Increase in cash and cash equivalents due subsidiaries	0.0	0.0	23.7
Increase in cash and cash equivalents, end of year	21.5	361.9	188.2

Note: Figures in parentheses indicate decrease.

NUMBER OF EMPLOYEES [Graph 7]



2) Dividend for Fiscal 2006 (Graph 8)

Takeda paid a year-end dividend of ¥68.00 per share. This, together with the interim dividend of ¥60.00 per share, achieved an annual dividend of ¥128.00 for the year ended March 31, 2007 (the consolidated payout ratio of 33.2%), an increase of ¥22.00 from the previous year.

3) Dividend for Fiscal 2007

For the year ending March 31, 2008, Takeda plans to pay an annual dividend of ¥160.00 per share (of which an interim dividend will be ¥80.00), an increase by ¥32.00 from fiscal 2006.

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 any such occurrence insofar as possible, while fully identifying these potential risks — and will ensure a precise response in the event of their occurrence.

The future events contained in these items are envisioned as of the end of fiscal 2006.

1) 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 have been approved through rigorous investigations of efficacy and safety as stipulated by the competent authorities, whether they are in-house developed 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.

2) Risk in intellectual property rights

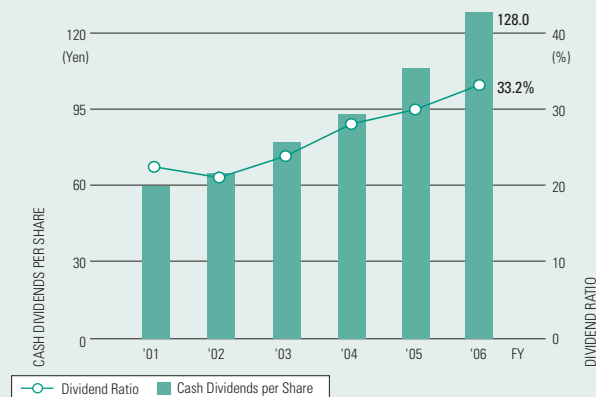
Takeda's products are protected by two or more patents covering substance, processes, formulations and uses for a certain period.

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. Or, if Takeda's in-house product proved to have infringed a third party's intellectual property rights, Takeda might be asked for compensation.

3) 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 impact.

CASH DIVIDENDS PER SHARE [Graph 8]



4) Risk of side effects

Although pharmaceuticals 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.

5) Risk of price-reduction due to movements to constrain drug costs

In the U.S. market, which is the world's largest, the use of lower priced generic drugs is promoted and the pressure for reduction of branded products prices is increasing as a result of the strong demand by the federal and state governments and Managed Care. In Japan, National Health Insurance (NHI) prices for drugs have been reduced every other year, and the use of generic drugs is also promoted. In the European market, drug prices have been reduced in similar situations, due to the efforts implemented in each country to control drug costs, and the expansion of parallel imports. Price reduction as a result of drug cost-restrictive efforts being made in each country can significantly influence the business performance and financial standing of the Takeda Group.

6) Influence of exchange fluctuations

The Takeda Group's overseas net sales in fiscal 2006 amounted to ¥643.5 billion, which accounted for 49.3% of total consolidated net sales. Among others, sales in North America were ¥426.6 billion, which accounted for 32.7% of total consolidated net sales. Moreover, with regard to TAP in the U.S., the "equity in earnings of affiliates" (non-operating income) was ¥61.0 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.

Litigation, etc.

(i) Litigation

With respect to the sales of some pharmaceutical products in the U.S., civil litigations have been brought against many pharmaceutical companies, including major companies, by patients, insurance companies and state governments, etc. in which plaintiffs claimed, among others, damages due to price discrepancies between the AWP (Average Wholesale Prices) as publicized by independent industry compendia and the actual selling prices (collectively, the "AWP Suits"). Against TAP, the AWP Suits have been brought in several federal and state courts with respect to Lansoprazole (the U.S. brand name: Prevacid) which has been sold by TAP and the Company is also a defendant in one of such AWP Suits. In addition, the AWP Suits have been brought against TPNA in several state courts with respect to Actos sold by TPNA.

At the end of June 2005, Abbott Laboratories ("Abbott") filed a lawsuit in a federal district court in Chicago for damages etc. against the Company, claiming that the Company is receiving excessive profit by forcing the continuation of supply transactions of Lansoprazole to TAP. In February 2006, the said court dismissed the claim by Abbott, stating that the claim by Abbott should be filed with a Japanese court in accordance with the forum selection clause stipulated in the shareholders' agreement between the Company and Abbott. In March 2006, Abbott filed an appeal, but in February 2007, the U.S. 7th Circuit Court of Appeals supported the original judgment and dismissed such appeal.

In Japan, in October 2004, a lawsuit claiming remuneration for employee inventions, regarding pharmaceutical patents for the sustained release preparation of Leuprorelin Acetate (domestic brand name: Leuplin), was brought against the Company in the Tokyo District Court by complainants who allege that they inherited the right to claim the remuneration for employee inventions in the amount of ¥37.2 billion from a deceased ex-employee. The plaintiffs have claimed ¥100 million as the initial part of the amount that the Company allegedly owes. In December 2005, the

claimed amount was increased to ¥500 million. In addition, another claimant filed a lawsuit against the Company in the Tokyo District Court, claiming the payment of ¥1 billion as the initial part of the remuneration for employee inventions, alleging that the plaintiff inherited the right to claim the remuneration for employee inventions with respect to such pharmaceutical totaling ¥74.5 billion from the deceased ex-employee. These two lawsuits have been consolidated and are jointly being tried by the court.

With respect to the patent infringement suit filed by the Company and TPNA in the United States District Court for the Southern District of New York against Mylan Pharmaceuticals, Inc. and related companies ("Mylan") and Alphapharm Pty. Ltd. and related company ("Alphapharm") (collectively, the "Defendants") concerning an application for the registration of generic products of Actos, the said court, on March 21, 2007, rendered its decision to order the Defendants to indemnify the Company and TPNA for the attorneys fees incurred by such parties in the amounts of \$11.4 million and \$5.4 million to be paid by Mylan and Alphapharm, respectively (the aggregate amount is \$16.8 million). In such decision, the said court supported the Company's assertion stating that there were exceptional violations and falsities in the litigation procedures taken by Mylan and Alphapharm. Although the Defendants appealed such decision, they have already deposited the amount of indemnification designated in such decision (including the interest to be accrued thereon through to the date on which the decision shall be made by the appeal court).

(ii) Correction procedures pursuant to transfer pricing taxation

On June 28, 2006, the Company was given a correction notice pursuant to the transfer pricing taxation by the Osaka Regional Taxation Bureau, which judged the amount that had been distributed to the Company of the profits earned in the U.S. market with respect to the products supply transactions, etc. between the Company and TAP during the period of six years, from fiscal year ended March 2000 through fiscal year ended March 2005, was under-represented in the profits distribution procedures between the Company and TAP. The corrected amount of income is ¥122.3 billion for the six year period and the full amount of the additional tax, ¥57.1 billion, was paid in July 2006, but the Company has disagreed with such correction procedures and on August 25, 2006 filed an opposition notice with the Osaka Regional Taxation Office.

The Company is diligently taking all necessary and proper measures to cope with the matters stated in Items (i) and (ii) above.