

Consolidated Balance Sheets

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2009 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Current assets:			
Cash and cash equivalents	¥ 758,082	¥1,613,240	\$ 7,735,531
Marketable securities (Note 5)	699	45,453	7,133
Short-term investments	—	26,300	—
Trade notes and accounts receivable:			
Notes	14,896	15,212	152,000
Accounts	284,157	224,537	2,899,561
Due from affiliates	3,319	8,440	33,867
Allowance for doubtful receivables	(924)	(899)	(9,429)
Total	301,448	247,290	3,075,999
Inventories (Note 6)	131,658	116,131	1,343,449
Deferred tax assets (Note 14)	218,174	140,962	2,226,265
Other current assets	65,523	54,416	668,602
Total current assets	1,475,584	2,243,792	15,056,979
Property, plant and equipment (Notes 8):			
Land	63,012	61,835	642,980
Buildings and structures	274,278	270,160	2,798,755
Machinery and equipment	280,904	260,473	2,866,367
Tools and fixtures	51,624	43,330	526,776
Leased assets	19,422	—	198,183
Construction in progress	17,954	9,804	183,204
Total	707,194	645,602	7,216,265
Accumulated depreciation	(448,700)	(409,468)	(4,578,571)
Net property, plant and equipment	258,494	236,134	2,637,694
Investments and other assets:			
Investment securities (Note 5)	180,750	263,138	1,844,388
Investments in affiliates (Note 5)	8,378	29,639	85,490
Real estates for lease	20,906	21,625	213,327
Goodwill	284,446	3,656	2,902,510
Patents	454,137	—	4,634,051
Deferred tax assets (Note 14)	11,127	4,400	113,541
Other assets	66,366	46,895	677,204
Total investments and other assets	1,026,110	369,353	10,470,511
TOTAL	¥2,760,188	¥2,849,279	\$28,165,184

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Current liabilities:			
Bank loans (Note 7)	¥ 3,214	¥ 2,561	\$ 32,796
Current portion of long-term debt (Note 7)	2,199	800	22,439
Notes and accounts payable:			
Trade notes	1,123	1,220	11,459
Trade accounts	64,311	69,036	656,235
Due to affiliates	2,692	2,209	27,469
Other	170,670	92,606	1,741,530
Total	238,796	165,071	2,436,693
Income taxes payable	70,770	90,265	722,143
Accrued expenses	137,916	155,915	1,407,306
Other current liabilities	19,211	14,099	196,031
Total current liabilities	472,106	428,711	4,817,408
Long-term liabilities:			
Long-term debt (Note 7)	17,800	1,250	181,633
Reserve for retirement benefits (Note 9)	17,535	19,757	178,929
Reserve for SMON compensation	2,779	4,152	28,357
Deferred tax liabilities (Note 14)	141,696	59,946	1,445,878
Other long-term liabilities	54,432	12,930	555,428
Total long-term liabilities	234,242	98,035	2,390,225
Contingencies (Note 16)			
Net assets (Note 10)			
Shareholders' equity			
Common stock:	63,541	63,541	648,378
authorized, 3,500,000,000 shares			
issued, 789,666,095 shares in 2009			
issued, 889,272,395 shares in 2008			
Capital surplus	49,638	49,638	506,510
Retained earnings	2,012,251	2,523,641	20,533,173
Treasury stock—at cost:	(1,068)	(322,644)	(10,898)
302,797 shares in 2009			
46,411,249 shares in 2008			
Total shareholders' equity	2,124,362	2,314,176	21,677,163
Valuation, translation adjustments and others			
Unrealized gain on available-for-sale securities	79,415	130,453	810,357
Deferred gains (losses) on derivatives			
under hedge accounting	215	(118)	2,194
Foreign currency translation adjustments	(192,627)	(163,728)	(1,965,582)
Total valuation, translation adjustments and others	(112,997)	(33,393)	(1,153,031)
Stock acquisition rights (Note 11)	86	—	878
Minority interests	42,389	41,750	432,541
Total net assets	2,053,840	2,322,533	20,957,551
TOTAL	¥2,760,188	¥2,849,279	\$28,165,184

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Net sales (Notes 5 and 15)	¥1,538,336	¥1,374,802	¥1,305,167	\$15,697,306
Operating costs and expenses:				
Cost of sales (Note 5)	289,543	278,631	279,662	2,954,521
Selling, general and administrative (Note 12) . .	942,325	673,048	567,005	9,615,561
Total operating costs and expenses	1,231,868	951,679	846,667	12,570,082
Operating income (Note 15)	306,468	423,123	458,500	3,127,224
Other income (expenses):				
Interest and dividend income	17,040	62,063	56,244	173,878
Interest expenses	(1,621)	(333)	(247)	(16,541)
Equity in earnings of affiliates (Note 5)	2,898	56,711	66,201	29,571
Gain on sales of property, plant and equipment . .	16	751	4,321	163
Gain on sales of shares of subsidiaries and affiliates (Note 13)	—	38,645	17,058	—
Gain on transfer of business (Note 13)	71,330	—	18,981	727,857
Net gain on the change of the retirement benefits plan (Note 9)	—	1,031	—	—
Other—net.	2,415	(5,149)	4,321	24,644
Other income—net.	92,078	153,719	166,879	939,572
Income before income taxes and minority interests	398,546	576,842	625,379	4,066,796
Income taxes (Note 14):				
Current	229,578	238,549	243,842	2,342,633
Prior years	—	—	57,080	—
Deferred	(68,227)	(19,783)	(15,078)	(696,194)
Total income taxes	161,351	218,766	285,844	1,646,439
Income before minority interests	237,195	358,076	339,535	2,420,357
Minority interests	2,810	2,622	3,730	28,673
Net income	¥ 234,385	¥ 355,454	¥ 335,805	\$ 2,391,684

Amounts per common share (Note 2)	Yen			U.S. dollars (Note 1)
Net income	¥ 289.82	¥ 418.97	¥ 386.00	\$ 2.96
Diluted net income	289.80	—	—	2.96
Cash dividends applicable to the year	180.00	168.00	128.00	1.84

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Thousand			U.S. dollars (Note 1)
	2009	2008	2007	
Outstanding Number of Shares of Common Stock				
Balance, beginning of year	842,861	859,377	885,199	
Repurchase of treasury stock	(53,512)	(16,523)	(32,165)	
Disposal of treasury stock	14	7	6,343	
Balance, end of year	789,363	842,861	859,377	
				Thousands of
				U.S. dollars (Note 1)
				2009
				Millions of yen
				2009
Shareholders' equity				
Common stock:				
Balance, beginning of year	¥ 63,541	¥ 63,541	¥ 63,541	\$ 648,378
Balance, end of year	¥ 63,541	¥ 63,541	¥ 63,541	\$ 648,378
Capital surplus:				
Balance, beginning of year	¥ 49,638	¥ 49,638	¥ 49,641	\$ 506,510
Disposal of treasury stock	(0)	0	(3)	(0)
Balance, end of year	¥ 49,638	¥ 49,638	¥ 49,638	\$ 506,510
Retained earnings:				
Balance, beginning of year	¥2,523,641	¥2,297,438	¥2,062,226	\$25,751,439
Effect of changes in accounting policies applied to foreign subsidiaries (Note 3)	(1,476)	—	—	(15,061)
Net income	234,385	355,454	335,805	2,391,684
Cash dividends paid;	(142,522)	(129,251)	(98,778)	(1,454,306)
¥172.00 (\$1.76)—2009, ¥152.00—2008 and ¥113.00—2007 (per share)	(7)	—	(1,495)	(72)
Disposal of treasury stock	(601,770)	—	—	(6,140,511)
Cancellation of treasury stock	—	—	(320)	—
Bonuses to directors and corporate auditors	—	—	(320)	—
Balance, end of year	¥2,012,251	¥2,523,641	¥2,297,438	\$20,533,173
Treasury stock (Note 10):				
Balance, beginning of year	¥ (322,644)	¥ (193,932)	¥ (3,046)	\$ (3,292,286)
Repurchase of treasury stock	(280,267)	(128,758)	(235,834)	(2,859,867)
Disposal of treasury stock	73	46	44,948	744
Cancellation of treasury stock	601,770	—	—	6,140,511
Balance, end of year	¥ (1,068)	¥ (322,644)	¥ (193,932)	\$ (10,898)
Total shareholders' equity				
Balance, end of year	¥2,124,362	¥2,314,176	¥2,216,685	\$21,677,163
Valuation, translation adjustments and others				
Unrealized gain on available-for-sale securities				
Balance, beginning of year	¥ 130,453	¥ 186,045	¥ 171,844	\$ 1,331,153
Net change	(51,038)	(55,592)	14,201	(520,796)
Balance, end of year	¥ 79,415	¥ 130,453	¥ 186,045	\$ 810,357
Deferred gains (losses) on derivatives under hedge accounting				
Balance, beginning of year	¥ (118)	¥ (398)	¥ —	\$ (1,204)
Net change	333	280	(398)	3,398
Balance, end of year	¥ 215	¥ (118)	¥ (398)	\$ 2,194
Foreign currency translation adjustments				
Balance, beginning of year	¥ (163,728)	¥ 17,913	¥ 4,223	\$ (1,670,694)
Net change	(28,899)	(181,641)	13,690	(294,888)
Balance, end of year	¥ (192,627)	¥ (163,728)	¥ 17,913	\$ (1,965,582)
Total valuation, translation adjustments and others				
Balance, end of year	¥ (112,997)	¥ (33,393)	¥ 203,560	\$ (1,153,031)
Stock acquisition rights (Note 11)				
Balance, beginning of year	¥ —	¥ —	¥ —	\$ —
Net change	86	—	—	878
Balance, end of year	¥ 86	¥ —	¥ —	\$ 878
Minority interests				
Balance, beginning of year	¥ 41,750	¥ 40,871	¥ —	\$ 426,020
Reclassified balance, beginning of year (Note 2)	—	—	47,194	—
Net change	639	879	(6,323)	6,521
Balance, end of year	¥ 42,389	¥ 41,750	¥ 40,871	\$ 432,541
Total net assets				
Balance, end of year	¥2,053,840	¥2,322,533	¥2,461,116	\$20,957,551

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Operating activities:				
Income before income taxes and minority interests	¥ 398,546	¥ 576,842	¥ 625,379	\$ 4,066,796
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Income taxes paid	(220,365)	(263,795)	(356,979)	(2,248,622)
Depreciation and amortization	103,227	30,690	26,909	1,053,337
Loss (gain) on sales and disposals of property, plant and equipment	1,139	(96)	(3,413)	11,622
Equity in earnings of affiliates	(2,774)	(12,192)	(8,145)	(28,306)
Gain on sales of shares of subsidiaries and affiliates	—	(38,645)	(17,058)	—
Gain on transfer of business	(71,330)	—	(18,981)	(727,857)
In-process R&D expenses arising from business combination	159,859	—	—	1,631,214
Amortization of goodwill	14,854	1,000	1,911	151,571
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(30,387)	6,832	(30,020)	(310,071)
Increase in inventories	(10,997)	(14,510)	(7,052)	(112,214)
Increase (decrease) in notes and accounts payable	4,467	(1,033)	1,213	45,582
Other	(19,966)	7,402	(4,484)	(203,736)
Total Adjustments	(72,273)	(284,347)	(416,099)	(737,480)
Net cash provided by operating activities	326,273	292,495	209,280	3,329,316
Investing activities:				
Payments for purchases of marketable securities	(58,619)	(252,637)	(325,813)	(598,153)
Proceeds from sales and maturities of marketable securities	100,260	308,478	477,009	1,023,061
Increase in time deposits	(500)	(41,300)	(59,900)	(5,102)
Decrease in time deposits	26,800	64,900	—	273,469
Payments for purchases of property, plant and equipment	(39,464)	(32,618)	(29,151)	(402,694)
Proceeds from sales of property, plant and equipment	559	2,228	6,211	5,704
Payments for purchases of investment securities	(507)	(455)	(5,210)	(5,173)
Proceeds from sales of investment securities	472	57,503	39,968	4,816
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(833,546)	(1,756)	(4,724)	(8,505,571)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	41,384	—	—	422,286
Proceeds from transfer of business	—	—	19,800	—
Other	(4,095)	(2,594)	(1,798)	(41,786)
Net cash provided by (used in) investing activities	(767,256)	101,749	116,392	(7,829,143)
Financing activities:				
Net increase (decrease) in short-term bank loans	630	(787)	188	6,429
Repayments of long-term debt	(800)	(1,400)	(2,076)	(8,163)
Repurchase of treasury stock	(280,268)	(128,758)	(213,734)	(2,859,878)
Dividends paid	(142,446)	(129,167)	(98,757)	(1,453,531)
Other	(2,956)	(1,970)	(1,563)	(30,163)
Net cash used in financing activities	(425,840)	(262,082)	(315,942)	(4,345,306)
Effect of exchange rate changes on cash and cash equivalents (Note 2)				
	11,665	(166,616)	11,729	119,031
Net increase (decrease) in cash and cash equivalents	(855,158)	(34,454)	21,459	(8,726,102)
Cash and cash equivalents, beginning of year	1,613,240	1,647,694	1,626,235	16,461,633
Cash and cash equivalents, end of year	¥ 758,082	¥1,613,240	¥1,647,694	\$ 7,735,531

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Additional cash flow information:				
Interest paid	¥ 1,772	¥ 142	¥ 252	\$ 18,082
Assets and liabilities increased by acquisition of shares of subsidiaries				
Current assets	¥ 203,721	¥ 535	¥ 695	\$ 2,078,786
Non-current assets	598,212	1,824	3,146	6,104,204
Goodwill	314,986	—	2,711	3,214,142
Current liabilities	(73,032)	(286)	(501)	(745,224)
Non-current liabilities	(114,195)	(311)	(791)	(1,165,255)
Foreign currency translation adjustment	—	—	(180)	—
Acquisition price	929,692	1,762	5,080	9,486,653
Cash and cash equivalents	(96,146)	(6)	(356)	(981,082)
Payments for purchases of shares of subsidiaries	¥ 833,546	¥1,756	¥ 4,724	\$ 8,505,571
Assets and liabilities decreased by transfer of business				
Current assets	¥ —	¥ —	¥ 9,056	\$ —
Non-current assets	—	—	3,008	—
Current liabilities	—	—	(7,568)	—
Non-current liabilities	—	—	(3,255)	—
Unrealized gain on transfer of business	—	—	(422)	—
Gain on transfer of business	—	—	18,981	—
Proceeds from transfer of business	¥ —	¥ —	¥19,800	\$ —
Non-cash investing and financing activity				
Increase in assets and liabilities due to the division of TAP				
Current assets	¥ 98,718	¥ —	¥ —	\$ 1,007,327
Non-current assets	169,581	—	—	1,730,418
Total assets	¥ 268,299	¥ —	¥ —	\$ 2,737,745
Current liabilities	¥ (88,299)	¥ —	¥ —	\$ (901,010)
Non-current liabilities	(79,016)	—	—	(806,286)
Total liabilities	¥(167,315)	¥ —	¥ —	\$(1,707,296)
Decrease in treasury stock for share exchange	¥ —	¥ —	¥43,429	\$ —

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Takeda Pharmaceutical Company Limited and Subsidiaries
Years ended March 31, 2009, 2008 and 2007

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Takeda Pharmaceutical Company Limited (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries had been based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 3., the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98 to U.S.\$1. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

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 using the equity method. All significant intercompany balances, transactions and unrealized profit are eliminated in consolidation.

During the year ended March 31, 2007, the Company established one new subsidiary and two affiliated companies, and acquired two subsidiaries. Further, the Company liquidated two subsidiaries and sold one affiliated company. In addition one subsidiary was merged with another consolidated subsidiary.

During the year ended March 31, 2008, the Company established two new subsidiaries, and acquired one subsidiary. Further, two subsidiaries were merged with another consolidated subsidiary. In addition, the Company sold the shares of four affiliated companies.

During the year ended March 31, 2009, the Company established three new subsidiaries and acquired one subsidiary. Further, the Company liquidated two subsidiaries and sold one affiliated company. In addition, one affiliate became a subsidiary as a result of reorganization executed in U.S., and subsequently merged with another consolidated subsidiary during the period.

The fiscal year of Tianjin Takeda Pharmaceuticals Co., Ltd. ends on December 31. In preparing consolidated financial statements, its tentative financial statements were prepared to conform to the fiscal year of the Company and were consolidated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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 agreement 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 net assets.

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

Prior to April 1, 2008, inventories of the Company and consolidated domestic subsidiaries were stated at the lower of cost (principally on the average method) or market. As discussed in Note 3., effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted a new accounting standard for measurement of inventories and stated the inventories at the lower of average cost or net realizable value at March 31, 2009.

Inventories of consolidated foreign subsidiaries are stated at the lower of average cost or market.

Property, Plant, Equipment and Real Estates for Lease

Property, plant, equipment and real estates for lease are stated at cost. Depreciation of property, plant, equipment and real estates for lease of the Company and its domestic subsidiaries is computed substantially using 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.

Property, plant and equipment capitalized under finance lease arrangements is depreciated over the lease term of the respective assets.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of businesses acquired and is amortized using the straight-line method principally over twenty years.

Patents

Patents is amortized using straight-line method over the estimated useful lives.

Impairment of Fixed Assets

In accordance with the accounting standard for impairment of fixed assets, the Companies review fixed 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 Company and domestic subsidiaries are generally entitled to lump-sum severance payments and in certain cases, annuity payments on retirement 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 "Accounting Standard for Retirement Benefits" issued by the Business Accounting Council in Japan, and the reserve for retirement benefits for employees is provided based on projected benefit obligations and plan assets at the balance sheet date.

Actuarial gains or losses are amortized from the year in which actuarial gains and losses are incurred primarily by the straight-line method over a period of five years which is within the average remaining years of service of the employees.

Prior service costs are amortized primarily by the straight-line method over a period of five years which is within the average remaining years of service of the employees.

Retirement allowances for directors and corporate auditors of several consolidated subsidiaries 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 Corporate Law.

On May 16, 2007, the Board of Directors of the Company resolved to abolish the retirement benefit plan for directors and corporate auditors. On June 26, 2008, the general meeting of shareholders of the Company resolved to make lump-sum payments of their retirement benefits for duties performed up to the date of abolition of the retirement plan (June 26, 2008) at the time of their retirement.

In the accompanying Consolidated Balance Sheet, the amounts due to directors and corporate auditors are presented as "Reserve for retirement benefits" in "Long-term liabilities".

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 Neurophathy), a neurological disease affecting the plaintiffs.

Compromise settlements were 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.

Presentation of Net Assets

On December 9, 2005, the ASBJ issued a new accounting standard for presentation of net assets. Under this accounting standard, certain items which were previously presented as liabilities are presented as components of net assets. Such items include stock acquisition rights, minority interests, 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. The accompanying consolidated financial statements are presented in line with this new accounting standard.

Research and Development Costs

Research and development costs are charged to income as incurred.

Foreign Currency Translation

The Company and domestic subsidiaries have adopted "Accounting Standard for Foreign Currency Transactions" which was issued by the Business Accounting Council in Japan. All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date.

Income 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.

Financial statements of overseas subsidiaries and affiliates are translated into Japanese yen at year-end rates for all assets and liabilities and at weighted average rates for income and expense accounts.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of net assets.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating loss carry forwards and foreign tax credit carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

As a part of Corporate Enterprise Tax in Japan, the Company and its domestic subsidiaries pay Standard Corporate Tax, which is taxed on a pro forma basis but not on an income basis. In accordance with "Accounting Treatment of Standard Corporate Tax of Corporate Enterprise Tax in Income Statement" issued by the ASBJ on February 13, 2004, Standard Corporate Tax of Corporate Enterprise Tax is included in Selling, general and administrative expenses.

A deferred tax liability is recognized on undistributed earnings of overseas subsidiaries and affiliates, which are not deemed to be permanently invested. In the year ended March 31, 2009, in accordance with the Tax Law revised in 2009, the Company has treated the dividends to be received from the overseas subsidiaries as non-taxable income. The effect of this change has decreased the deferred tax liabilities for undistributed earnings of the overseas consolidated subsidiaries.

Derivative Financial Instruments

The Companies hedge the exposure risk arising from fluctuations in foreign currency exchange rates 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 those risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative instruments are stated at fair value, and accounted for using deferred hedge accounting. Recognition of gains or losses resulting from changes in fair values of derivative financial instruments are deferred until the related losses or gains on the hedged items are recognized if derivative financial instruments are used as hedges and meet certain hedging criteria. Foreign exchange contracts that meet the criteria are accounted for under the allocation method. The allocation method requires recognized foreign currency receivables or payables to be translated using the corresponding foreign exchange contract rates. Interest rate swaps that meet the criteria are accounted for under the special method, as regulated in the accounting standard, as if the interest rates under interest rate swaps were originally applied to underlying borrowings.

Appropriations of Retained Earnings

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

Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. The number of shares used in the computations was 808,735 thousand shares, 848,403 thousand shares and 869,957 thousand shares for the years ended March 31, 2009, 2008, and 2007, respectively.

The diluted net income per share assumes the dilution that could occur if stock acquisition rights were exercised. The number of shares used in the computations of diluted net income per common share was 808,780 thousand shares for the year ended March 31, 2009. 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, 2008 and 2007.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

Reclassifications

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2009 issued domestically. In addition, the consolidated financial statements for 2008 and 2007 have been reclassified to conform to the 2009 presentation.

3. Changes in Accounting Policies

Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

On May 17, 2006, the Accounting Standards Board of Japan issued Practical Issues Task Force No.18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (“PITF No. 18”). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries’ financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impacts on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets
- (e) Retrospective treatment of a change in accounting policies
- (f) Accounting for net income attributable to minority interests

As a result of adopting PITF No. 18, retained earnings at April 1, 2008 have decreased by ¥1,476 million (\$15,061 thousand). In addition, operating income for the year ended March 31, 2009 has decreased by ¥13,832 million (\$141,143 thousand), and income before taxes and minority interests each decreased by ¥13,835 million (\$141,173 thousand).

New Accounting Standard for Inventories

On July 5, 2006, the Accounting Standards Board of Japan issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories”. Prior to April 1, 2008, the Company and consolidated domestic subsidiaries stated inventories at the lower of market or cost determined by the average method. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. Replacement cost may be used in lieu of the net realizable value, if appropriate.

As a result of the adoption of ASBJ Statement No. 9, operating income and income before taxes and minority interests each decreased by ¥1,960 million (\$20,000 thousand).

New Accounting Standards for Lease Transactions as Lessee

Prior to April 1, 2008, the Company and consolidated domestic subsidiaries accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain “as if capitalized” information in the notes to the consolidated financial statements.

On March 30, 2007, the Accounting Standards Board of Japan issued Statement No. 13, “Accounting Standard for Lease Transactions”. The new accounting standard requires that all finance lease transactions be treated as capital leases.

Effective from April 1, 2008, the Company and consolidated domestic subsidiaries adopted the new accounting standard for finance lease. The effect of adopting the new standard on operating income and income before taxes and minority interests is minor.

4. Business Combination

Application of U.S. Business Combination Accounting Standards in the Restructuring of U.S. Business Operations

- (1) Name and business of the company, main reasons, date, overview of the business combination and controlling share status
 - (i) Name of the company
TAP Pharmaceutical Products Inc. (“TAP”)
 - (ii) Business of the company
Sales, marketing and development of pharmaceuticals
 - (iii) Main reasons for the business combination
TAP was divided into TAP and another company and TAP became a wholly owned subsidiary of Takeda Pharmaceutical Co., Ltd. The aim of this restructuring was to integrate Takeda U.S. Group’s development and marketing functions, which had been performed separately by U.S. subsidiaries, i.e. TAP, Takeda Pharmaceuticals North America, Inc. (“TPNA”) and Takeda Global R&D Center, Inc. (“TGRD”) in order to realize efficient business operation dealing with changes in the market needs and the state of product lines in the U.S. market.
 - (iv) Date of the business combination
April 30, 2008 (U.S. time)
 - (v) Overview of the business combination
Abbott, which was the joint partner of TAP, acquired assets of the former TAP related to Leuprorelin (the U.S. product name: *Lupron Depot*), a drug for treatment of prostate cancer and endometriosis, and some other assets.
TAP, which became a wholly owned subsidiary of Takeda Pharmaceutical Co., Ltd. via the organizational restructuring including this company split, continued to own assets relating to drugs for peptic ulcer treatment Lansoprazole (the U.S. product name: *Prevacid*), dexlansoprazole or TAK-390MR (the application for marketing approval filed*) and *ilaprazole or IY-81149* (development in process*), and a drug for hyperuricemia of patients with chronic gout Febuxostat or TMX-67 (the application for marketing approval filed*), and some other assets.

TAP was equally split. Therefore, value adjustment will become necessary to make the value of the portion acquired by Abbott equal to the portion acquired by Takeda.

(*) These states are as of the split date.

- (vi) Voting rights held by the Company
 - Before the business combination 50%
 - After the business combination 100%

(2) Operating results of the subjected company for the year ended March 31, 2009
Regarding the accounting of TAP for the year ended March 31, 2009, the operating results for the period from April 1 to April 30, 2008 were accounted for using the equity method as in the previous years and those for the period from May 1, 2008 to March 31, 2009 were included in the consolidation.

(3) Profit or loss related to the business transferred in the company split in the year ended March 31, 2009
Gain on transfer of businesses: \$709,473 thousand

(4) Goodwill
No goodwill arose at the time of the business combination.

(5) Breakdown of acquired assets and liabilities as of the date of business combination

Current assets	\$ 950,401 thousand
Fixed assets	\$1,632,632 thousand
<u>Total assets</u>	<u>\$2,583,033 thousand</u>
Current liabilities	\$ 850,093 thousand
Fixed liabilities	\$ 760,718 thousand
<u>Total liabilities</u>	<u>\$1,610,811 thousand</u>

The purchase price has been allocated to intangible assets and in-process R&D expenses. The amounts are \$820,000 thousand and \$540,000 thousand respectively. The intangible asset is amortized over the estimated useful life.

Legal proceedings relating to the merger of TAP with TPNA after the split of TAP were completed on June 30, 2008. Simultaneous with the merger, TPNA transferred TAP's development function to TGRD in the form of contribution in kind to TGRD.

Application of U.S. Business Combination Accounting Standards in the Acquisition of Millennium Pharmaceuticals, Inc. by Tender Offer

- (1) Name and business of the acquired company, main reasons, date, legal format of the business combination, and shareholding status after the business combination
 - (i) Name of the acquired company
Millennium Pharmaceuticals, Inc. ("Millennium")
 - (ii) Business of the acquired company
Research, development, sales and marketing of bio-pharmaceutical drugs
 - (iii) Main reasons for the company acquisition
Millennium is a world leading bio-pharmaceutical company, placing emphasis on research and development of drugs for cancer and inflammation, and having strong R&D pipelines in those fields. The oncology field where Millennium is particularly strong is also one of Takeda's core therapeutic areas for R&D. To realize Takeda's goal to become a leading global pharmaceutical company, it is necessary for Takeda to establish itself as a leading company in the oncology field, which is expected to grow strongly in the future. Acquisition of Millennium will greatly contribute to this strategy. Upon successful completion of the tender offer, Takeda will position Millennium as a core business unit of the Takeda Group—responsible for the global oncology product strategy and related functions—and work quickly to maximize the synergies of the acquisition.
 - (iv) Date of the business combination
May 8, 2008 (U.S. time)
 - (v) Legal format of the business combination
Share acquisition by tender offer
 - (vi) Shareholding status after the business combination
Wholly owned subsidiary of the Company
- (2) Operating results of the acquired company for the year ended March 31, 2009
Operating results of the acquired company from May 9, 2008 to March 31, 2009 were included in the consolidated results of the Company for the year ended March 31, 2009.

(3) Acquisition cost of the acquired company

Acquisition price	Cash \$8,844,705 thousand
Other direct costs for the acquisition	\$ 21,330 thousand
	<u>\$8,866,035 thousand</u>

(4) Goodwill recognized and method and period of amortization

(i) Goodwill recognized as at the date of the business combination: \$3,003,872 thousand

(ii) Method and period of amortization

Although goodwill arising from a business combination is not amortizable under the U.S. business combination accounting standards, for the purpose of the consolidated accounting practices in Japan, Takeda amortizes the goodwill in equal amounts over 20 years in accordance with the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18 issued on May 17, 2006).

(5) Breakdown of acquired assets and liabilities as of the date of business combination

Current assets	\$ 1,942,788 thousand
Fixed assets	\$ 8,708,734 thousand
Total assets	<u>\$10,651,522 thousand</u>
Current liabilities	\$ 696,468 thousand
Fixed liabilities	\$ 1,092,691 thousand
Total liabilities	<u>\$ 1,789,159 thousand</u>

The purchase price has been allocated to intangible assets and in-process R&D expenses. The amounts are \$4,440,000 thousand and \$1,050,000 thousand respectively. The intangible asset is amortized over the estimated useful life.

5. Marketable and Investment Securities

The costs and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

2009	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Trading	¥ —	¥ —	¥ —	¥ —
Available-for-sale:				
Equity securities	37,538	130,820	378	167,980
Debt securities	3,399	—	—	3,399
Held-to-maturity	2,506	—	29	2,477

2008	Millions of yen			
	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Trading	¥ —	¥ —	¥ —	¥ —
Available-for-sale:				
Equity securities	37,912	215,675	490	253,097
Debt securities	40,463	1	11	40,453
Held-to-maturity	2,507	—	27	2,480

2009	Thousands of U.S. dollars			
	Cost	Unrealized gain	Unrealized loss	Fair value
Securities classified as:				
Trading	\$ —	\$ —	\$ —	\$ —
Available-for-sale:				
Equity securities	383,041	1,334,898	3,857	1,714,082
Debt securities	34,684	—	—	34,684
Held-to-maturity	25,572	—	296	25,276

Significant available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Cost		Cost
	2009	2008	2009
Equity securities	¥7,376	¥7,344	\$75,265
Debt securities	—	5,000	—
Other	179	182	1,827

The carrying amounts of debt securities by contractual maturities at March 31, 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
			2009
	2009	2008	2009
Due within one year or less	¥ —		\$ —
Due within one to five years	3,790		38,674
Due after five years	2,506		25,571
Total	¥6,296		\$64,245

Investments in affiliates at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
			2009
	2009	2008	2009
Investments at cost	¥ 583	¥ 4,800	\$ 5,949
Equity in undistributed earnings	7,795	24,839	79,541
Total	¥8,378	¥29,639	\$85,490

Financial information with respect to affiliates, recorded based on the equity method at March 31, 2009 and 2008 and for each of the three years ended March 31, 2009, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
			2009
	2009	2008	2009
Current assets	¥36,769	¥181,075	\$375,194
Other assets	7,724	47,138	78,816
Total	44,493	228,213	454,010
Current liabilities	18,994	134,580	193,816
Other liabilities	1,893	14,016	19,316
Net assets	¥23,606	¥ 79,617	\$240,878

	Millions of yen			Thousands of U.S. dollars
				2009
	2009	2008	2007	2009
Net sales	¥79,706	¥436,885	¥619,180	\$813,327
Net income	5,893	108,670	106,459	60,133

Sales to and purchases from affiliates were as follows:

	Millions of yen			Thousands of U.S. dollars
				2009
	2009	2008	2007	2009
Sales	¥32,238	¥111,179	¥144,651	\$328,959
Purchases	12,029	10,144	77,827	122,745

6. Inventories

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Finished products and merchandise	¥ 60,792	¥ 45,696	\$ 620,326
Work-in-process.	35,327	33,712	360,480
Raw materials and supplies.	35,539	36,723	362,643
Total	¥131,658	¥116,131	\$1,343,449

7. Bank Loans and Long-term Debt

Short-term bank loans at March 31, 2009 and 2008 consisted of notes to banks.

The weighted average annual interest rates of short-term bank loans at March 31, 2009 and 2008 were 1.4% and 2.4%, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Unsecured loans from banks and financial institutions			
Due 2008 to 2009, weighted-average rate 1.3% in 2008.	¥ —	¥ 800	\$ —
Secured loans from banks and financial institutions			
Due 2011, weighted-average rate 2.1% in 2009 and 2.1% in 2008	1,250	1,250	12,755
Lease Obligations			
Due 2010 to 2021, weighted-average rate 5.1% in 2009.	18,749	—	191,317
Total	19,999	2,050	204,072
Less current portion	2,199	800	22,439
Long-term debt, less current portion	¥17,800	¥1,250	\$181,633

The annual maturities of long-term debt as of March 31, 2009 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 2,199	\$ 22,439
2011	4,919	50,194
2012	2,183	22,276
2013	1,508	15,388
2014	1,146	11,694
After 2015	8,044	82,081
Total	¥19,999	\$204,072

At March 31, 2009, assets pledged as collateral for long-term debts were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥5,587	\$57,010

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.

8. Leases

1. As discussed in Note 3, the Company and consolidated domestic subsidiaries adopted the new accounting standard for finance lease effective from April 1, 2008.

Information on capitalized fixed assets used under finance lease arrangements for the year ended March 31, 2009 was as follows.

- (1) Description of fixed assets capitalized
- ① Tangible fixed assets, mainly buildings
 - ② Intangible fixed assets, software

- (2) Depreciation method

Leased assets are depreciated using the straight-line method over the lease term of the respective assets.

2. Pro forma information of leased property, such as acquisition cost, accumulated depreciation, future lease payments, lease payments and amounts equivalent to depreciation, and other information of finance lease that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at March 31, 2008 was as follows:

- (1) If the leases had been capitalized, the acquisition costs, accumulated depreciation and net book value of such leased assets at March 31, 2008 would have been as follows:

	Millions of yen		
	2008		
	Tools and fixtures	Machinery, equipment and carriers	Total
Acquisition costs	¥10,255	¥3,466	¥13,721
Accumulated Depreciation	5,116	1,791	6,907
Net book value.	¥ 5,139	¥1,675	¥ 6,814

- (2) Future lease payments

	Millions of yen
	2008
Due within one year	¥2,541
Due after one year.	4,273
Total	¥6,814

- (3) Lease payments and amounts equivalent to depreciation

	Millions of yen
	2008
Lease payments	¥2,722
Depreciation expense	2,722

- (4) Depreciation method for leased properties

The straight-line method is adopted over the period of the finance leases, assuming no residual value.

3. Operating leases

Future payments

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥1,773	¥2,031	\$18,091
Due after one year.	7,916	6,505	80,776
Total	¥9,689	¥8,536	\$98,867

9. Retirement Benefits

The Company and its subsidiaries have a retirement benefit scheme, which is a combination of a corporate pension fund plan, a qualified pension plan, a lump-sum severance plan, and a defined contribution pension plan.

The Company transferred part of a lump sum severance plan to a defined contribution pension plan and recorded ¥1,031 million as “other income” for the year ending March 31, 2008.

Reserve for employees’ retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ 236,874	¥ 240,442	\$ 2,417,082
Fair value of plan assets	(216,343)	(262,230)	(2,207,581)
Unrecognized actuarial gain	(45,593)	(5,953)	(465,235)
Unrecognized prior service cost	7,930	10,913	80,918
Sub Total	(17,132)	(16,828)	(174,816)
Prepaid pension costs	(34,020)	(34,365)	(347,143)
Reserve for employees’ retirement benefits	¥ 16,888	¥ 17,537	\$ 172,327

Partial adoption of a defined-contribution pension plan had the following impact on the balance sheet:

	Millions of yen
	2008
Decrease in projected benefit obligations	¥ (7,423)
Unrecognized net actuarial gain and loss	1,313
Decrease in reserve for retirement benefits	¥ (6,110)

The amount required to transfer from the Company to the defined-contribution pension plan is ¥5,080 million, which will be transferred in installment over four years.

Some consolidated subsidiaries use the simplified method in calculating the retirement benefit obligations.

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 3,710	¥ 4,879	\$ 37,857
Interest cost	4,757	4,913	48,541
Expected return on plan assets	(5,257)	(5,870)	(53,643)
Recognized actuarial (gain) loss	5,076	(5,587)	51,796
Amortization of prior service cost	(2,982)	(2,981)	(30,429)
Net periodic retirement benefit costs	5,304	(4,646)	54,122
Gain on transfer of the substitutional portion of the governmental pension program	—	(1,031)	—
Contribution paid to the defined contribution pension plan	1,150	559	11,735
Total	¥ 6,454	¥(5,118)	\$ 65,857

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Periodic allocation method for projected benefits	Straight line	Straight line
Discount rate	1.3%–2.3%	1.5%–2.0%
Expected rate of return on plan assets	1.5%–2.5%	1.5%–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 ¥647 million (\$6,602 thousand) and ¥2,220 million at March 31, 2009 and 2008, respectively.

10. Net Assets

Under the Japanese Corporate law and regulations (the "Corporate Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital 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 of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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.

The maximum amount that a company can distribute as dividends is calculated based on its non-consolidated financial statements in accordance with the Corporate Law.

The Corporate Law also provides for companies to purchase treasury stock and to dispose and cancel 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 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 equity or deducted directly from stock acquisition rights.

During fiscal 2008, the Company canceled 99,606 thousand shares in accordance with board resolutions. As a result, treasury shares decreased by ¥601,770 million (\$6,140,511 thousand) and retained earnings also decreased by the same amount.

Cash dividends charged to retained earnings during the three years ended March 31, 2009 represent dividends paid out during the period. The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥92.00 (US\$0.94) per share, aggregating ¥72,629 million (\$741,112 thousand) which was approved on June 25, 2009 in respect of the year ended March 31, 2009.

11. Stock Options

During fiscal 2008 the Company has implemented a stock option plan under which stock acquisition rights granted to directors of the Company. Stock option expense included in selling, general and administrative expenses for the year ended March 31, 2009 amounted to ¥86 million (\$878 thousand).

Stock options existing as of March 31, 2009 were as follows:

	2009
Persons granted	7 Directors
Number of stock (shares)	Common stock 62,400 shares
Date of grant	July 11, 2008
Exercise period	July 12, 2011 to July 11, 2018

Number movement and price of stock options as of March 31, 2009 were as follows:

Before vesting options

	2009
Balance at beginning of year	—
Granted	62,400 shares
Forfeited/expired before vested	—
Vested	—
Exercised	—
Forfeited/expired after vested	—
Balance at end of year	62,400 shares

Price information

	Yen	U.S. dollars
		2009
Exercise price	¥ 1	\$ 0.01
Fair value of options at grant date	4,395	44.85

The assumptions used to measure fair value of stock options were as follows:

	2009
Estimated method	Black-scholes option pricing model
Expected volatility	21.38%
Expected life	6.5 years
Expected dividend rate	3.13%
Risk-free interest rate	1.25%

12. Research and Development Expenses

Research and development expenses are charged to income as incurred. Research and development expenses for the years ended March 31, 2009, 2008 and 2007 were ¥453,046 million (\$4,622,918 thousand), ¥275,788 million and ¥193,301 million, respectively.

13. Sales of Shares of Affiliates and Business Transfer

As a result of the company split of TAP Pharmaceutical Products Inc. which was executed in April 30, 2008, the Company transferred U.S. *Lupron* business to Abbott Laboratories, resulting in a gain of ¥71,330 million (\$727,857 thousand) for the year ended March 31, 2009.

During the year ended March 31, 2008, the Company sold all the shares of Wyeth K.K., Takeda-Kirin Food Corporation, House Wellness Foods Corporation and Sumitomo Chemical Takeda Agro Company, Ltd., resulting in a gain of ¥38,645 million for the year ended March 31, 2008.

14. Income Taxes

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

	2009	2008	2007
Statutory tax rate	40.9%	40.9%	40.9%
Expenses not deductible for tax purposes	1.2	0.9	0.5
Increase/decrease in valuation allowance	0.9	2.8	0.0
Equity in earnings of affiliates	(0.3)	(3.5)	(3.3)
Non-taxable dividend income	(0.2)	(0.1)	(0.1)
Tax credits primarily for research and development costs	(8.2)	(3.9)	(1.2)
Correction for transfer pricing taxation	—	—	9.1
In-process R&D expenses arising from business combination	16.4	—	—
Gains on transfer of businesses and other items permanently nontaxable	(7.3)	—	—
Amortization of goodwill	1.5	—	—
Increase/decrease in tax effect of undistributed profit of overseas subsidiaries	(4.0)	—	—
Different tax rates applied to overseas subsidiaries	(1.4)	—	—
Other—net	1.0	0.8	(0.2)
Effective tax rate	40.5%	37.9%	45.7%

Deferred tax assets and liabilities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Reserve for bonuses	¥ 13,278	¥ 10,357	\$ 135,490
Research and development costs	91,558	63,972	934,265
Enterprise tax	5,666	6,639	57,816
Inventories	19,196	9,108	195,878
Accrued expenses payable	42,843	31,401	437,173
Unrealized profit on inventories	8,607	8,878	87,827
Tax credit for research expenses	52,791	28,039	538,684
Reserve for retirement benefits	5,691	5,816	58,071
Patents	43,782	33,552	446,755
Marketing right	10,242	14,530	104,510
Tax credit for net operating losses	41,939	18,859	427,949
Other	59,171	23,956	603,786
Total	394,764	255,107	4,028,204
Valuation allowance	(27,882)	(19,579)	(284,510)
Total deferred tax assets	366,882	235,528	3,743,694
Deferred tax liabilities:			
Prepaid pension costs	(13,914)	(14,055)	(141,980)
Undistributed earnings of foreign subsidiaries and affiliates	(15,484)	(31,333)	(158,000)
Unrealized gain on available-for-sale securities	(50,639)	(84,889)	(516,724)
Reserve for reduction of fixed assets	(12,656)	(11,904)	(129,143)
Tax effect of intangible assets related to business combination	(167,988)	—	(1,714,163)
Other	(18,607)	(7,975)	(189,868)
Total deferred tax liabilities	(279,288)	(150,156)	(2,849,878)
Net deferred tax assets	¥ 87,594	¥ 85,372	\$ 893,816

The amount of ¥57,080 million of additional taxes resulted from the correction for transfer pricing taxation regarding the product supply transaction between the Company and TAP Pharmaceutical Products Inc. is presented as "Income taxes—Prior years" in 2007.

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, chemical products, etc.

Summarized financial information by business segment for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen	
	Net sales	
	2009	2008
Pharmaceuticals	¥1,448,474	¥1,272,061
Other	89,862	102,741
Consolidated	¥1,538,336	¥1,374,802

	Millions of yen	
	Operating income	
	2009	2008
Pharmaceuticals	¥ 296,931	¥ 411,342
Other	9,467	11,688
Eliminations	70	93
Consolidated	¥ 306,468	¥ 423,123

	Thousands of U.S. dollars	
	Net sales	Operating income
	2009	2009
Pharmaceuticals	\$14,780,347	\$3,029,908
Other	916,959	96,602
Eliminations	—	714
Consolidated	\$15,697,306	\$3,127,224

There were no significant inter-segment sales.

	Millions of yen	
	Identifiable assets	
	2009	2008
Pharmaceuticals	¥1,674,656	¥ 783,906
Other	213,993	219,282
Eliminations/Corporate	871,539	1,846,091
Consolidated	¥2,760,188	¥2,849,279

	Millions of yen	
	Depreciation and amortization	
	2009	2008
Pharmaceuticals	¥ 110,123	¥ 24,423
Other	7,182	6,396
Corporate	776	871
Consolidated	¥ 118,081	¥ 31,690

	Millions of yen	
	Capital expenditures	
	2009	2008
Pharmaceuticals	¥ 898,670	¥ 29,949
Other	8,185	8,959
Consolidated	¥ 906,855	¥ 38,908

	Thousands of U.S. dollars		
	Identifiable assets	Depreciation and amortization	Capital expenditures
	2009	2009	2009
Pharmaceuticals	\$17,088,327	\$1,123,704	\$9,170,102
Other	2,183,602	73,286	83,520
Eliminations/Corporate	8,893,255	7,918	—
Consolidated	\$28,165,184	\$1,204,908	\$9,253,622

Corporate assets included in "Eliminations/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.

The amounts were as follows;

2009 ¥ 873,127 million (\$8,909,459 thousand)

2008 ¥1,847,623 million

The geographical segments consist of "Japan", "North America", "Europe" and "Asia".

Main countries and regions included in each geographical segments are as follows;

North America: United States

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

Asia: Taiwan, Indonesia, China

Geographic segment data were as follows:

	Millions of yen	
	Net sales	
	2009	2008
Japan	¥ 826,602	¥ 859,329
North America	571,696	357,905
Europe	130,979	147,308
Asia	9,059	10,260
Consolidated	¥1,538,336	¥1,374,802

	Millions of yen	
	Operating income	
	2009	2008
Japan	¥ 520,394	¥ 540,063
North America	187,354	125,701
Europe	31,897	32,049
Asia	1,359	1,812
Eliminations/Corporate	(434,536)	(276,502)
Consolidated	¥ 306,468	¥ 423,123

	Millions of yen	
	Identifiable assets	
	2009	2008
Japan	¥ 815,708	¥ 778,388
North America	1,027,612	197,100
Europe	94,111	111,597
Asia	14,398	15,153
Eliminations/Corporate	808,359	1,747,041
Consolidated	¥2,760,188	¥2,849,279

	Thousands of U.S. dollars		
	Net sales	Operating income	Identifiable assets
	2009	2009	2009
Japan	\$ 8,434,714	\$ 5,310,143	\$ 8,323,551
North America	5,833,633	1,911,776	10,485,837
Europe	1,336,520	325,480	960,316
Asia	92,439	13,867	146,918
Eliminations/Corporate	—	(4,434,042)	8,248,562
Consolidated	\$15,697,306	\$ 3,127,224	\$28,165,184

Operating expenses included in "Eliminations/Corporate" consisted principally of research and development costs.

The amounts were as follows;

2009 ¥453,046 million (\$4,622,918 thousand)
2008 ¥275,788 million

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

The amounts were follows;

2009 ¥ 936,991 million (\$9,561,133 thousand)
2008 ¥1,892,938 million

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

	Millions of yen			Thousands of U.S. dollars
	Net sales to customers outside Japan			Net sales to customers outside Japan
	2009	2008	2007	2009
North America	¥631,634	¥463,365	¥426,561	\$6,445,245
Europe	184,504	203,632	191,963	1,882,694
Other	26,991	27,205	24,979	275,418
Total	¥843,129	¥694,202	¥643,503	\$8,603,357

	Percentage of consolidated net sales		
	2009	2008	2007
North America	41.1%	33.7%	32.7%
Europe	12.0	14.8	14.7
Other	1.7	2.0	1.9
Total	54.8%	50.5%	49.3%

16. Contingencies

At March 31, 2009, contingent liabilities were as follows:

	Millions of yen	Thousands of U. S. dollars
Guarantees of Loans	¥1,897	\$19,357

17. Litigation

(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"). Actions have been brought against TPNA in several state courts over Pioglitazone (U.S. product name: *Actos*), and actions have been brought, including actions against the former TAP which was merged with TPNA on June 30, 2008, against TPNA in several federal and state courts over Lansoprazole (U.S. product name: *Prevacid*). In one case Takeda is also named as a defendant.

(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 ("ORTB"), which judged that the profits earned in the U.S. market, that had been distributed to the Company with respect to the products supply transactions for *Prevacid* between the Company and the former 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 the former TAP. The corrected amount of income is ¥122.3 billion for the six-year period, and the full amount of the additional tax in the amount of ¥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 ORTB.

On July 8, 2008, the Company filed with the National Tax Agency a request for mutual discussion with the U.S. to eliminate the double taxation arising from this tax correction in Japan. In connection with this filing, the protest filed with ORTB was temporarily suspended.