

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2006

May 11, 2006

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

Takeda Pharmaceutical Company Limited

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1. Results for Fiscal 2005 (April 1, 2005 - March 31, 2006)

(1) Sales and Income

All amounts are rounded to the nearest million yen.

| | Net sales (¥ million) | Year-on-year change (%) | Operating income (¥ million) | Year-on-year change (%) | Ordinary income (¥ million) | Year-on-year change (%) |
|-------------|--------------------------|----------------------------|---------------------------------|----------------------------|--------------------------------|----------------------------|
| Fiscal 2005 | 1,212,207 | 7.9 | 402,809 | 4.6 | 485,354 | 9.8 |
| Fiscal 2004 | 1,122,960 | 3.4 | 385,278 | 3.7 | 442,111 | (0.9) |

| | Net income (¥ million) | Year-on-year change (%) | Earnings per share (¥) | Earnings per share (diluted) (¥) | Return on equity (%) | Ordinary income/total assets (%) | Ordinary income/net sales (%) |
|-------------|---------------------------|----------------------------|---------------------------|--|-------------------------|--|-------------------------------------|
| Fiscal 2005 | 313,249 | 12.9 | 353.47 | — | 14.4 | 17.4 | 40.0 |
| Fiscal 2004 | 277,438 | (2.7) | 313.01 | — | 14.7 | 18.1 | 39.4 |

Notes:

- Equity in earnings of affiliates: ¥54,184 million (Fiscal 2004: ¥45,431 million)
- Average number of shares outstanding (consolidated): 885,209,917 shares (Fiscal 2004: 885,240,576 shares)
- Changes in accounting methods: Yes
- Year-on-year change (%) for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

(2) Financial Position

| | Total assets (¥ million) | Shareholders' equity (¥ million) | Shareholders' equity/total assets (%) | Shareholders' equity per share (¥) |
|-------------|-----------------------------|-------------------------------------|--|---------------------------------------|
| Fiscal 2005 | 3,042,294 | 2,348,429 | 77.2 | 2,652.59 |
| Fiscal 2004 | 2,545,435 | 2,001,414 | 78.6 | 2,260.52 |

Note: Number of shares outstanding at end of period (consolidated): 885,199,391 shares (Fiscal 2004: 885,221,980 shares)

(3) Cash Flows

| | Net cash provided by operating activities (¥ million) | Net cash provided by (used in) investing activities (¥ million) | Net cash used in financing activities (¥ million) | Cash and cash equivalents at end of period (¥ million) |
|-------------|---|--|---|--|
| Fiscal 2005 | 373,575 | 6,566 | (89,290) | 1,626,235 |
| Fiscal 2004 | 295,539 | (72,305) | (73,912) | 1,264,324 |

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

Consolidated subsidiaries: 46 companies

Unconsolidated subsidiaries accounted for by the equity method: None

Affiliated companies accounted for by the equity method: 20 companies

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

Consolidation: (New) 1 company (Eliminated) 3 companies

Equity method: (New) 1 company (Eliminated) 4 companies

2. Projected Results for Fiscal 2006 (April 1, 2006 - March 31, 2007)

| | Net sales (¥ million) | Ordinary income (¥ million) | Net income (¥ million) |
|----------------|-----------------------|-----------------------------|------------------------|
| Interim period | 605,000 | 245,000 | 175,000 |
| Fiscal 2006 | 1,230,000 | 486,000 | 320,000 |

Reference: Estimated earnings per share (fiscal 2006): ¥361.50

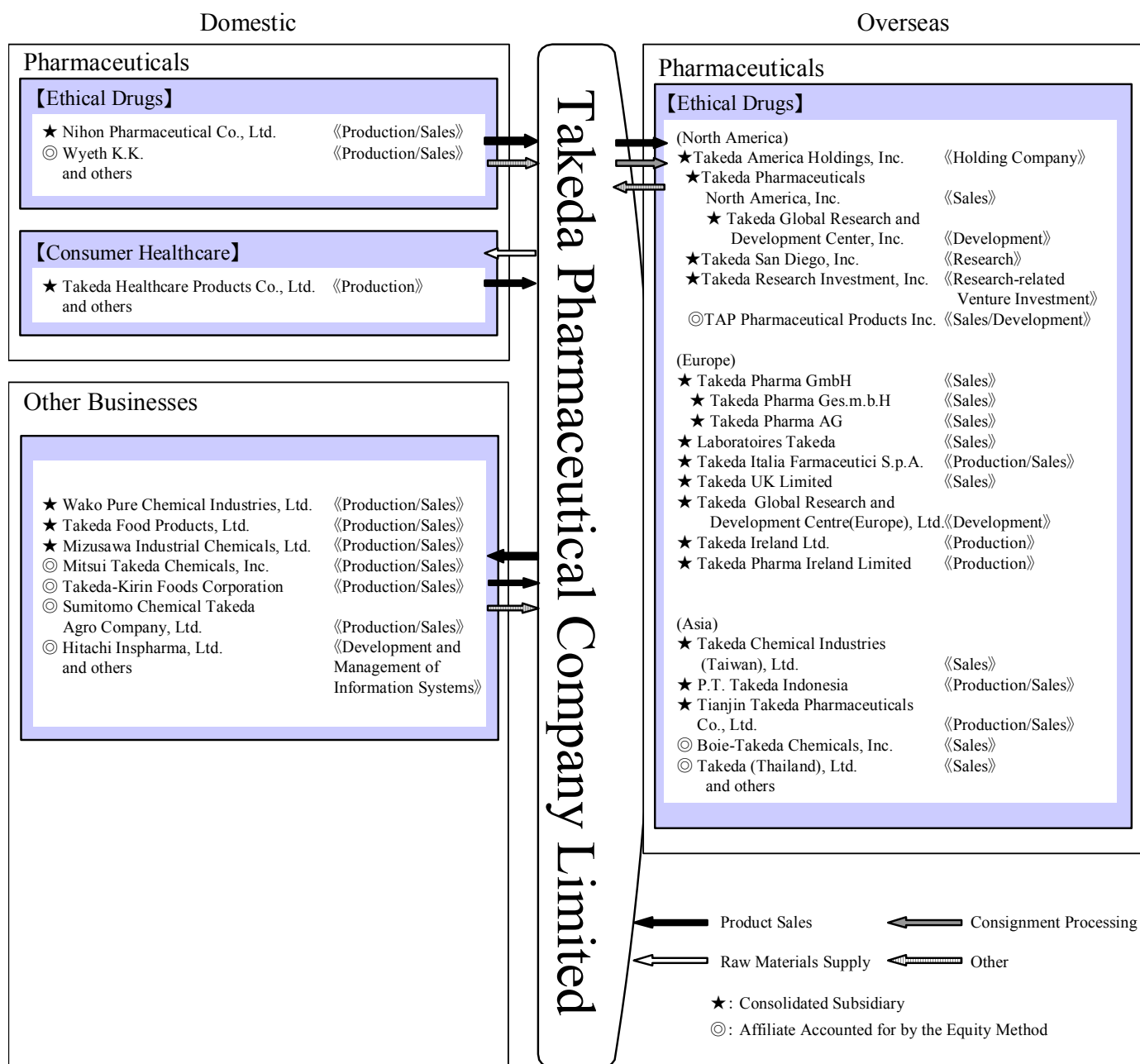
Note: For the assumptions and other issues related to the above projections, please refer to page 15-16.

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(1) The Takeda Group

The Takeda Group consists of 67 companies, including the parent company submitting these consolidated financial statements, 46 consolidated subsidiaries and 20 affiliates accounted for by the equity method. The following chart shows the main business areas of the Takeda Group, the position of the companies that make up the Group within their respective areas of business, and relationships with each segment.



1. In April 2006, all the shares of Mitsui Takeda Chemicals, Inc. held by Takeda were transferred to Mitsui Chemicals, Inc.
2. In April 2006, the beverage and food business of Takeda Food Products, Ltd. was transferred to House Wellness Foods Corporation, Ltd., a joint venture with House Foods Corporation, in which Takeda holds 34% share.

Consolidated Subsidiaries and Affiliates

(Consolidated Subsidiaries)

| Company name | Address | Capital (millions of yen) | Principal business | Percentage of voting shares owned (%) | Transactions | Other |
|--|------------------------------------|---------------------------------|---|---|--|---|
| Nihon Pharmaceutical Co., Ltd. | Chiyoda-ku, Tokyo | ¥760 | Pharmaceuticals (Ethical Drugs and Consumer Healthcare) | 87.5 (1.0) | Sells drugs, etc., to Takeda | — |
| Takeda Pharmaceuticals North America, Inc. | Lincolnshire, IL U.S.A. | US\$1 | Pharmaceuticals (Ethical Drugs) | 100.0* (100.0) | Purchases drugs from Takeda | — |
| Takeda Pharma GmbH | Aachen, Germany | EURO 5 million | Pharmaceuticals (Ethical Drugs) | 100.0 | Purchases drugs from Takeda | — |
| Takeda Pharma Ges.m.b.H | Vienna, Austria | EURO 0.1 million | Pharmaceuticals (Ethical Drugs) | 100.0** (100.0) | — | — |
| Takeda Pharma AG | Lachen, Switzerland | CHF0.3 million | Pharmaceuticals (Ethical Drugs) | 100.0** (100.0) | — | — |
| Laboratoires Takeda | Puteaux Cedex, France | EURO 2 million | Pharmaceuticals (Ethical Drugs) | 100.0 | Purchases drugs from Takeda | — |
| Takeda Italia Farmaceutici S.p.A. | Rome, Italy | EURO 1 million | Pharmaceuticals (Ethical Drugs) | 76.9 | Purchases drugs from Takeda | — |
| Takeda UK Limited | Buckinghamshire, United Kingdom | £86 million | Pharmaceuticals (Ethical Drugs) | 100.0 | Purchases drugs from Takeda | — |
| Takeda Chemical Industries (Taiwan), Co., Ltd. | Taipei, Taiwan | NT\$90 million | Pharmaceuticals (Ethical Drugs) | 100.0 | Purchases drugs from Takeda | — |
| P.T. Takeda Indonesia | Jakarta, Indonesia | Rp1,467 million | Pharmaceuticals (Ethical Drugs) | 70.0 | Purchases drugs from Takeda | — |
| Tianjin Takeda Pharmaceuticals Co., Ltd. | Tianjin, China | US\$19 million | Pharmaceuticals (Ethical Drugs) | 75.0 | Purchases drugs from Takeda | — |
| Takeda America Holdings, Inc. | New York, NY U.S.A. | US\$2,827 million | Pharmaceuticals (Ethical Drugs) | 100.0 | — | — |
| Takeda San Diego, Inc. | San Diego, CA U.S.A. | US\$1 | Pharmaceuticals (Ethical Drugs) | 100.0* (100.0) | Handles drug research and development on behalf of Takeda | — |
| Takeda Research Investment, Inc. | Palo Alto, CA U.S.A. | US\$17 million | Pharmaceuticals (Ethical Drugs) | 100.0* (100.0) | — | — |
| Takeda Global Research and Development Center, Inc. | Lincolnshire, IL U.S.A. | US\$5 million | Pharmaceuticals (Ethical Drugs) | 100.0*** (100.0) | Handles drug development and approval on behalf of Takeda | — |
| Takeda Global Research & Development Centre (Europe), Ltd. | London, United Kingdom | £0.8 million | Pharmaceuticals (Ethical Drugs) | 100.0 | Handles drug development and approval on behalf of Takeda | — |
| Takeda Ireland Ltd. | Kilruddery, Ireland | EURO 92 million | Pharmaceuticals (Ethical Drugs) | 100.0 | Handles drug manufacture on behalf of Takeda | — |
| Takeda Pharma Ireland Limited | Dublin Ireland | EURO 514 million | Pharmaceuticals (Ethical Drugs) | 100.0 | — | — |
| Takeda Healthcare Products Co., Ltd. | Fukuchiyama, Kyoto | ¥400 | Pharmaceuticals (Consumer Healthcare) | 100.0 | Sells over-the- counter drugs to Takeda | Leases land and buildings from Takeda |
| Wako Pure Chemical Industries, Ltd. | Chuo-ku, Osaka | ¥2,340 | Other (others) | 70.3 (0.8) | Sells reagents to Takeda | — |
| Takeda Food Products, Ltd. | Chuo-ku, Osaka | ¥2,000 | Other (others) | 100.0 | Purchases quasi- drugs from Takeda | — |
| Mizusawa Industrial Chemicals, Ltd. | Chuo-ku, Tokyo | ¥1,519 | Other (others) | 54.2 (1.1) | — | — |
| and 24 others | | | | | | |

(Affiliates)

| Company name | Address | Capital (millions of yen) | Principal business | Percentage of voting shares owned (%) | Transactions | Other |
|---|------------------------|---------------------------|---|---------------------------------------|---|---------------------------------------|
| Wyeth K.K. | Chuo-ku, Tokyo | ¥1,890 | Pharmaceuticals (Ethical Drugs and Consumer Healthcare) | 30.0 | Sells drugs to Takeda | — |
| TAP Pharmaceutical Products Inc. | Lake Forest, IL U.S.A. | US\$40 million | Pharmaceuticals (Ethical Drugs) | 50.0* (50.0) | Purchases drugs from Takeda | — |
| Boie-Takeda Chemicals, Inc. | Manila, Philippines | PHP107 million | Pharmaceuticals (Ethical Drugs) | 50.0 | Purchases drugs from Takeda | — |
| Takeda (Thailand), Ltd. | Bangkok, Thailand | THB20 million | Pharmaceuticals (Ethical Drugs) | 48.0 | Purchases drugs from Takeda | — |
| Mitsui Takeda Chemicals, Inc. | Chiyoda-ku, Tokyo | ¥20,008 | Other (others) | 49.0 | — | — |
| Takeda-Kirin Foods Corporation | Chuo-ku, Tokyo | ¥5,000 | Other (others) | 34.0 | — | — |
| Sumitomo Chemical Takeda Agro Company, Ltd. | Chuo-ku, Tokyo | ¥9,380 | Other (others) | 40.0 | — | Leases land and buildings from Takeda |
| Hitachi Inspharma, Ltd. | Nishi-ku, Osaka | ¥225 | Other (others) | 34.0 | Handles development and management of information systems on behalf of Takeda | — |
| and 12 others | | | | | | |

Notes:

1. In the “Principal business” column, the name of the company’s principal business segment is shown.
2. Takeda America Holdings, Inc., Takeda UK Limited, Takeda Ireland Ltd. and Takeda Pharma Ireland Limited are qualified as special subsidiaries.
3. Companies with a single asterisk (*) are owned by Takeda America Holdings, Inc., companies with a double asterisk (**) are owned by Takeda Pharma GmbH, and company with a triple asterisk (***) is owned by Takeda Pharmaceuticals North America, Inc.
4. Wako Pure Chemical Industries, Ltd. issues a securities report (*yuka shoken hokokusho*) to the Ministry of Finance in Japan.
5. Figures in parentheses in “Percentage of voting shares owned” represent the percentage indirectly owned by Takeda Pharmaceutical Company Limited.
6. With regard to life-environmental business, shares of Japan EnviroChemicals, Ltd. and four other consolidated subsidiaries and equity-method affiliated companies were transferred to Osaka Gas Chemicals Co., Ltd., a subsidiary of Osaka Gas Co., Ltd.
7. In April 2005, a part of Wyeth K.K. shares owned by Takeda was transferred.
8. In April 2005, a part of Takeda-Kirin Foods Corporation shares owned by Takeda was transferred to Kirin Brewery Co, Ltd.
9. In June 2005, all of Takeda’s shares in Takeda Schering-Plough Animal Health were transferred to Schering-Plough, K.K.
10. In January 2006, all Takeda’s shares in BASF Takeda Vitamin, K.K, were transferred to BASF Japan, Ltd.
11. In February 2006, Hitachi Inspharma, Ltd., a joint venture with Hitachi, Ltd., was established.
12. In February 2006, Takeda San Diego, Inc. reduced its capital stock to US\$1 (one US dollar).

(2) Management Policy

Focusing on “Takeda-ism” which refers to integrity= fairness, honesty, perseverance) as the basis for all its business activities, Takeda is aiming at realizing its management mission of “striving toward better health for individuals and progress in medicine by developing superior pharmaceutical products.”

In the 2001-2005 Medium-term Management Plan, the Company promoted its specialization in the pharmaceutical business, marking the first step towards becoming a world-class pharmaceutical company. Now the Company has developed the “2006-2010 Medium-term Management Plan,” which targets the promotion of further improvements built on the achievements during the previous management plan, and realizing “a world-class pharmaceutical company with Japanese origin” with the prominent perspective for a medium-to-long future, while adhering to “Takeda-ism” as its core policy.

Fiscal 2006 is an important year as a start of the 2006-2010 Medium-term Management Plan. Collective efforts of the Group will be focused on comprehensive improvement of strengths such as “establishment and in-depth implementation of strategies from a long-term perspective” and “high productivity and efficiency”. We will also concentrate all energies into the following tasks to promote continuous growth and maximization of the corporate value of the Takeda Group:

(1) Enhancement of R&D pipeline centered on creation of new drugs from in-house R&D activities

As a “Research & Development-oriented global company,” Takeda will make strategic and selective investments in R&D activities, and establish an organization that is able to create new drugs constantly from in-house research. Thorough review of the R&D processes and concentrating resources to selected strategic projects will be conducted in order to improve the speed and efficiency of R&D. The Company will achieve steady growth over the medium-to-long-term period, mainly driven by its in-house products.

(2) Formulation of a tri-polar marketing function (Japan, the U.S., Europe)

Takeda will establish an efficient and unique sales promotion model by sharing the best practices of marketing activities in markets of Japan, the U.S. and Europe, and build a lean and robust organization that is able to conduct self-sustaining and appropriate operations for respective markets.

(3) Establishment of an efficient global management scheme for corporate headquarters’ functions

Functions of research, development, manufacturing, sales, alliance, and intellectual property will be further strengthened. We will also establish an organization in which these functions effectively work together to support successful business operations in the global market. Human resources, finance and accounting and other corporate functions will be controlled by the Head Office of Takeda Pharmaceutical Company for respective functions, while maintaining the principles of “self-responsibility” and “self-independency” of each group company. Under this efficient global management system led by the Head Office of Takeda Pharmaceutical Company in Japan, human resources for Japan and overseas will be secured, and well-coordinated Group management with optimum personnel planning will be realized.

[Basic Policy for Profit Distribution]

Takeda has increased its profit distribution to shareholders, aiming at 30% dividend payout ratio on a consolidated basis. And for fiscal 2005, which is the final year of the 2001-2005 Medium-

term Management Plan, the consolidated payout ratio of the Company will be 30.0%, as explained below.

In the 2006-2010 Medium-term Management Plan, aiming at continuous improvement of its corporate value, Takeda will continue strategic investment mainly in enhancement of the R&D pipeline and improvement of business infrastructure both in Japan and overseas necessary as an R&D-oriented global company. While continuing our efforts to steadily increase the dividend payout ratio, Takeda will conduct share buyback as needed for the purpose of improving capital efficiency and realizing expeditious financial strategies, based on its comprehensive judgment on fund requirements.

Our basic dividend policy is to maintain stable profit distribution for a long period of time according to the consolidated financial results, while continuing our efforts to increase the dividend payout ratio. The Company has set a goal of gradually increasing the payout ratio to achieve approximately 45% consolidated payout ratio in the last year of the medium-term plan.

Takeda has been paying dividends to shareholders twice a year (interim dividend and year-end dividend). Although the limitation on the frequency of profit distribution was eliminated in the new Corporate Law of Japan effective May 1, 2006, Takeda will not change the frequency of dividend payment for the time being.

[Principle and Policy for Investment Unit]

On September 2, 2002, from the viewpoint of encouraging participation of more investors, promoting trading of the Company's shares and expanding the diversity of investors, the Company changed the trading unit of its shares from 1,000 shares to 100 shares.

(3) Results of Operations and Financial Position

1. Summary of Annual Results

1) Overview of Results

The slow-down in growth of the U.S. market, which accounts for almost 50 percent of the total ethical pharmaceutical market in the world, has continued due to the promotion of less expensive generic drug use and the increasing pressure for price reduction in branded products as a result of strong requests by the federal and state governments and Managed Care, together with the impact of prescription-to-OTC switch drugs. Especially in the peptic ulcer therapeutic area, one of Takeda's main franchises, the market for branded products has shown little growth due to the increasing penetration of generic drugs and RX-to-OTC switches. Medicare Part D (prescription drug benefits for outpatients under the federal insurance plan for the elderly), started in the U.S. in January 2006, is expected to bring quantitative expansion of the market in the short term. However, we cannot be very sure about the future as it is very likely that demand for price reduction will become stronger.

In Japan, upon the revision of NHI drug prices by the government for fiscal 2006, the additional price reduction for branded products, in case its generic versions are available, was implemented, in addition to the regular reduction of NHI drug prices. The use of generic drugs has also been promoted. In these situations, we expect that the growth rate of the market in Japan will remain low in fiscal 2006. Competition has also become keener for Takeda's two mainstay products for treatment of peptic ulcer and for diabetes respectively, because of launch of generic versions in July 2005.

Market growth is moderate in the European market due to similar factors including the reduction of drug prices, promotion of generic drug use and the continued expansion of parallel imports.

With the slowdown of the major markets in the world as explained above, corporate mergers by pharmaceutical companies are continuing, aiming to expand their scale to cover the increasing R&D costs. Accordingly, competition among companies is becoming fiercer.

Under these circumstances, consolidated results for the year ending March 31, 2006 were as follows:

(Billions of yen)

| | | <u>Year-on-year change</u> |
|------------------|----------|----------------------------|
| Net sales | ¥1,212.2 | ¥89.2 (7.9%) increase |
| Operating income | ¥402.8 | ¥17.5 (4.6%) increase |
| Ordinary income | ¥485.4 | ¥43.2 (9.8%) increase |
| Net income | ¥313.2 | ¥35.8 (12.9%) increase |

[Consolidated net sales]

Consolidated net sales increased by ¥89.2 billion (7.9%) from the previous year to ¥1,212.2 billion.

- The increase in net sales was supported by the sales growth of in-house ethical drugs, which more than offset the decrease in sales resulting from the transfer of subsidiaries' and affiliated companies' stocks in the Life-Environment business in April 2005. Sales of ethical drugs increased from the previous year in all three markets of Japan, the U.S. and Europe.
- As for the movement in exchange rates, the yen was weaker against both the U.S. dollar and the euro, compared with the previous year. The net effect of these exchange rate fluctuations increased our consolidated net sales by 17.2 billion yen from the last year.
- The table below shows consolidated sales of international strategic products:

(Billions of yen)

| | | |
|---|--------|---|
| Drug for prostate cancer and endometriosis treatment <i>Leuprorelin</i> (Domestic product name: <i>Leuplin</i>) | ¥122.4 | ¥6.4 (5.5%) increase from the previous year |
| Drug for peptic ulcer treatment <i>Lansoprazole</i> (Domestic product name: <i>Takepron</i>) | ¥159.9 | ¥0.1 billion (0.1%) decrease |
| Drug for hypertension treatment <i>Candesartan</i> (Domestic product name: <i>Blopress</i>) | ¥191.3 | ¥38.9 (25.5%) increase |
| Drug for diabetic treatment <i>Pioglitazone</i> (Product name: <i>Actos</i>) | ¥243.8 | ¥50.8 (26.3%) increase |

[Gross profit]

Gross profit increased ¥86.3 billion (10.2%) from the previous year to ¥930.1 billion.

- The gross profit margin ratio improved 1.6 points to 76.7%, supported by an increase in sales of in-house ethical drugs that have high gross profit ratios, and the impact of the exclusion from the consolidated results of sales of Life-Environment Business products that have a lower gross profit ratio.

[Operating income]

Operating income increased ¥17.5 billion (4.6%) from the previous year to ¥402.8 billion.

- Operating income increased due to the increase in gross profit, which was partially offset by the increase in selling, general and administrative expenses by ¥68.8 billion from the previous year to ¥527.3 billion.
- R&D expenses included in these selling, general and administrative expenses increased by ¥28.2 billion to ¥169.6 billion, mainly due to increased cost resulting from the progress of development projects, promotion of in-licensing and alliance activities, and R&D expenditures in Takeda San Diego, Inc. (hereinafter "TSD"), a consolidated subsidiary acquired in March 2005.
- Selling, general and administrative expenses excluding R&D expenses also increased from the previous year due to the increased expenses incurred by Takeda Pharmaceuticals North America, Inc. (hereinafter "TPNA") for launching preparation of ROZEREM (a drug for treatment of insomnia), *ACTOplus Met* (a drug for Type II diabetes, a fixed combination of *Actos* and *metformin*) and *AMITIZA* (a drug for chronic idiopathic constipation).

[Ordinary income]

Ordinary income increased 43.2 billion (9.8%) from the previous year to ¥485.4 billion.

- In addition to the increase in the operating income, net non-operating income increased by ¥25.7 billion yen to ¥82.5 billion yen, which contributed to the increase in ordinary income.
- Equity in earnings of affiliated companies, which was reported in the non-operating income category, increased ¥8.8 billion (19.3%) to 54.2 billion, supported by the increase of profit in TAP Pharmaceutical Products Inc. (hereinafter “TAP”), a US affiliated company, which increased by ¥11.8 billion (29.4%) to ¥52.1 billion.
- Other net non-operating income increased ¥17.0 billion compared to the previous year, mainly due to the increase in interest income received by Takeda America Holdings, Inc. (hereinafter “TAH”), a U.S subsidiary of the Company.

[Consolidated net income]

Consolidated net income increased ¥35.8 billion (12.9%) from the previous year to ¥313.2 billion.

- In addition to the increase in the ordinary income, the extraordinary income recorded ¥32.6 billion (an increase by ¥33.6 billion from the previous year when the net of extraordinary income/expenses was negative) also contributed to the increase in the net income.
- Extraordinary income includes a gain from discontinuance of the handling of retirement annuities (employee pension fund) for the Company’s employees on behalf of the government, a gain from the transfer of stocks of subsidiaries and affiliated companies engaged in the Life Environment business, and a gain from the partial transfer of stocks of Wyeth K.K. and Takeda-Kirin Foods Corporation.
- Earnings per share increased ¥40.46 to ¥353.47.

2) Cash Flow

Cash flow for the current year resulted in a net surplus of ¥361.9 billion.

Cash flow increased by ¥197.4 billion from the previous year due to the increase in net income before tax adjustments, and a gain from the transfer of stocks of subsidiaries and affiliated companies engaged in the Life Environment business, and a gain from the partial transfer of stocks of Wyeth K.K. and Takeda-Kirin Foods Corporation. Investment in property, plant and equipment totaled ¥32.6 billion, including the construction of the new head office building of TPNA.

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, 2006 totaled ¥1,626.2 billion.

Historical cash flow indicators are as shown below.

| | Year ended 3/31/02 | Year ended 3/31/03 | Year ended 3/31/04 | Year ended 3/31/05 | Year ended 3/31/06 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Shareholders' equity ratio | 72.3% | 76.1% | 76.3% | 78.6% | 77.2% |
| Shareholders' equity ratio on market value basis | 235.2% | 190.4% | 175.9% | 177.7% | 195.2% |
| Debt repayment term (years) | 0.03 | 0.02 | 0.02 | 0.03 | 0.02 |
| Interest coverage ratio | 429.3 | 975.8 | 1,297.5 | 1,451.6 | 1,466.1 |

Notes:

Shareholders' equity ratio: Shareholders' equity/Total assets

Shareholders' equity ratio on market value basis : Market capitalization/Total assets

Debt repayment term: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/interest expenses

* Each indicator is calculated based on consolidated financial results.

* Market capitalization is calculated by multiplying the closing price at the term-end by the number of outstanding shares at the term-end (excluding treasury stocks).

* Operating cash flow is net cash provided by operating activities reported on the consolidated statement of cash flow, less interest expense and income taxes paid. Interest-bearing debt includes all liabilities reported on the consolidated balance sheet on which interest is paid. For interest payments, the amount of interest payment reported on the consolidated statement of cash flow is used.

3) Dividend

Takeda plans to pay a year-end dividend of ¥53.00 per share. This, together with the interim dividend of ¥53.00 already paid, will achieve an annual dividend of ¥106.00 for the year ended March 31, 2006 (consolidated payout ratio of 30.0%), an increase by ¥18.00 yen from the previous year.

4) Results by Segment

(1) Business Segment

The following table shows sales and operating income of each business segment:

(Billions of yen)

| Type of business | Net sales | | Operating income | |
|-------------------------|-----------|---------------------|------------------|---------------------|
| | Amount | Year-on-year change | Amount | Year-on-year change |
| Pharmaceuticals Segment | ¥1,074.5 | ¥104.0 increase | ¥388.1 | ¥10.4 increase |
| Ethical Drugs | ¥1,019.1 | ¥104.3 increase | | |
| (Domestic) | (¥493.5) | (¥41.6 increase) | | |
| (Overseas) | (¥525.6) | (¥62.7 increase) | | |
| Consumer Healthcare | ¥55.4 | ¥0.2 decrease | | |
| Other Segment | ¥137.7 | ¥14.8 decrease | ¥14.7 | ¥7.1 increase |
| Total | ¥1,212.2 | ¥89.2 increase | ¥402.8 | ¥17.5 increase |

(Note) From the current year, handling of the portion of costs and expenses not allocatable to specific business segments, which previously included in “Eliminations/Corporate” category, was changed. (For details, refer to 1. Business Segment Information (Note 3*)[10. Segment Information] in Page 30.

In response to this change, figures for the previous year are restated according to the new method.

Sales figures for each segment refer to sales to outside customers.

[Pharmaceuticals Segment]

Consolidated net sales by the Pharmaceuticals segment increased by ¥104.0 billion (10.7%) to ¥1,074.5 billion. Operating income increased by ¥10.4 billion (2.8%) to ¥388.1 billion.

- Sales by the Ethical Drugs business increased by ¥104.3 billion (11.4%) to ¥1,019.1 billion. Sales in the Japanese market increased by ¥41.6 billion (9.2%) to ¥493.5 billion, including the following major products:

(Billions of yen)

| | | |
|---|--------|------------------------|
| <i>Blopress</i> | ¥123.4 | ¥19.9 (19.2%) increase |
| <i>Actos</i> | ¥24.2 | ¥8.7(56.6%) increase |
| <i>Takepron</i> | ¥55.0 | ¥7.6(16.0%) increase |
| <i>Leuplin</i> | ¥63.2 | ¥3.5(5.9%) increase |
| <i>Basen</i> (Improving agent for postprandial hyperglycemia in diabetes mellitus) | ¥63.6 | ¥2.1(3.4%) increase |

- Sales of ethical drugs overseas increased by ¥62.7 billion (13.5%) to ¥525.6 billion, partly due to favorable impact by the weaker yen.

Although royalty income from TAP decreased, sales of *Actos* increased by US\$254 million to US\$1,783 million, supported by *ACTOplus Met*, launched in November 2005 by TPNA. Sales of ROZEREM, launched in September 2005, totaled US\$26 million. In April 2006, *AMITIZA* was launched.

In Europe, sales of *Actos* and *Leuprorelin* increased.

- Sales by the *Consumer Healthcare* business decreased by ¥0.2 billion (0.4%) to ¥55.4 billion. While sales of *Nicorette* increased due to the impact of the launch of *Nicorette Cool Mint* in December 2005 and sales of *Actage AN* tablets also increased, sales declines were recorded in the product categories of *Alinamin* tablets, *Alinamin* drinks, and *Hicee*.

[Other Segment]

Sales by Other segment decreased by ¥14.8 billion (9.7%) from the previous year to ¥137.7 billion. Operating income increased by ¥7.1 billion (93.7%) to ¥14.7 billion.

- The sharp decline in sales was due to exclusion from the consolidation of product sales by subsidiaries and affiliated companies engaged in the Life Environment business as a result of the transfer of their stocks in April 2005.

In April 2006, the beverage and food business of Takeda Food Products, Ltd., a Takeda subsidiary, was transferred to House Wellness Foods Corporation, Ltd., a joint venture between Takeda and House Foods Corp. As a result of this transfer, sales from the foods and beverage business of Takeda Food Products, Ltd. will be excluded from the consolidated financial report of the Company in fiscal 2006. (In connection with this transaction, it is expected that a gain from transfer of business about ¥19 billion will be recorded in fiscal 2006.)

(2) Geographical Segments

The following table shows sales and operating income of each geographical segment:

(Billions of yen)

| Geographical segment | Net sales | | Operating income | |
|-----------------------|-----------|---------------------|------------------|---------------------|
| | Amount | Year-on-year change | Amount | Year-on-year change |
| Japan | ¥963.4 | ¥46.1 increase | ¥517.3 | ¥55.8 increase |
| North America | ¥216.3 | ¥44.8 increase | ¥32.6 | ¥11.8 decrease |
| Europe | ¥124.0 | ¥15.5 increase | ¥24.6 | ¥6.9 increase |
| Asia | ¥8.5 | ¥0.5 increase | ¥1.6 | ¥0.2 increase |
| Elimination/Corporate | (¥100.0) | ¥17.7 decrease | (¥173.3) | ¥33.6 decrease |
| Total | ¥1,212.2 | ¥89.2 increase | ¥402.8 | ¥17.5 increase |

(Note) From the current year, geographical segments, which were formerly classified as “Japan,” “North America” and “Europe and Asia,” are divided into the four regions of “Japan,” “North America,” “Europe” and “Asia.”

From the current year, handling of the portion of costs and expenses not allocatable to specific business segments, which was previously included in the “Eliminations/Corporate” category, was changed. (For details, refer to 2. Geographical Segment Information (Note 2*) of [10. Segment Information] in Page 31.)

In response to this change, figures in the previous year are restated according to the new method. In accordance with rules for consolidated financial statements, equity in earnings of affiliates is recorded as non-operating income.

5) Research & Development

Aiming at expanding our R&D pipelines that serve as resources for growth and launching new products in the market more quickly, Takeda intensively invests its business resources in the four core therapeutic areas of lifestyle-related disease; cancer and urological disease (including gynecology); central-nervous system diseases (including bone and joint diseases); and life-cycle management of gastroenterology diseases, through the three strategic pillars of in-house research and development, maximization of added value of products, and in-licensing and alliances activities. Major results of R&D activities during the current year are:

[In-house R&D]

- In July 2005, an approval for marketing was granted by the Food and Drug Administration (FDA) in the U.S. for ROZEREM, a drug for treatment of insomnia and the first in-house product of Takeda following on after Actos. It was launched by TPNA in September 2005.
- In July 2005, Takeda acquired from Pharmaceutical Product Development, Inc. (PPD), PPD’s 50% rights to develop and market the agents for diabetes *Dipeptidylpeptidase IV inhibitor (DPP IV)*, which had been invented by TSD and jointly developed with PPD.
- In July 2005, “Fast Track designation” was acquired from the U.S. FDA for TAK-242, a drug for severe sepsis. Now global Phase III trials are being conducted concurrently in Japan, the U.S. and Europe.
- In August 2005, TAP started the Phase III trials for TAK-390MR, a peptic ulcer treatment created by Takeda (the Phase I trials are being conducted in Japan).
- In September 2005, an approval for manufacturing was granted from the Ministry of Health, Labor and Welfare for *Pacif Capsule*, a drug for cancerous pain, and it was launched in April 2006.
- In January 2006, Takeda started the Phase III trials in the U.S. and Europe for SYR-322 (DPP IV inhibitor), a drug for diabetes treatment (the Phase I trials are being conducted in Japan).

- In February 2006, Takeda started the Phase II trials for patients with postherpetic neuralgia in the U.S. and Europe for TAK-583, a drug for neuropathic pain improving drug (the Phase I trials are being conducted in Japan).

[Maximization of Added Value of Products]

<Candesartan>

- In May 2005 in the U.S., approval for its combined use with an ACE inhibitor was granted by the FDA for chronic heart failure indication that had been already approved in the U.S.
- In October 2005, with regard to *Blopress tablets 2, 4 and 8mg* for hypertension treatment, Takeda received an approval for the indication for chronic heart failure from the Ministry of Health, Labor and Welfare, as the first angiotensin II receptor blocker for that indication in Japan.

<Pioglitazone>

- In June 2005, Takeda filed with the U.S. FDA a new drug application for marketing of a fixed combination product of *glimepiride*, which is *sulphonylurea* (SU), and *Actos*. A new drug application for this drug was also filed with the European Medicines Evaluation Agency in July 2005.
- In August 2005, an approval was granted by the U.S. FDA for marketing of *ACTOplus Met*, a fixed combination of *Actos* with *metformin*. Upon receipt of this approval, TPNA started marketing of this drug in November 2005.
- In September 2005, the results of PROactive Study (a randomized, double blind, placebo-controlled outcome study to determine the effect of ACTOS on mortality and morbidity associated with cardiovascular disease progression in high risk patients with type 2 diabetes) were announced. This is the first study in the world to show that a specific oral glucose lowering medication, *Actos*, can significantly improve cardiovascular outcomes by helping to delay or reduce heart attacks, strokes and death in high-risk patients.
- In March 2006, Takeda filed with the U.S. FDA a new drug application for marketing of *ACTOplus Met XR*, a fixed combination drug of *Actos* and *metformin extended release form*.

<Leuprorelin>

- In August 2005, regarding *Leuplin SR Injection Kit 11.25*, Takeda received an approval for an indication for premenopausal breast cancer from the Ministry of Health, Labor and Welfare. This approval also paved the way for its use as adjuvant postoperative therapy for premenopausal breast cancer.
- A new drug application for marketing a six-month depot formulation was filed in Germany (June 2005), Italy (October 2005) and France (November 2005), respectively.

<Ramelteon>

- In April 2004, aiming at an additional indication of Alzheimer's sleep/awakening disorder, Phase II trials were started in the U.S.

[In-licensing and Alliance Activities]

- In June 2005, Takeda reached an agreement with Paradigm Therapeutics of U.K. regarding joint research in the central nervous system therapeutic area, and commenced the joint research in July.
- In September 2005, Takeda and Merck KGaA of Germany reached an agreement on the joint development and sale in the U.S., Japan, Europe and some Asian countries, of Matuzumab, the humanized antibody against epidermal growth factor receptor, which is responsible for the production and progression of cancer.

- In November 2005, Takeda reached a license agreement with Pronova Biocare AS of Norway, with respect to *Omacor*, a drug for hypertriglyceridemia developed by Pronova. Under this agreement, Takeda acquired an exclusive license to develop and market the drug in Japan.
- In December 2005, Takeda acquired one of the candidates for new drug targets for Alzheimer's disease through joint research activities with Evotec Neurosciences GmbH, Germany.
- In January 2006, Takeda started the Phase II trials in Japan for ATL-962, a drug for obesity created by Alyzime Plc of U.K.
- In January 2006, Sucampo Pharmaceuticals, Inc. in the U.S. obtained from the FDA an approval for marketing *AMITIZA*, a drug for chronic idiopathic constipation, and TPNA, jointly with Sucampo, started marketing of *AMITIZA* in April 2006.
- In February 2006, Takeda concluded a license agreement with Affymax Inc. in the U.S., under which Takeda acquired an exclusive right to develop and market *HEMATIDE*, a drug for anemia in chronic kidney diseases and cancer, in Japan.
- In March 2006, Takeda concluded a license agreement with Lexicon Genetics Incorporated in the U.S., under which Takeda acquired an exclusive right to use LG474, a new drug target for cardiovascular diseases identified through a program developed by Lexicon.
- In March 2006, Takeda concluded a license agreement with BioNumerik Pharmaceuticals, Inc. (U.S.), ASKA Pharmaceutical Co., Ltd. (Japan) and KI Pharma (Japan) regarding *Tavocept*, a chemoprotective agent, under which Takeda acquired an exclusive right to market the agent in Japan.
- In March 2006, Takeda concluded an agreement with ARIUS Research Inc in Canada, regarding antibody drugs for cancer, under which Takeda acquired an exclusive access over three years to a certain number of functional mouse monoclonal antibodies showing anti-tumor activities.

2. Outlook for Fiscal 2006

The outlook for fiscal 2006 is:

| | | (Billions of yen) |
|-----------------|--------|----------------------------|
| | | <u>Year-on-year change</u> |
| Net sales | ¥1,230 | ¥17.8 (1.5%) increase |
| Ordinary income | ¥486 | ¥0.6 (0.1%) increase |
| Net income | ¥320 | ¥6.8 (2.2%) increase |

[Consolidated net sales]

The consolidated net sales will increase compared with fiscal 2005. Although the transfer of the beverage and food business of Takeda Food Products, Ltd., a Takeda subsidiary, to House Wellness Foods Corporation, Ltd., a joint venture between Takeda and House Foods Corp. in April 2006, and the revision of NHI drug prices implemented in April 2006 in Japan will give negative impact on sales, Takeda expects that the growth of sales of *Actos*, *Blopess*, and *Embrel* (a drug for rheumatoid arthritis) in Japan, sales by TPNA of *Actos*, *ROZEREM*, and *AMITIZA* in the U.S., and sales of major products in Europe will more than offset such negative impacts.

[Ordinary income]

Ordinary income will slightly increase compared with fiscal 2005 supported by the increase in the gross profit due to the increase in ethical drug sales and the improvement in non-operating income including increase in interest income in TAH, which will be partially offset by the increase in R&D costs due to the progress of development activities and the increase of expenses related to new products at TPNA.

[Consolidated net income]

In addition to the increase in the ordinary income, Takeda expects to increase extraordinary income including a gain from the sale of the beverage and food business of a subsidiary. Moreover, the tax burden will decrease due to the increase in the tax credit for research and development expenses and other factors. Accordingly, Takeda expects an increase in the consolidated net income from fiscal 2005.

[Outlook assumptions]

The foreign exchange rates for these projections are assumed to be US\$1 = ¥110 and 1 euro = ¥130.

[Note concerning the projections above]

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

(4) 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 2005.

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.

4. Risk of side effects

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

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 2005 amounted to ¥537.1 billion, which accounted for 44.3% of total consolidated net sales. Among others, sales in North America were ¥335.9 billion, which accounted for 27.7% of total consolidated net sales. Moreover, with regard to TAP in the U.S., the “equity in earnings of affiliates” (non-operating income) was ¥52.1 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.

7. Risk of development of lawsuits

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

If Takeda’s mainstay products, *Lansoprazole*, *Candesartan* and *Actos*, are involved in the above risk occurrence, Takeda’s business performance might be greatly affected. As for the AWP lawsuit filed regarding the sales of *Leuprorelin*, the case was substantially settled by the final approval of the class settlement by the court and other arrangements as detailed in the section of [5. Litigation] below.

(5) Litigation

Leuprorelin (marketed under the brand name of “*Lupron Depot*” in the U.S.) is sold in the U.S. by TAP (50% owned by TAH and the remaining 50% by Abbott Laboratories in the U.S.). In connection with this sale, AWP lawsuits as explained above were brought against TAP, Abbott and Takeda in several federal and state courts. On November 15, 2004, TAP, Abbott, and Takeda concluded a settlement agreement with plaintiff attorneys under which TAP agreed to pay a total of US\$150 million. This settlement was approved finally by the Boston District Court in the U.S. in August 2005.

Separately from this settlement, there are AWP lawsuits involving many major U.S. pharmaceutical companies. As part of this litigation, TAP and TPNA are named as defendants, although for different drugs, in federal and state courts in lawsuits claiming the payment of damages. Takeda is also a defendant in certain lawsuits together with TAP and TPNA.

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

In Japan, in October 2004, a lawsuit claiming remuneration for employee invention, regarding pharmaceutical patents for *Leuplin*, was brought against Takeda in the Tokyo District Court by complainants who allege that they inherited the right to claim consideration of the employee invention in the amount of ¥37.2 billion from a deceased ex-employee. The complainants have claimed ¥100 million as an initial part of the amount that Takeda allegedly owes. In December 2005, the claimed amount was raised to ¥500 million, and in addition, another claimant filed a lawsuit against Takeda in the Tokyo District Court, claiming payment of ¥1 billion as an initial part of remuneration for employee invention, alleging that she inherited the right for the remuneration for employee invention totaling ¥74.5 billion from the deceased ex-employee. These two lawsuits have been consolidated by the court.

The Company is diligently taking all necessary and proper measures to cope with these lawsuits.

(6) Consolidated Statements of Income

(Millions of yen)

| | Year ended March 31, 2006 | | Year ended March 31, 2005 | | Increase (decrease) |
|---|------------------------------|--------|------------------------------|--------|------------------------|
| | | | | | |
| Net sales | 1,212,207 | 100.0% | 1,122,960 | 100.0% | 89,247 |
| Cost of sales | 282,102 | 23.3 | 279,179 | 24.9 | 2,923 |
| Selling, general and administrative expenses | 527,296 | 43.5 | 458,503 | 40.8 | 68,793 |
| Operating income | 402,809 | 33.2 | 385,278 | 34.3 | 17,531 |
| Non-operating income: | 103,867 | 8.6 | 74,803 | 6.7 | 29,064 |
| Interest income | 30,710 | | 14,980 | | 15,730 |
| Dividend income | 3,501 | | 3,118 | | 383 |
| Equity in earnings of affiliates | 54,184 | | 45,431 | | 8,753 |
| Other non-operating income | 15,472 | | 11,274 | | 4,198 |
| Non-operating expenses: | 21,322 | 1.8 | 17,970 | 1.6 | 3,352 |
| Interest expense | 365 | | 334 | | 31 |
| Other non-operating expenses | 20,957 | | 17,636 | | 3,321 |
| Ordinary income | 485,354 | 40.0 | 442,111 | 39.4 | 43,243 |
| Extraordinary gain | 32,604 | 2.7 | 1,070 | 0.1 | 31,534 |
| Gains on sale of fixed assets | *145 | | *1,070 | | (925) |
| Gains on sale of shares of affiliates | **12,048 | | — | | 12,048 |
| Gains from discontinuance of handling employee pension fund on behalf of government | 20,411 | | — | | 20,411 |
| Extraordinary loss | — | — | 2,079 | 0.2 | (2,079) |
| Losses on bulk vitamin and other cartel cases | — | | ***2,079 | | (2,079) |
| Income before income taxes and minority interests | 517,957 | 42.7 | 441,102 | 39.3 | 76,855 |
| Income taxes: | 201,361 | 16.6 | 160,231 | 14.3 | 41,130 |
| Current | 240,449 | | 172,867 | | 67,582 |
| Deferred | (39,088) | | (12,637) | | (26,451) |
| Minority interests | (3,348) | (0.3) | (3,433) | (0.3) | 85 |
| Net income | 313,249 | 25.8 | 277,438 | 24.7 | 35,811 |

Notes:

* States the gain on the sale of idle real estate, consisting mainly of land.

** States the gains on transfer of shares of subsidiaries and affiliates engaged in life-environment business, “Wyeth K.K.” and “Takeda-Kirin Foods Corporation”.

*** States the losses from the ongoing civil litigation related to bulk vitamin and other cartel cases in the United States and Canada.

(7) Consolidated Balance Sheets

ASSETS

(Millions of yen)

| | As of | | As of | | Increase (decrease) |
|------------------------------------|----------------|-------|----------------|-------|------------------------|
| | March 31, 2006 | | March 31, 2005 | | |
| Current assets | 2,371,970 | 78.0% | 1,969,915 | 77.4% | 402,055 |
| Cash and deposits | 450,709 | | 429,530 | | 21,179 |
| Notes and accounts receivable | 236,680 | | 225,413 | | 11,267 |
| Marketable securities | 1,405,811 | | 1,092,590 | | 313,221 |
| Inventories | 98,258 | | 94,565 | | 3,693 |
| Deferred income taxes | 135,019 | | 93,857 | | 41,162 |
| Other current assets | 45,802 | | 34,230 | | 11,572 |
| Allowance for doubtful receivables | (309) | | (271) | | (38) |
| Fixed assets | 670,324 | 22.0 | 575,520 | 22.6 | 94,804 |
| Tangible fixed assets: | 215,670 | 7.1 | 220,133 | 8.6 | (4,463) |
| Buildings and structures | 100,502 | | 104,715 | | (4,213) |
| Machinery, equipment and carriers | 42,594 | | 42,618 | | (24) |
| Tools and fixtures | 7,461 | | 7,374 | | 87 |
| Land | 44,853 | | 44,500 | | 353 |
| Land | 20,260 | | 20,927 | | (667) |
| Construction in progress | 5,330 | 0.2 | 8,092 | 0.3 | (2,762) |
| Intangible fixed assets: | 1,568 | | 3,136 | | (1,568) |
| Goodwill | 3,762 | | 4,955 | | (1,193) |
| Other intangible fixed assets | 449,325 | 14.7 | 347,296 | 13.7 | 102,029 |
| Investments and other assets: | 387,964 | | 302,404 | | 85,560 |
| Investment securities | 187 | | 1,610 | | (1,423) |
| Long-term loans | 18,886 | | — | | 18,886 |
| Prepaid pension costs | 23,354 | | 24,460 | | (1,106) |
| Real estates for lease | 12,609 | | 12,542 | | 67 |
| Deferred income taxes | 6,516 | | 6,386 | | 130 |
| Other | | | | | |
| Allowance for doubtful receivables | (191) | | (105) | | (86) |
| Total assets | 3,042,294 | 100.0 | 2,545,435 | 100.0 | 496,859 |

LIABILITIES, MINORITY INTERESTS
AND SHAREHOLDERS' EQUITY

(Millions of yen)

| | As of | | As of | | Increase (decrease) |
|---|----------------|-------|----------------|-------|------------------------|
| | March 31, 2006 | | March 31, 2005 | | |
| Total liabilities | 646,671 | 21.2% | 499,185 | 19.6% | 147,486 |
| Current liabilities: | 488,227 | 16.0 | 365,500 | 14.3 | 122,727 |
| Notes and accounts payable | 78,195 | | 70,750 | | 7,445 |
| Short-term loans | 5,446 | | 8,301 | | (2,855) |
| Income taxes payable | 151,947 | | 80,790 | | 71,157 |
| Accrued expenses | 125,114 | | 103,823 | | 21,291 |
| Reserve for bonuses | 34,782 | | 28,444 | | 6,338 |
| Other reserves | 7,299 | | 7,312 | | (13) |
| Other current liabilities | 85,445 | | 66,080 | | 19,365 |
| Long-term liabilities: | 158,444 | 5.2 | 133,684 | 5.3 | 24,760 |
| Deferred tax liabilities | 106,223 | | 75,493 | | 30,730 |
| Reserve for retirement benefits | 35,119 | | 39,859 | | (4,740) |
| Reserve for directors' retirement bonuses | 1,829 | | 1,784 | | 45 |
| Reserve for SMON compensation | 4,486 | | 4,664 | | (178) |
| Other long-term liabilities | 10,786 | | 11,884 | | (1,098) |
| Minority interests | 47,193 | 1.6 | 44,836 | 1.8 | 2,357 |
| Shareholders' equity | 2,348,429 | 77.2 | 2,001,414 | 78.6 | 347,015 |
| Common stock | 63,541 | | 63,541 | | — |
| Additional paid-in capital | 49,641 | | 49,638 | | 3 |
| Retained earnings | 2,062,226 | | 1,834,931 | | 227,295 |
| Unrealized gain on securities | 171,844 | | 125,342 | | 46,502 |
| Foreign currency translation adjustment | 4,224 | | (69,130) | | 73,354 |
| Treasury stock | (3,046) | | (2,908) | | (138) |
| Total liabilities, minority interests and shareholders' equity | 3,042,294 | 100.0 | 2,545,435 | 100.0 | 496,859 |

(8) Consolidated Statements of Retained Earnings

(Millions of yen)

| | Year ended March 31, 2006 | Year ended March 31, 2005 |
|---|------------------------------|------------------------------|
| Additional paid-in capital | | |
| Balance at the beginning of the year | 49,638 | 49,638 |
| Increase in additional paid-in capital | 3 | — |
| Gain on disposal of treasury stock | 3 | — |
| Balance at the end of the year | 49,641 | 49,638 |
| Retained earnings | | |
| Balance at the beginning of the year | 1,834,931 | 1,616,676 |
| Additions | 313,249 | 293,570 |
| Net income | 313,249 | 277,438 |
| Increase in retained earnings due to accounting period change for subsidiaries and affiliates | — | 16,132 |
| Deductions | 85,954 | 75,315 |
| Cash dividends paid | 85,561 | 74,979 |
| Bonuses to directors and corporate auditors | 393 | 337 |
| Balance at the end of the year | 2,062,226 | 1,834,931 |

(9) Consolidated Statements of Cash Flows

(Millions of yen)

| | Year ended March 31, 2006 | Year ended March 31, 2005 | Increase (decrease) |
|--|------------------------------|------------------------------|------------------------|
| Net income before income taxes and minority interests | 517,957 | 441,102 | 76,855 |
| Depreciation and amortization | 28,728 | 31,226 | (2,498) |
| Net interest and dividend income | (33,846) | (17,764) | (16,082) |
| Equity in earnings of affiliates | (11,541) | 7,301 | (18,842) |
| Loss (gain) on sales and disposals of property, plant and equipment | 2,005 | (600) | 2,605 |
| Loss (gain) on sales of marketable securities | 306 | 875 | (569) |
| Gains on sale of shares of affiliates | (12,048) | — | (12,048) |
| Gains from discontinuance of handling employee pension fund on behalf of government | (20,411) | — | (20,411) |
| Losses on bulk vitamin and other cartel cases | — | 2,079 | (2,079) |
| Amount incurred as operational expenses upon acquisition of Syrrx, Inc. * | — | 20,637 | (20,637) |
| Decrease (increase) in notes and accounts receivable | (13,156) | (23,399) | 10,243 |
| Decrease (increase) in inventories | (5,647) | (3,398) | (2,249) |
| Increase (decrease) in notes and accounts payable | 8,789 | (1,815) | 10,604 |
| Other | 40,092 | 17,354 | 22,738 |
| Subtotal | 501,230 | 473,598 | 27,632 |
| Interest received and paid and dividends received | 34,196 | 17,970 | 16,226 |
| Income taxes paid | (161,843) | (194,758) | 32,915 |
| Settlement paid related to bulk vitamin and other cartel cases | (7) | (1,270) | 1,263 |
| Net cash provided by operating activities | 373,575 | 295,539 | 78,036 |
| Payment for purchases of marketable securities | (468,274) | (377,079) | (91,195) |
| Proceeds from sales and redemption of marketable securities | 484,011 | 395,793 | 88,218 |
| Payment for deposit of funds into time deposits | (29,900) | — | (29,900) |
| Proceeds from redemption of time deposits | 29,900 | 5,000 | 24,900 |
| Payment for purchases of property, plant and equipment | (32,093) | (53,669) | 21,576 |
| Proceeds from sales of property, plant and equipment | 899 | 2,622 | (1,723) |
| Payment for purchases of investment securities | (1,588) | (14,211) | 12,623 |
| Proceeds from sales of investment securities | 13,245 | 72 | 13,173 |
| Proceeds from sales of subsidiaries' shares, resulting in change of consolidation scope | 10,772 | — | 10,772 |
| Payment for purchases of stock of subsidiaries in connection with change in scope of consolidation | — | (29,093) | 29,093 |
| Other | (406) | (1,740) | 1,334 |
| Net cash provided by (used in) investing activities | 6,566 | (72,305) | 78,871 |
| Net increase (decrease) in short-term bank loans | (884) | (289) | (596) |
| Proceeds from issuance of long-term debt | 1,850 | 3,541 | (1,691) |
| Repayment of long-term debt | (3,218) | (553) | (2,665) |
| Dividends paid | (85,529) | (74,958) | (10,571) |
| Other | (1,509) | (1,652) | 144 |
| Net cash used in financing activities | (89,290) | (73,912) | (15,378) |
| Effect of exchange rate changes on cash and cash equivalents | 71,060 | 15,197 | 55,863 |
| Net increase in cash and cash equivalents | 361,911 | 164,520 | 197,391 |
| Cash and cash equivalents, beginning of period | 1,264,324 | 1,076,084 | 188,240 |
| Increase in cash and cash equivalents due to change in fiscal year of consolidated companies | — | 23,719 | (23,719) |
| Cash and cash equivalents, end of period | 1,626,235 | 1,264,324 | 361,911 |

* Certain portion of acquisition cost for Syrrx, Inc. (currently, "Takeda San Diego, Inc.") was booked as R&D expenses in fiscal 2004.

Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

Number of consolidated subsidiaries: 46 companies

Names of principal companies and changes in scope of consolidated subsidiaries:

Refer to “Consolidated Subsidiaries and Affiliates” in “The Takeda Group”.

2. Application of the Equity Method

Number of affiliated companies accounted for by the equity method: 20 companies

Names of principal companies and changes in scope of affiliated companies accounted for by the equity method:

Refer to “Consolidated Subsidiaries and Affiliates” in “The Takeda Group”.

3. Items Related to Account Settlement Date of Consolidated Subsidiaries

The annual account closing day is December 31 of each year at Tianjin Takeda Pharmaceuticals Co., Ltd (a consolidated subsidiary) and TAP Pharmaceutical Products Inc. (accounted for by equity method) Financial results of these two companies included in the consolidated financial statements of the Company are based on the temporary closing of their accounts on March 31, 2006.

4. Accounting Standards

(1) Valuation of Major Assets

1) Securities

Trading securities Fair value (Cost of securities sold is primarily calculated using the moving average method.)

Held-to-maturity securities: Valued at amortized cost (straight-line method)

Other securities

With market value: Valued at market value based on market prices at the balance sheet date (Valuation gains and losses are fully capitalized, and selling prices are primarily calculated using the moving-average method.)

Without market value: Valued primarily at cost using the moving-average method

2) Derivatives

Fair value

3) Inventories

Merchandise and finished products: Valued at lower of cost or market using the weighted average cost method

Semi-finished products and work-in-progress: Valued at lower of cost or market using the weighted average cost method

Raw materials and supplies: Valued at lower of cost or market using the moving-average method

(2) Depreciation of Fixed Assets and Real estates for lease

The Company and its domestic consolidated subsidiaries primarily use the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed.

Consolidated subsidiaries outside Japan primarily use the straight-line method. Estimated useful lives are mainly as follows.

Buildings and structures: 15-50 years

Machinery, equipment and carriers: 4-15 years

(3) Accounting Standards for Major Reserves

1) Allowance for doubtful receivable:

To protect against potential losses from uncollectible notes and accounts receivable, the Company and its domestic consolidated subsidiaries provide for uncollectible receivables based on historical loss ratios. Specific claims are evaluated for the likelihood of recovery and provision is made to the allowance for doubtful receivables in the amount deemed uncollectible.

Foreign consolidated subsidiaries primarily provide for estimated unrecoverable losses on specific claims.

2) Reserve for bonuses:

To appropriate funds for the payment of bonuses to employees, the reserve for bonuses is provided based on the applicable period according to the expected amount of the payment for employees enrolled at the end of the fiscal year.

3) Reserve for retirement benefits:

To cover payment of retirement benefits to employees, reserves are provided as follows:

- The Company provides for retirement benefits based on the estimated value of the retirement benefit obligation as of the end of the fiscal year projected at the beginning of the fiscal year, less estimated fair amounts of plan assets funded under corporate pension plans and non-contributory pension plans.
- Five consolidated companies provide for retirement benefits based on the estimated value of the retirement benefit obligation as of the end of the fiscal year projected at the beginning of the fiscal year, less estimated fair amounts of plan assets funded under non-contributory pension plans. One of these companies has adopted the above-mentioned accounting method from the current year. This change has no material impact on the consolidated financial statements.
- Other consolidated subsidiaries provide a reserve for retirement benefits equivalent to the amount that would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

Prior service cost is amortized using the straight-line method over a fixed number of years (generally five years) within the average remaining years of service when obligations arise.

Actuarial gains and losses are expensed mainly on a straight-line basis over the certain years (generally five years) within the average remaining years of service of employees, allocated proportionately starting from the year each respective gain or loss occurred.

(Additional information)

In accordance with the Defined Benefit Pension Law, Takeda received approval from the Minister of Health, Labor and Welfare on May 1, 2005 relating to exemption of the payment obligation of past employee services out of the substituted portion of welfare pension funds, and returned the amount (minimum reserves) on September 13, 2005. A gain of ¥20,411 million on such return of the substituted portion has been recorded as extraordinary gain.

4) Reserve for directors' retirement bonuses

To cover payment of retirement bonuses to directors, the reserve for directors' retirement bonuses is stated as the amount to be paid in accordance with internal regulations.

5) Reserve for SMON compensation

The reserve for SMON compensation is stated at an amount calculated in accordance with the Memorandum Regarding the Settlements and the settlements entered into with the Nationwide Liaison Council of SMON Patients' Associations, etc. in September 1979, in order to prepare for the future costs of health care and nursing with regard to the subjects of the settlements applicable to the Company as of the end of the period.

(4) Accounting for Lease Transactions

Finance lease transactions other than those for which ownership is deemed to be transferred to the lessee are accounted for as ordinary lease transactions.

(5) Principal Methods of Hedge Accounting

1) Methods of hedge accounting

The Takeda Group uses mainly deferred hedging. However, under certain conditions, forward exchange contracts and interest rate swaps are accounted for as if each hedging instrument and hedged item were one combined financial instrument.

2) Hedging instruments, hedging targets and hedging policies

The Takeda Group uses interest swaps and option transactions to hedge the portion of cash flow related to future asset management income, which is linked to short-term variable interest rates. In addition, the Takeda Group uses forward foreign exchange contracts and currency options to hedge those foreign currency-denominated transactions that can be individually recognized and are financially material. These hedge transactions are conducted in accordance with established regulations regarding scope of usage and standards for selection of counterparty financial institutions.

3) Method of assessing effectiveness of hedges

Preliminary testing is conducted using comparative analysis or statistical methods such as regression analysis, and post-testing is conducted using comparative analysis.

(6) Other

Consumption taxes are excluded from revenues and expenses.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are valued using the full mark-to-market method.

6. Amortization of Goodwill

Goodwill is amortized on a straight-line basis, generally over a five-year period.

7. Treatment of Profit Distribution Items, etc.

The Consolidated Statements of Retained Earnings are prepared on the basis of profit distributions decided during the consolidated fiscal year.

8. Scope of Funds in the Consolidated Statements of Cash Flows

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits, and short-term investments that are readily convertible into cash, are exposed to insignificant risk of changes in value and are redeemable in three months or less.

Notes to Consolidated Statements of Income

(Millions of yen)

| | Year ended March 31, 2006 | Year ended March 31, 2005 | Increase (decrease) |
|---|------------------------------|------------------------------|------------------------|
| 1. Selling, general and administrative expenses | | | |
| (1) Selling expenses | | | |
| Advertising expense | 23,919 | 22,721 | 1,198 |
| Sales promotion expense | 39,365 | 32,270 | 7,095 |
| Freight and storage expense | 7,864 | 8,433 | (569) |
| (2) General and administrative expenses | | | |
| Salaries | 62,268 | 57,761 | 4,507 |
| Bonuses and provision for bonuses | 35,309 | 26,888 | 8,421 |
| Retirement benefit expenses | 4,952 | 9,478 | (4,526) |
| R&D expenses | 169,645 | 141,453 | 28,192 |
| 2. R&D expenses | 169,645 | 141,453 | 28,192 |
| Manufacturing cost | — | — | — |
| General and administrative expenses | 169,645 | 141,453 | 28,192 |

Notes to Consolidated Balance Sheets

(Millions of yen)

| | As of March 31, 2006 | As of March 31, 2005 | Increase (decrease) |
|--------------------------------------|-------------------------|-------------------------|------------------------|
| 1. Accumulated depreciation | | | |
| Tangible fixed assets | 376,598 | 404,370 | (27,772) |
| Real estates for lease | 4,735 | 3,628 | 1,107 |
| 2. Investments in affiliates' stocks | 52,069 | 47,450 | 4,619 |
| 3. Pledged assets | | | |
| Assets pledged as collateral | 5,694 | 16,344 | (10,650) |
| Debt corresponding to pledged assets | 1,772 | 4,420 | (2,648) |
| 4. Loans guaranteed | | | |
| Guarantees | 3,791 | 4,670 | (879) |
| 5. Discounted trade notes receivable | — | 24 | (24) |
| Endorsed trade notes receivable | 13 | 15 | (2) |

Notes to Consolidated Statements of Cash Flows

Relationship between the ending balance of cash and cash equivalents and the category names used in the consolidated balance sheets

(Millions of yen)

| | Year ended March 31, 2006 | Year ended March 31, 2005 | Increase (decrease) |
|--|------------------------------|------------------------------|------------------------|
| Cash and deposits | 450,709 | 429,530 | 21,179 |
| Time deposits with maturities exceeding three months | — | — | — |
| Securities redeemable within three months | 1,175,526 | 834,794 | 340,732 |
| Cash and cash equivalents | 1,626,235 | 1,264,324 | 361,911 |

Notes to Significant Subsequent Events

1. Transfer of the business of Takeda Food Products, Ltd.

In April 2006, the beverage and food business of Takeda Food Products, Ltd., a wholly-owned subsidiary of the Company, was transferred to House Wellness Foods Corporation, Ltd., a joint venture between the Company and House Foods Corp. In connection with this transaction, it is expected that a gain from transfer of business about ¥19 billion will be recorded in fiscal 2006.

2. Acquisition of the Company's own shares

In a meeting held on May 11, 2006, the Board of Directors of the Company resolved that during the period from May 15, 2006 to June 20, 2006, the Company would acquire its shares on the public market up to 12 million shares, or up to the acquisition value of ¥80 billion yen.

3. Stock-for-stock exchanges for making Daiwa Estate and Shinwa Estate wholly-owned subsidiaries

In a meeting held on May 11, 2006, the Board of Directors of Takeda resolved that a stock-for-stock exchange agreement should be concluded with Daiwa Estate, a 50%-owned consolidated subsidiary of the Company, to acquire its remaining shares and make it a wholly-owned subsidiary of the Company.

As a result of this stock-for-stock exchange transaction, Shinwa Estate (currently 50% owned by the Company and 50% by Daiwa, and included in our consolidation) will also become a wholly-owned subsidiary of the Company. The stock-for-stock exchange will be executed on June 23, 2006. 6.34 million shares of the Company offered for the exchange will be provided from the treasury stock acquired through the above-mentioned acquisition.

(10) Segment Information

1. Business Segment Information

Fiscal 2005 (April 1, 2005-March 31, 2006)

(Millions of yen)

| | Pharmaceuticals | Other | Total | Eliminations/ Corporate | Consolidated |
|---|-----------------|---------|-----------|----------------------------|--------------|
| 1. Net sales & operating income: | | | | | |
| Net sales: | | | | | |
| (1) Sales to outside customers | 1,074,519 | 137,688 | 1,212,207 | — | 1,212,207 |
| (2) Intersegment sales and transfers | 5,539 | 5,674 | 11,213 | (11,213) | — |
| Total | 1,080,058 | 143,363 | 1,223,421 | (11,213) | 1,212,207 |
| Operating expenses | 691,990 | 128,643 | 820,633 | (11,235) | 809,398 |
| Operating income | 388,068 | 14,720 | 402,788 | 21 | 402,809 |
| 2. Identifiable assets, depreciation & amortization, and capital investments: | | | | | |
| Identifiable assets | 776,826 | 231,906 | 1,008,731 | 2,033,563 | 3,042,294 |
| Depreciation & amortization | 20,790 | 6,831 | 27,621 | 1,107 | 28,728 |
| Capital investments | 29,199 | 3,416 | 32,616 | — | 32,616 |

Fiscal 2004 (April 1, 2004-March 31, 2005)

(Millions of yen)

| | Pharmaceuticals | Other | Total | Eliminations/ Corporate | Consolidated |
|---|-----------------|---------|-----------|----------------------------|--------------|
| 1. Net sales & operating income: | | | | | |
| Net sales: | | | | | |
| (1) Sales to outside customers | 970,477 | 152,483 | 1,122,960 | — | 1,122,960 |
| (2) Intersegment sales and transfers | 6,125 | 6,942 | 13,067 | (13,067) | — |
| Total | 976,601 | 159,425 | 1,136,027 | (13,067) | 1,122,960 |
| Operating expenses | 598,948 | 151,827 | 750,775 | (13,093) | 737,682 |
| Operating income | 377,653 | 7,598 | 385,252 | 26 | 385,278 |
| 2. Identifiable assets, depreciation & amortization, and capital investments: | | | | | |
| Identifiable assets | 647,496 | 254,605 | 902,102 | 1,643,334 | 2,545,435 |
| Depreciation & amortization | 19,582 | 11,644 | 31,226 | — | 31,226 |
| Capital investments | 42,024 | 7,206 | 49,230 | — | 49,230 |

Note 1: Based on the actual status of business management, businesses are classified into two segments: “Pharmaceuticals” and “Other Businesses.”

Note 2: Principal Products of Each Business Segment

| Business Segment | Business Division | Principal Products |
|------------------|---------------------|--|
| Pharmaceuticals | Ethical Drugs | Ethical pharmaceuticals |
| | Consumer Healthcare | Over-the-counter pharmaceuticals and quasidrugs |
| Other | Vitamin* | Bulk vitamins |
| | Life-Environment** | Activated carbon, wood preservatives |
| | Others | Reagents, clinical diagnostics, photographic film chemicals, health foods***, beverages***, inorganic industrial chemicals, and animal health products**** |

* In January 2006, all of Takeda’s shares in BASF Takeda Vitamin, K.K, engaged in the vitamin business, were transferred to BASF Japan, Ltd.

** In fiscal 2005, shares of Takeda's five consolidated subsidiaries and equity method-applied affiliates including Japan EnviroChemicals, Ltd., which are conducting life-environmental business, were transferred to Osaka Gas Chemicals Co., Ltd., a subsidiary of Osaka Gas Co., Ltd.

*** In April 2006, the beverage and food business of Takeda Food Products, Ltd. was transferred to House Wellness Foods Corporation, Ltd., a joint venture between Takeda and House Foods Corp.

**** In June 2005, all of Takeda’s shares in Takeda Schering-Plough Animal Health, engaged in the animal health drug business, were transferred to Schering-Plough, K.K.

Note 3: Change in the method of allocating operating expenses

The Takeda Pharmaceutical Group divides its business into two business segments: Pharmaceuticals and Other. Of operating expenses, common expenses spent for administrating both segments, such as expenses spent by the head office, were previously included under “Eliminations/Corporate.” For the current fiscal year, following the completion of business reorganization by transfer of the shares of the five consolidated subsidiaries and equity-method affiliates of the life-environmental business, Takeda reviewed the business management so that the headquarter functions shall concentrate its operations into the pharmaceutical business. Consequently, it was determined that such operating expenses shall be stated mainly under the category “Pharmaceuticals” from this current period.

In response to this change, figures in the previous year are restated according to the new method.

Note 4: Corporate assets included in “Eliminations/Corporate” consisted principally of surplus operating capital (cash and marketable securities) and long-term investments (investment securities) of the parent company and a holding company in the United States and others.

Fiscal 2005: ¥2,036,347 million
Fiscal 2004: ¥1,646,378 million

2. Geographical Segment Information

Fiscal 2005 (April 1, 2005 - March 31, 2006)

(Millions of yen)

| | Japan | North America | Europe | Asia | Total | Eliminations / Corporate | Consolidated |
|--------------------------------------|---------|---------------|---------|--------|-----------|--------------------------|--------------|
| 1. Net sales & operating income: | | | | | | | |
| Net sales: | | | | | | | |
| (1) Sales to outside customers | 872,990 | 214,203 | 116,669 | 8,345 | 1,212,207 | — | 1,212,207 |
| (2) Intersegment sales and transfers | 90,393 | 2,050 | 7,341 | 204 | 99,988 | (99,988) | — |
| Total | 963,383 | 216,253 | 124,010 | 8,549 | 1,312,195 | (99,988) | 1,212,207 |
| Operating expenses | 446,084 | 183,664 | 99,420 | 6,927 | 736,095 | 73,304 | 809,398 |
| Operating income | 517,299 | 32,589 | 24,591 | 1,622 | 576,100 | (173,291) | 402,809 |
| 2. Identifiable assets | 761,523 | 154,694 | 122,642 | 13,256 | 1,052,114 | 1,990,180 | 3,042,294 |

Fiscal 2004 (April 1, 2004 - March 31, 2005)

(Millions of yen)

| | Japan | North America | Europe | Asia | Total | Eliminations / Corporate | Consolidated |
|--------------------------------------|---------|---------------|---------|--------|-----------|--------------------------|--------------|
| 1. Net sales & operating income: | | | | | | | |
| Net sales: | | | | | | | |
| (1) Sales to outside customers | 841,762 | 170,247 | 103,111 | 7,841 | 1,122,960 | — | 1,122,960 |
| (2) Intersegment sales and transfers | 75,535 | 1,163 | 5,443 | 193 | 82,333 | (82,333) | — |
| Total | 917,297 | 171,410 | 108,553 | 8,033 | 1,205,293 | (82,333) | 1,122,960 |
| Operating expenses | 455,771 | 126,997 | 90,865 | 6,643 | 680,276 | 57,407 | 737,682 |
| Operating income | 461,526 | 44,413 | 17,689 | 1,390 | 525,018 | (139,740) | 385,278 |
| 2. Identifiable assets | 703,980 | 113,253 | 101,360 | 11,753 | 930,345 | 1,615,090 | 2,545,435 |

Note 1: Regional segments are based on geographic proximity.

Note 2: Changes in the regional segmentation and allocation of operating expenses and assets

From fiscal 2005, geographical segments, which were presented in three classification of “Japan,” “North America” and “Europe and Asia” in the past, are reclassified into four regions of “Japan,” “North America,” “Europe” and “Asia,” as the European business has increasingly become important for the Group.

In connection with this, the results of fiscal 2004 were restated in accordance with this new classification of four regions.

Main countries and regions included in each segment:

North America : United States

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

Asia : Taiwan, Indonesia, China and others

Takeda has been endeavoring to build a unique simple and efficient business management organization. In the current year, Takeda started centralized and global management of R&D activities, led by the head office of Takeda Pharmaceutical Company in Japan, while the sales function is controlled on a regional basis according to the regional division of Japan, the U.S. and Europe.

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

For this reason, for the purpose of disclosing geographical segment information in fiscal 2005, R&D expenses are excluded from operating expenses of each region, but included in “Eliminations/Corporate.”

In addition, common operating expenses spent by the Corporate Department and other departments for administrating each region, which were included in “Eliminations/Corporate” in and before fiscal 2004, are now included in the segment of Japan where the Corporate Department and such other departments locate, in accordance with the change in the classification of business segments.

In connection with these changes, figures of fiscal 2004 are restated according to the new classification.

As a result, the following unallocable operating expenses (R&D expenses) are included in “Eliminations/Corporate”:

Fiscal 2005 ¥169,645 million

Fiscal 2004 ¥141,453 million

As a result of the above change, assets related to R&D activities are excluded from assets of each region and now included in “Eliminations/Corporate.”

Note 3: Main assets included in the corporate assets under the category of “Eliminations/Corporate” are: surplus operating funds (cash, deposits and marketable securities) and long-term investments (investment securities) of Takeda Pharmaceutical Company and a holding company in the United States and others, and assets related to R&D activities of the Takeda Group.

Fiscal 2005 ¥2,090,558 million

Fiscal 2004 ¥1,689,104 million

Note 4: In the geographical segment information, net sales in the Japan segment are the total of domestic sales and exports by the Company and its consolidated subsidiaries in Japan, net sales in the North America segment are the total of sales by consolidated subsidiaries in the North America region, net sales in the Europe segment are the total of sales by consolidated subsidiaries in the Europe region, and net sales in the Asia segment are the total of sales by consolidated subsidiaries in the Asia region.

3. Overseas Sales

Fiscal 2005 (April 1, 2005-March 31, 2006)

(Millions of yen)

| Category | North America | Europe | Others | Total |
|--|---------------|---------|--------|-----------|
| 1. Overseas sales | 335,922 | 180,223 | 20,980 | 537,124 |
| 2. Total consolidated net sales | | | | 1,212,207 |
| 3. Overseas sales/Total consolidated net sales | 27.7% | 14.9% | 1.7% | 44.3% |

Fiscal 2004 (April 1, 2004-March 31, 2005)

(Millions of yen)

| Category | North America | Europe | Others | Total |
|--|---------------|---------|--------|-----------|
| 1. Overseas sales | 287,382 | 171,643 | 19,409 | 478,433 |
| 2. Total consolidated net sales | | | | 1,122,960 |
| 3. Overseas sales/Total consolidated net sales | 25.6% | 15.3% | 1.7% | 42.6% |

Note 1: Country and regional segments are based on geographic proximity.

Note 2: Main countries and regions included in each segment:

(1) North America: United States, Canada

(2) Europe: United Kingdom, Germany, Italy, France, Spain and others

(3) Others: South America, Asia, Africa, Oceania

Note 3: Overseas sales represents the total of export sales of the Company and its domestic consolidated subsidiaries, and sales of its consolidated subsidiaries outside Japan. Intercompany sales are eliminated.

(11) Lease Transactions

Omitted due to disclosure on EDINET.

(12) Transactions with Related Parties

Fiscal 2005 (April 1, 2005-March 31, 2006)

Not applicable.

Fiscal 2004 (April 1, 2004-March 31, 2005)

Not applicable.

(13) Income Taxes

1. Breakdown of major factors giving rise to deferred tax assets and liabilities (Millions of yen)

| | As of March 31, 2006 | As of March 31, 2005 | Increase (decrease) |
|---|-------------------------|-------------------------|------------------------|
| (Deferred tax assets) | | | |
| Deferred tax assets (current) | | | |
| Bonuses | 11,021 | 10,240 | 781 |
| Research & development expenses | 30,185 | 23,330 | 6,855 |
| Enterprise taxes | 12,918 | 7,664 | 5,254 |
| Intercompany profits | 10,603 | 7,747 | 2,856 |
| Others | <u>62,854</u> | <u>43,515</u> | <u>19,339</u> |
| Deferred tax assets (current) - total | 127,582 | 92,496 | 35,086 |
| Deferred tax assets (fixed) | | | |
| Retirement benefits | 12,989 | 13,674 | (685) |
| Tax loss carryforwards | 4,037 | 9,086 | (5,049) |
| Others | <u>47,690</u> | <u>32,814</u> | <u>14,876</u> |
| Deferred tax assets (fixed) - subtotal | 64,716 | 55,574 | 9,142 |
| Valuation allowance | <u>(3,270)</u> | <u>(3,681)</u> | <u>411</u> |
| Deferred tax assets (fixed) - total | 61,445 | 51,893 | 9,552 |
| Total deferred tax assets | 189,027 | 144,389 | 44,638 |
| (Deferred tax liabilities) | | | |
| Deferred tax liabilities (current) | | | |
| Unrealized gain on securities | (10) | (13) | 3 |
| Others | <u>(729)</u> | <u>(114)</u> | <u>(615)</u> |
| Deferred tax liabilities (current) - total | (739) | (127) | (612) |
| Deferred tax liabilities (fixed) | | | |
| Unrealized gain on securities | (113,911) | (81,659) | (32,252) |
| Undistributed earnings of foreign subsidiaries and affiliates | (19,860) | (11,930) | (7,930) |
| Reserve for reduction of fixed assets | (11,893) | (12,026) | 133 |
| Others | <u>(9,396)</u> | <u>(9,229)</u> | <u>(167)</u> |
| Deferred tax liabilities (fixed) - total | (155,060) | (114,844) | (40,216) |
| Total deferred tax liabilities | (155,799) | (114,971) | (40,828) |
| Net deferred tax assets | 33,228 | 29,418 | 3,810 |

2. The effective income tax rates of the companies differed from the statutory tax rate for the following reasons: (%)

| | Year ended March 31, 2006 | Year ended March 31, 2005 | Increase (decrease) |
|--|------------------------------|------------------------------|------------------------|
| Statutory tax rate | 40.9 | 40.9 | — |
| (Adjustment) | | | |
| Expenses not deductible for tax purposes | 0.6 | 0.7 | (0.1) |
| Loss in subsidiaries | 0.0 | 0.1 | (0.1) |
| Equity in earnings of affiliates | (3.3) | (3.2) | (0.1) |
| Non-taxable dividend income | (0.1) | 0.0 | (0.1) |
| Tax credit for research expenses, etc. | (1.6) | (2.6) | 1.0 |
| Other - net | <u>2.4</u> | <u>0.4</u> | <u>2.0</u> |
| Effective tax rate | 38.9 | 36.3 | 2.6 |

(14) Marketable Securities

Fiscal 2005

1. Trading securities (As of March 31, 2006)

Consolidated balance sheet amount ¥24,197 million
Valuation gain (loss) on securities included in fiscal 2005 income ¥(405) million

2. Securities to be held until maturity with market values (As of March 31, 2006) (Millions of yen)

| | Balance sheet amount | Market value | Difference |
|---|----------------------|--------------|------------|
| Securities with market values that exceed amount on consolidated balance sheets: | | | |
| (1) Corporate/public bonds | 1,009 | 1,016 | 7 |
| (2) Others | — | — | — |
| Sub-total | 1,009 | 1,016 | 7 |
| Securities with market values that do not exceed amount on consolidated balance sheets: | | | |
| (1) Corporate/public bonds | 1,507 | 1,478 | (29) |
| (2) Others | — | — | — |
| Sub-total | 1,507 | 1,478 | (29) |
| Total | 2,516 | 2,494 | (22) |

3. Other marketable securities with market values (As of March 31, 2006) (Millions of yen)

| | Acquisition cost | Balance sheet amount | Difference |
|--|------------------|----------------------|------------|
| Securities with balance sheet amounts that exceed acquisition cost: | | | |
| (1) Stocks | 34,983 | 320,435 | 285,453 |
| (2) Bonds | 205,473 | 205,501 | 28 |
| Corporate/public bonds | 109,147 | 109,173 | 26 |
| Other | 96,326 | 96,328 | 2 |
| (3) Other | — | — | — |
| Sub-total | 240,456 | 525,936 | 285,480 |
| Securities with balance sheet amounts that do not exceed acquisition cost: | | | |
| (1) Stocks | 65 | 64 | (1) |
| (2) Bonds | 896,258 | 896,210 | (47) |
| Corporate/public bonds | 272,814 | 272,776 | (38) |
| Other | 623,444 | 623,435 | (10) |
| (3) Other | 273,904 | 273,904 | — |
| Sub-total | 1,170,227 | 1,170,179 | (48) |
| Total | 1,410,683 | 1,696,115 | 285,432 |

4. Other marketable securities sold during fiscal 2005 (April 1, 2005 - March 31, 2006) (Millions of yen)

| Amount sold | Total profit on sales | Total loss on sales |
|-------------|-----------------------|---------------------|
| 13,434 | 10,768 | — |

5. Description and consolidated balance sheet amount of main securities without market values (As of March 31, 2006)

Other marketable securities

| | |
|-------------------|-----------------|
| Unlisted stock | ¥13,802 million |
| Joint money trust | ¥5,000 million |

6. Projected future redemption of securities with maturities and bonds held to maturity included in other marketable securities (As of March 31, 2006)

(Millions of yen)

| | Within one year | 1-5 years | Over 5 years |
|----------------------------|-----------------|-----------|--------------|
| (1) Bonds | 1,102,326 | 392 | 1,509 |
| Corporate/government bonds | 382,563 | 392 | 1,509 |
| Other | 719,763 | — | — |
| (2) Other | 5,000 | — | — |
| Total | 1,107,326 | 392 | 1,509 |

Fiscal 2004

1. Trading securities (As of March 31, 2005)

| | |
|--|-----------------|
| Consolidated balance sheet amount | ¥21,398 million |
| Valuation gain (loss) on securities included in fiscal 2004 income | ¥(401) million |

2. Securities to be held until maturity with market values (As of March 31, 2005)

(Millions of yen)

| | Balance sheet amount | Market value | Difference |
|---|----------------------|--------------|------------|
| Securities with market values that exceed amount on consolidated balance sheets: | | | |
| (1) Corporate/public bonds | 1,010 | 1,015 | 5 |
| (2) Others | — | — | — |
| Sub-total | 1,010 | 1,015 | 5 |
| Securities with market values that do not exceed amount on consolidated balance sheets: | | | |
| (1) Corporate/public bonds | 1,500 | 1,470 | (30) |
| (2) Others | — | — | — |
| Sub-total | 1,500 | 1,470 | (30) |
| Total | 2,510 | 2,485 | (25) |

3. Other marketable securities with market values (As of March 31, 2005)

(Millions of yen)

| | Acquisition cost | Balance sheet amount | Difference |
|--|------------------|----------------------|------------|
| Securities with balance sheet amounts that exceed acquisition cost: | | | |
| (1) Stocks | 33,792 | 240,875 | 207,083 |
| (2) Bonds | 50,563 | 50,591 | 28 |
| Corporate/public bonds | 50,563 | 50,591 | 28 |
| Other | — | — | — |
| (3) Other | 57,396 | 57,399 | 3 |
| Sub-total | 141,751 | 348,865 | 207,114 |
| Securities with balance sheet amounts that do not exceed acquisition cost: | | | |
| (1) Stocks | 281 | 271 | (10) |
| (2) Bonds | 389,394 | 389,357 | (37) |
| Corporate/public bonds | 389,394 | 389,357 | (37) |
| Other | — | — | — |
| (3) Other | 572,848 | 572,846 | (3) |
| Sub-total | 962,524 | 962,474 | (50) |
| Total | 1,104,275 | 1,311,339 | 207,065 |

4. Other marketable securities sold during fiscal 2004 (April 1, 2004 - March 31, 2005) (Millions of yen)

| Amount sold | Total profit on sales | Total loss on sales |
|-------------|-----------------------|---------------------|
| 5,597 | 39 | 2 |

5. Description and consolidated balance sheet amount of main securities without market values (As of March 31, 2005)

Other marketable securities

Unlisted stock ¥12,191 million

6. Projected future redemption of securities with maturities and bonds held to maturity included in other marketable securities (As of March 31, 2005)

(Millions of yen)

| | Within one year | 1-5 years | Over 5 years |
|----------------------------|-----------------|-----------|--------------|
| (1) Bonds | 440,748 | 200 | 1,510 |
| Corporate/government bonds | 440,748 | 200 | 1,510 |
| Other | — | — | — |
| (2) Other | 481,208 | — | — |
| Total | 921,956 | 200 | 1,510 |

(15) Derivative Transactions

Omitted due to disclosure on EDINET.

(16) Retirement Benefits

1. Description of retirement benefit system used

The Company has a defined benefit system comprising a corporate pension plan, a qualified pension plan, and a lump-sum retirement payment.

In accordance with the Defined Benefit Pension Law, Takeda received approval from the Minister of Health, Labor and Welfare on May 1, 2005 relating to exemption of the payment obligation of past employee services out of the substituted portion of welfare pension funds, and returned the amount (minimum reserves) on September 13, 2005.

2. Retirement benefit obligation

(Millions of yen)

| | As of March 31, 2006 | As of March 31, 2005 | Increase (decrease) |
|---|-------------------------|-------------------------|------------------------|
| (1) Projected benefit obligation | (275,585) | (303,754) | 28,169 |
| (2) Plan assets at fair value | 292,242 | 262,916 | 29,326 |
| (3) Funded status ((1) + (2)) | 16,657 | (40,838) | 57,495 |
| (4) Unrecognized net actuarial gain and losses | (31,671) | 13,350 | (45,021) |
| (5) Unrecognized prior service cost (reduction of debt) | (1,220) | (12,372) | 11,152 |
| (6) Net amount reported on the consolidated balance sheet ((3) + (4) + (5)) | (16,233) | (39,859) | 23,626 |
| (7) Prepaid pension costs | 18,886 | — | 18,886 |
| (8) Reserve for retirement benefits ((6) - (7)) | (35,119) | (39,859) | 4,740 |

Notes: 1. The figures for the previous year include substituted portion of the welfare pension fund.
2. Some subsidiaries use the simplified method in calculating the retirement benefit obligation.

In connection with the return of the substituted portion of welfare pension funds, a gain of ¥20,411 million on such return of the substituted portion has been recorded as extraordinary income.

3. Retirement benefit expenses

(Millions of yen)

| | Year ended March 31, 2006 | Year ended March 31, 2005 | Increase (decrease) |
|---|------------------------------|------------------------------|------------------------|
| (1) Service cost (Notes) | 5,251 | 6,850 | (1,599) |
| (2) Interest cost | 5,603 | 6,058 | (455) |
| (3) Expected return on assets | (4,957) | (4,798) | (159) |
| (4) Amortization of net actuarial gain and losses | 1,327 | 10,715 | (9,388) |
| (5) Amortization of prior service cost | 8 | (3,019) | 3,027 |
| (6) Retirement benefit expenses ((1)+(2)+(3)+(4)+(5)) | 7,232 | 15,806 | (8,574) |

Notes: 1. The part of cost related to loaned employees which was borne by the borrowing company is deducted.
2. Retirement benefit expenses of consolidated subsidiaries that use a simplified method are stated in "(1) Service cost".

4. Items Related to Basis of Calculation of Retirement Benefit Obligation

| | Year ended March 31, 2006 | Year ended March 31, 2005 |
|---|---|---------------------------|
| (1) Periodic allocation method for projected benefits | Straight-line standard | Same |
| (2) Discount rate | 2.0%-2.5% | Same |
| (3) Expected rate of return | 0.8%-2.5% | 0.6%-2.5% |
| (4) Years over which prior service cost is amortized | Generally five years (expensed on a straight-line basis over the fixed number of years within the average remaining service time when obligations arise) | Same |
| (5) Years over which net actuarial gains and losses are amortized | Generally five years (expensed from the period of occurrence in proportional amounts, mainly on a straight-line basis over the fixed number of years within the average remaining service time in each period when obligations arise) | Same |

(17) Production, Orders and Sales

1. Production

(Millions of yen)

| | Year ended March 31, 2006 | | Year ended March 31, 2005 | | Increase (decrease) |
|---------------------|------------------------------|-------|------------------------------|-------|------------------------|
| | | | | | |
| Pharmaceuticals | 659,665 | 88.6% | 592,420 | 87.6% | 67,245 |
| Ethical Drugs | 649,179 | 87.2 | 571,679 | 84.5 | 77,500 |
| Consumer Healthcare | 10,486 | 1.4 | 20,741 | 3.1 | (10,255) |
| Other Businesses | 84,937 | 11.4 | 84,116 | 12.4 | 821 |
| Vitamin | 7,577 | 1.0 | 11,163 | 1.6 | (3,586) |
| Life-Environment | — | — | 5,084 | 0.8 | (5,084) |
| Others | 77,360 | 10.4 | 67,869 | 10.0 | 9,491 |
| Total | 744,602 | 100.0 | 676,536 | 100.0 | 68,066 |

2. Purchases

(Millions of yen)

| | Year ended March 31, 2006 | | Year ended March 31, 2005 | | Increase (decrease) |
|---------------------|------------------------------|-------|------------------------------|-------|------------------------|
| | | | | | |
| Pharmaceuticals | 112,955 | 81.8% | 105,426 | 77.8% | 7,529 |
| Ethical Drugs | 97,553 | 70.6 | 89,762 | 66.2 | 7,791 |
| Consumer Healthcare | 15,402 | 11.2 | 15,664 | 11.6 | (262) |
| Other Businesses | 25,175 | 18.2 | 30,158 | 22.2 | (4,983) |
| Life-Environment | — | — | 6,358 | 4.7 | (6,358) |
| Others | 25,175 | 18.2 | 23,800 | 17.6 | 1,375 |
| Total | 138,130 | 100.0 | 135,584 | 100.0 | 2,546 |

3. Conditions of Orders

The Takeda Group carries out production according to production plans, which are based primarily on marketing plans. Order production is carried out at certain businesses, but is not significant in the total amount of orders.

4. Sales

(Millions of yen)

| | Year ended March 31, 2006 | | Year ended March 31, 2005 | | Increase (decrease) |
|---------------------------|------------------------------|--------|------------------------------|--------|------------------------|
| | | | | | |
| Pharmaceuticals | 1,074,519 | 88.6% | 970,477 | 86.4% | 104,042 |
| Ethical Drugs | 1,019,074 | 84.0 | 914,794 | 81.4 | 104,280 |
| Japan | 493,493 | 40.7 | 451,890 | 40.2 | 41,602 |
| Overseas | 525,582 | 43.3 | 462,903 | 41.2 | 62,679 |
| Consumer Healthcare | 55,445 | 4.6 | 55,683 | 5.0 | (238) |
| Other Businesses | 137,688 | 11.4 | 152,483 | 13.6 | (14,795) |
| Vitamin | 9,078 | 0.7 | 11,515 | 1.0 | (2,437) |
| Life-Environment | — | — | 14,578 | 1.3 | (14,578) |
| Others | 128,610 | 10.7 | 126,391 | 11.3 | 2,219 |
| Total | 1,212,207 | 100.0% | 1,122,960 | 100.0% | 89,247 |
| [Overseas in Total] | [537,124] | [44.3] | [478,433] | [42.6] | [58,691] |
| [Royalty Income in Total] | [50,768] | [4.2] | [50,290] | [4.5] | [478] |

Notes:

1. Sales represents net sales outside the Takeda Group.

2. Sales to major customers and percentage of total sales are as follows:

(Millions of yen)

| Customer | Year ended March 31, 2006 | | Year ended March 31, 2005 | |
|-----------------------------------|------------------------------|------------|------------------------------|------------|
| | Amount | Percentage | Amount | Percentage |
| Mediceo Paltac Holdings Co., Ltd. | 258,998 | 21.4% | 244,217 | 21.7% |

*: On October 1, 2005, Mediceo Holdings Co., Ltd. was renamed Mediceo Paltac Holdings Co., Ltd.

Summary of Unconsolidated Financial Statements for the Fiscal Year Ended March 31, 2006

May 11, 2006

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

Takeda Pharmaceutical Company Limited

1-1, Doshomachi 4-chome

Chuo-ku, Osaka 540-8645, Japan

URL: <http://www.takeda.co.jp/>

Representative: Yasuchika Hasegawa, President and COO

Contact: Toyoji Yoshida, Director

Board of Directors Meeting: May 11, 2006

Scheduled starting date

of dividend payments: June 30, 2006

Ordinary General Meeting

of Shareholders: June 29, 2006

Stock exchange listings: Osaka, Tokyo, Nagoya
(First section of each)

Fukuoka, Sapporo

Code number: 4502

Interim dividend system: Yes

Tangen unit system: Yes (1 tangen unit = 100 shares)

Tel: +81-6-6204-2060

+81-3-3278-2039

1. Results for Fiscal 2005 (April 1, 2005 - March 31, 2006)

(1) Sales and Income

All amounts are rounded to the nearest million yen.

| | Net sales (¥ million) | Year-on-year change (%) | Operating income (¥ million) | Year-on-year change (%) | Ordinary income (¥ million) | Year-on-year change (%) |
|-------------|--------------------------|----------------------------|---------------------------------|----------------------------|--------------------------------|----------------------------|
| Fiscal 2005 | 840,230 | 7.1 | 345,969 | 0.4 | 364,439 | 2.2 |
| Fiscal 2004 | 784,848 | 2.7 | 344,435 | 11.9 | 356,696 | 14.4 |

| | Net income (¥ million) | Year-on-year change (%) | Earnings per share (¥) | Earnings per share (diluted) (¥) | Return on equity (%) | Ordinary income/total assets (%) | Ordinary income/net sales (%) |
|-------------|---------------------------|----------------------------|------------------------------|--|----------------------------|--|-------------------------------------|
| Fiscal 2005 | 249,361 | 5.9 | 280.31 | — | 15.4 | 18.2 | 43.4 |
| Fiscal 2004 | 235,488 | 24.1 | 264.69 | — | 16.3 | 20.1 | 45.4 |

Notes:

1. Average number of shares outstanding: 888,748,297 shares (Fiscal 2004: 888,778,956 shares)

2. Changes in Accounting Methods: No

3. Year-on-year change (%) for net sales, operating income, ordinary income and net income is based on the previous fiscal year.

(2) Dividends

| | Annual dividends per share (¥) | | Total dividends (annual) (¥ million) | Payout ratio (%) | Dividend rate for shareholders' equity (%) |
|-------------|--------------------------------|----------|--|------------------|--|
| | Interim | Year-end | | | |
| Fiscal 2005 | 106.00 | 53.00 | 94,207 | 37.8 | 5.5 |
| Fiscal 2004 | 88.00 | 44.00 | 78,212 | 33.2 | 5.1 |

(3) Financial Position

| | Total assets (¥ million) | Shareholders' equity (¥ million) | Shareholders' equity/total assets (%) | Shareholders' equity per share (¥) |
|-------------|-----------------------------|-------------------------------------|--|---------------------------------------|
| Fiscal 2005 | 2,157,543 | 1,728,443 | 80.1 | 1,944.57 |
| Fiscal 2004 | 1,847,590 | 1,519,728 | 82.3 | 1,709.68 |

Notes:

1. Number of shares outstanding at end of period: 888,737,771 shares (Fiscal 2004: 888,760,360 shares)

2. Number of shares of treasury stock at end of period: 534,624 shares (Fiscal 2004: 512,035 shares)

2. Projected Results for Fiscal 2006 (April 1, 2006 - March 31, 2007)

| | Net sales (¥ million) | Ordinary income (¥ million) | Net income (¥ million) | Annual dividends per share (¥) | |
|----------------|--------------------------|--------------------------------|---------------------------|--------------------------------|----------|
| | | | | Interim | Year-end |
| Interim period | 425,000 | 195,000 | 135,000 | 60.00 | — |
| Fiscal 2006 | 855,000 | 350,000 | 235,000 | — | 120.00 |

Reference: Estimated earnings per share (fiscal 2006): ¥264.42

Note: For the assumptions and other issues related to the above projections, please refer to page 15-16.

(18) Unconsolidated Statements of Income

(Millions of yen)

| | Year ended March 31, 2006 | | Year ended March 31, 2005 | | Increase (decrease) |
|---|------------------------------|--------|------------------------------|--------|------------------------|
| | | | | | |
| Net sales | 840,230 | 100.0% | 784,848 | 100.0% | 55,382 |
| Cost of sales | 208,520 | 24.8 | 199,088 | 25.4 | 9,432 |
| Selling, general and administrative expenses | 285,741 | 34.0 | 241,325 | 30.7 | 44,416 |
| Operating income | 345,969 | 41.2 | 344,435 | 43.9 | 1,534 |
| Non-operating income: | 34,806 | 4.1 | 25,454 | 3.2 | 9,352 |
| Interest income and dividends | 20,179 | | 18,074 | | 2,105 |
| Interest on securities | 170 | | 329 | | (159) |
| Other non-operating income | 14,456 | | 7,052 | | 7,404 |
| Non-operating expenses: | 16,335 | 1.9 | 13,193 | 1.7 | 3,142 |
| Interest expense | 126 | | 116 | | 10 |
| Other non-operating expenses | 16,210 | | 13,076 | | 3,134 |
| Ordinary income | 364,439 | 43.4 | 356,696 | 45.4 | 7,743 |
| Extraordinary gain | 38,433 | 4.5 | 1,070 | 0.1 | 37,363 |
| Gains on sale of fixed assets | *145 | | *1,070 | | (925) |
| Gains on sale of shares of affiliates | | | | | |
| Gains from discontinuance of handling employee pension fund on behalf of government | **17,877 | | — | | 17,877 |
| | 20,411 | | — | | 20,411 |
| Extraordinary loss | — | 0.0 | 2,079 | 0.2 | (2,079) |
| Losses on bulk vitamin and other cartel cases | — | | ***2,079 | | (2,079) |
| Income before income taxes | 402,872 | 47.9 | 355,688 | 45.3 | 47,184 |
| Income taxes: | 153,511 | 18.2 | 120,199 | 15.3 | 33,312 |
| Current | 193,486 | | 131,780 | | 61,706 |
| Deferred | (39,975) | | (11,581) | | (28,394) |
| Net income | 249,361 | 29.7 | 235,488 | 30.0 | 13,873 |
| Profit brought forward from the previous term | 159,828 | | 143,544 | | 16,284 |
| Interim dividends | 47,104 | | 39,106 | | 7,998 |
| Unappropriated retained earnings at the end of the term | 362,085 | | 339,926 | | 22,159 |

Notes:

* States the gain on the sale of idle real estate, consisting mainly of land.

** States the gains on transfer of shares of subsidiaries and affiliates engaged in life-environment business, “Wyeth K.K.” and “Takeda-Kirin Foods Corporation”.

*** States the losses from the ongoing civil litigation related to bulk vitamin and other cartel cases in the United States and Canada.

(19) Unconsolidated Balance Sheets

ASSETS

(Millions of yen)

| | As of March 31, 2006 | | As of March 31, 2005 | | Increase (decrease) |
|--|-------------------------|-------|-------------------------|-------|------------------------|
| Current assets | 1,206,730 | 55.9% | 983,629 | 53.2% | 223,101 |
| Cash and deposits | 213,436 | | 232,931 | | (19,495) |
| Trade notes receivable | 10,578 | | 10,879 | | (301) |
| Trade accounts receivable | 151,612 | | 142,767 | | 8,845 |
| Marketable securities | 635,042 | | 445,628 | | 189,414 |
| Merchandise and products | 25,863 | | 25,915 | | (52) |
| Work-in-progress and semi-finished products | 23,014 | | 22,964 | | 50 |
| Materials | 13,280 | | 11,629 | | 1,651 |
| Deferred income taxes | 106,697 | | 76,356 | | 30,341 |
| Other current assets | 27,229 | | 14,583 | | 12,646 |
| Allowance for doubtful receivables | (23) | | (22) | | (1) |
| Fixed assets | 950,814 | 44.1 | 863,961 | 46.8 | 86,853 |
| Tangible fixed assets: | 105,489 | 4.9 | 111,935 | 6.1 | (6,446) |
| Buildings and structures | 60,741 | | 62,622 | | (1,881) |
| Machinery and equipment | 20,731 | | 16,752 | | 3,979 |
| Vehicles and carriers | 86 | | 39 | | 47 |
| Tools, furniture and fixtures | 2,406 | | 2,390 | | 16 |
| Land | 20,826 | | 20,418 | | 408 |
| Construction in progress | 698 | | 9,715 | | (9,017) |
| Intangible fixed assets | 45 | 0.0 | 90 | 0.0 | (45) |
| Investments and other assets: | 845,281 | 39.2 | 751,936 | 40.7 | 93,345 |
| Investment securities | 257,267 | | 178,255 | | 79,012 |
| Equity in subsidiaries and affiliates | 489,765 | | 496,494 | | (6,729) |
| Long-term deposits | 55,822 | | 51,197 | | 4,625 |
| Long-term loans | 28 | | 1,458 | | (1,430) |
| Long-term prepaid expenses | 269 | | 104 | | 165 |
| Prepaid pension costs | 18,886 | | — | | 18,886 |
| Real estates for lease | 23,354 | | 24,460 | | (1,106) |
| Allowance for doubtful receivables | (110) | | (31) | | (79) |
| Total assets | 2,157,543 | 100.0 | 1,847,590 | 100.0 | 309,953 |

LIABILITIES AND SHAREHOLDERS' EQUITY

(Millions of yen)

| | As of March 31, 2006 | | As of March 31, 2005 | | Increase (decrease) |
|--|-------------------------|-------|-------------------------|-------|------------------------|
| Total liabilities | 429,101 | 19.9% | 327,862 | 17.7% | 101,239 |
| Current liabilities: | 342,696 | 15.9 | 259,173 | 14.0 | 83,523 |
| Trade notes payable | 88 | | — | | 88 |
| Trade accounts payable | 52,205 | | 47,331 | | 4,874 |
| Accrued liabilities and accrued expenses | 115,766 | | 105,694 | | 10,072 |
| Income taxes payable | 133,612 | | 69,677 | | 63,935 |
| Reserve for bonuses | 23,967 | | 21,841 | | 2,126 |
| Other reserves | 6,852 | | 6,935 | | (83) |
| Other current liabilities | 10,206 | | 7,696 | | 2,510 |
| Long-term liabilities: | 86,405 | 4.0 | 68,689 | 3.7 | 17,716 |
| Deferred income taxes | 61,256 | | 39,104 | | 22,152 |
| Reserve for retirement benefits | 18,592 | | 22,886 | | (4,294) |
| Reserve for directors' retirement bonuses | 1,034 | | 990 | | 44 |
| Reserve for SMON compensation | 4,486 | | 4,664 | | (178) |
| Other long-term liabilities | 1,037 | | 1,045 | | (8) |
| Shareholders' equity | 1,728,443 | 80.1 | 1,519,728 | 82.3 | 208,715 |
| Common stock | 63,541 | 2.9 | 63,541 | 3.4 | — |
| Additional paid-in capital | 49,641 | 2.3 | 49,638 | 2.7 | 3 |
| Capital reserve | 49,638 | | 49,638 | | — |
| Other capital surplus | 3 | | — | | 3 |
| Retained earnings | 1,487,150 | 68.9 | 1,324,231 | 71.7 | 162,919 |
| Legal reserve | 15,885 | | 15,885 | | — |
| Provision for retirement benefits | 5,000 | | 5,000 | | — |
| Reserve for dividends | 11,000 | | 11,000 | | — |
| Reserve for R&D | 2,400 | | 2,400 | | — |
| Reserve for capital improvements | 1,054 | | 1,054 | | — |
| Reserve for promotion of exports | 434 | | 434 | | — |
| Reserve for extraordinary write-down | 1,427 | | 1,125 | | 302 |
| Reserve for compression of fixed assets | 15,365 | | 14,907 | | 458 |
| General reserve | 1,072,500 | | 932,500 | | 140,000 |
| Unappropriated retained earnings | 362,085 | | 339,926 | | 22,159 |
| Unrealized gain on securities | 130,927 | 6.1 | 84,997 | 4.6 | 45,930 |
| Treasury stock | (2,817) | (0.1) | (2,678) | (0.1) | (139) |
| Total liabilities and shareholders' equity | 2,157,543 | 100.0 | 1,847,590 | 100.0 | 309,953 |

(Sales)

(Millions of yen)

| | Year ended March 31, 2006 | | Year ended March 31, 2005 | | Increase (decrease) | |
|------------------------------|------------------------------|--------|------------------------------|--------|------------------------|---------|
| | | | | | | |
| Ethical Drugs Business | 770,713 | 91.7% | 711,166 | 90.6% | 59,547 | 8.4% |
| Japan | 493,069 | 58.7 | 450,920 | 57.5 | 42,149 | 9.3 |
| Exports | 277,645 | 33.0 | 260,246 | 33.2 | 17,399 | 6.7 |
| Consumer Healthcare Business | 60,439 | 7.2 | 60,953 | 7.8 | (514) | (0.8) |
| Non-Pharmaceutical Business | 9,078 | 1.1 | 12,729 | 1.6 | (3,651) | (28.7) |
| Vitamin Business | 9,078 | 1.1 | 11,515 | 1.5 | (2,437) | (21.2) |
| Agro Business | — | — | 1,213 | 0.2 | (1,213) | (100.0) |
| Total | 840,230 | 100.0 | 784,848 | 100.0 | 55,382 | 7.1 |
| [Exports in Total] | [282,289] | [33.6] | [267,790] | [34.1] | [14,499] | [5.4] |
| [Royalty Income in Total] | [70,245] | [8.4] | [66,910] | [8.5] | [3,335] | [5.0] |

(20) Statements of Appropriation of Retained Earnings

(Millions of yen)

| | Year ended March 31, 2006 | Year ended March 31, 2005 |
|---|------------------------------|------------------------------|
| Unappropriated retained earnings at the end of the year | 362,085 | 339,926 |
| We propose to appropriate the foregoing as follows: | | |
| Dividends | 47,103 | 39,105 |
| [Dividends per share (¥)] | [53.00] | [44.00] |
| Bonuses to directors | 220 | 220 |
| Bonuses to auditors | 13 | 13 |
| Reserve for extraordinary write-down | 77 | 302 |
| Reserve for compression of fixed assets | 68 | 458 |
| General reserve | 120,000 | 140,000 |
| Balance to be carried forward | 194,604 | 159,828 |

Significant Accounting Policies

1. Valuation of Securities

| | |
|--|--|
| Held-to-maturity securities: | Valued at amortized cost (straight-line method) |
| Shares of subsidiaries and affiliates: | Valued at cost using the moving-average method |
| Other securities | |
| With market value: | Valued at market value based on market prices at the balance sheet date (Valuation gains and losses are fully capitalized, and cost of securities sold is calculated using the moving-average method.) |
| Without market value: | Valued at cost using the moving-average method |

2. Valuation of Derivatives: Fair value

3. Valuation of Inventories

| | |
|--|--|
| Merchandise: | Valued at lower of cost or market using the weighted average cost method |
| Finished products: | Valued at cost using the weighted average cost method |
| Work-in-progress and semi-finished products: | Valued at cost using the weighted average cost method |
| Materials: | Valued at lower of cost or market using the moving-average method |

4. Depreciation of Fixed Assets
 - (1) Tangible fixed assets and real estates for lease

The Company uses the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April 1, 1998, the straight-line method is employed. Estimated useful lives of tangible fixed assets are primarily as follows:

| | |
|--------------------------|-------------|
| Buildings and structures | 15-50 years |
| Machinery and equipment: | 4-15 years |

 - (2) Intangible fixed assets
Depreciated using the straight-line method

5. Accounting Standards for Major Reserves
 - (1) Allowance for doubtful receivables

To protect against potential losses from uncollectible notes and accounts receivable, the Company provides for uncollectible receivables based on historical loss ratios. Specific claims are evaluated for the likelihood of recovery and provision is made to the allowance for doubtful receivables in the amount deemed uncollectible.

 - (2) Reserve for bonuses
To appropriate funds for the payment of bonuses to employees, the reserve for bonuses is provided based on the applicable period according to the expected amount of the payment for employees enrolled at the end of the fiscal year.

 - (3) Reserve for retirement benefits
To cover payment of retirement benefits to employees, the Company provides for retirement benefits based on the estimated value of the retirement benefit obligation as of the end of the fiscal year projected at the beginning of the fiscal year, less estimated fair amounts of plan assets funded under contributory and non-contributory pension plans (the corporate pension fund and the qualified pension plan).

Prior service cost is amortized using the straight-line method over the certain years (five years), within the average remaining years of service when obligations arise.

Actuarial gains and losses are expensed on a straight-line basis over the certain years (five years), within the average remaining years of service of employees, allocated proportionately starting from the year each respective gain or loss occurred.

(Additional information)

In accordance with the Defined Benefit Pension Law, Takeda received approval from the Minister of Health, Labor and Welfare on May 1, 2005 relating to exemption of the payment obligation of past employee services out of the substituted portion of welfare pension funds, and returned the amount (minimum reserves) on September 13, 2005. A gain of ¥20,411 million on such return of the substituted portion has been recorded as extraordinary income.

(4) Reserve for directors' retirement bonuses

To cover payment of retirement bonuses to directors, the reserve for directors' retirement bonuses is stated as the amount to be paid in accordance with internal regulations.

(5) Reserve for SMON compensation

The reserve for SMON compensation is stated at an amount calculated in accordance with the Memorandum Regarding the Settlements and the settlements entered into with the Nationwide Liaison Council of SMON Patients' Associations, etc. in September 1979, in order to prepare for the future costs of health care and nursing with regard to the subjects of the settlements applicable to the Company as of the end of the period.

6. Accounting for Lease Transactions

Finance lease transactions other than those for which ownership is deemed to be transferred to the lessee are accounted for as ordinary lease transactions.

7. Hedge Accounting

(1) Methods of hedge accounting

The Company uses mainly deferred hedging. However, under certain conditions, forward exchange contracts are accounted for as if each hedging instrument and hedged item were one combined financial instrument.

(2) Hedging procedures, hedging targets and hedging policies

The Company uses yen interest swaps to hedge the portion of cash flow related to future asset management income, which is linked to short-term variable interest rates. In addition, the Company uses forward foreign exchange contracts for a portion of foreign currency-denominated transactions that can be individually recognized and are financially material. These hedge transactions are conducted in accordance with established regulations regarding scope of usage and standards for selection of counterparty financial institutions.

(3) Method of evaluating effectiveness of hedges

Preliminary testing is conducted using statistical methods such as regression analysis, and post-testing is conducted using comparative analysis.

8. Other

Consumption taxes are excluded from revenues and expenses.

Notes to Unconsolidated Statements of Income

(Millions of yen)

| | Year ended March 31, 2006 | Year ended March 31, 2005 | Increase (decrease) |
|--|------------------------------|------------------------------|------------------------|
| 1. Net sales ratios before deduction of rebates | | | |
| Net sales of finished products | 76.2% | 77.1% | (0.9%) |
| Net sales of merchandise | 23.8% | 22.9% | 0.9% |
| 2. Transactions with subsidiaries and affiliates | | | |
| Net sales | 189,435 | 179,304 | 10,131 |
| Dividend income | 18,218 | 16,353 | 1,865 |
| 3. Selling, general and administrative expenses | | | |
| (1) Selling expenses | | | |
| Advertising expense | 15,624 | 15,907 | (283) |
| Sales promotion expense | 16,708 | 15,492 | 1,216 |
| Freight and storage expense | 2,445 | 2,359 | 86 |
| (2) General and administrative expenses | | | |
| Salaries | 21,609 | 21,571 | 38 |
| Bonuses and provision for bonuses | 17,909 | 16,118 | 1,791 |
| Retirement benefit expenses | 2,943 | 8,307 | (5,364) |
| Depreciation cost | 1,671 | 1,432 | 239 |
| R&D expenses | 148,644 | 94,289 | 54,355 |
| 4. R&D expenses | 148,644 | 94,289 | 54,355 |
| Manufacturing cost | — | — | — |
| General and administrative expenses | 148,644 | 94,289 | 54,355 |

Notes to Unconsolidated Balance Sheets

(Millions of yen)

| | As of March 31, 2006 | As of March 31, 2005 | Increase (decrease) |
|--|-------------------------|-------------------------|------------------------|
| 1. Accumulated depreciation | | | |
| Tangible fixed assets | 247,471 | 267,851 | (20,380) |
| Real estates for lease | 4,735 | 3,628 | 1,107 |
| 2. Loans guaranteed | | | |
| Guarantees | 16,628 | 17,234 | (606) |
| 3. Discount trade notes for exports | 294 | 235 | 59 |
| 4. Assets and liabilities with subsidiaries and affiliates | | | |
| Notes and accounts receivable | 14,758 | 12,884 | 1,874 |
| Accounts payable | 26,184 | 22,338 | 3,846 |

(21) Lease Transactions

Omitted due to disclosure on EDINET.

(22) Marketable Securities

There were no stocks of subsidiaries or affiliated companies with market values in either of the years ended March 31, 2005 and 2006.

(23) Income Taxes

1. Breakdown of major factors giving rise to deferred tax assets and liabilities

(Millions of yen)

| | As of March 31, 2006 | As of March 31, 2005 | Increase (decrease) |
|--|-------------------------|-------------------------|---------------------|
| (Deferred tax assets) | | | |
| Deferred tax assets (current) | | | |
| Bonuses | 9,802 | 8,933 | 869 |
| Research & development expenses | 29,909 | 23,055 | 6,854 |
| Enterprise taxes | 12,580 | 7,387 | 5,193 |
| Reserve for rebates | 2,267 | 2,338 | (71) |
| Others | <u>52,149</u> | <u>34,656</u> | <u>17,493</u> |
| Deferred tax assets (current)-total | 106,707 | 76,369 | 30,338 |
| Deferred tax assets (fixed) | | | |
| Retirement benefits | 7,604 | 8,351 | (747) |
| Excess depreciation of property, plant and equipment | 8,796 | 7,828 | 968 |
| Others | <u>24,593</u> | <u>15,844</u> | <u>8,749</u> |
| Total deferred tax assets (fixed)-total | 40,993 | 32,023 | 8,970 |
| Total deferred tax assets | 147,700 | 108,392 | 39,308 |
| (Deferred tax liabilities) | | | |
| Deferred tax liabilities (current) | | | |
| Unrealized gain on securities | <u>(10)</u> | <u>(13)</u> | <u>3</u> |
| Deferred tax liabilities (current)-total | (10) | (13) | 3 |
| Deferred tax liabilities (fixed) | | | |
| Unrealized gain on securities | (90,618) | (58,826) | (31,792) |
| Reserve for compression of fixed assets | (10,590) | (10,764) | 174 |
| Others | <u>(1,041)</u> | <u>(1,536)</u> | <u>495</u> |
| Deferred tax liabilities (fixed)-total | (102,249) | (71,126) | (31,123) |
| Total deferred tax liabilities | (102,259) | (71,139) | (31,120) |
| Net deferred tax assets | 45,441 | 37,252 | 8,189 |

2. The effective income tax rate of the company differed from the statutory tax rate for the following reasons:

(%)

| | Year ended March 31, 2006 | Year ended March 31, 2005 | Increase (decrease) |
|--|------------------------------|------------------------------|---------------------|
| Statutory tax rate | 40.9 | 40.9 | — |
| (Adjustment) | | | |
| Expenses not deductible for tax purposes | 0.7 | 0.8 | (0.1) |
| Non-taxable dividend income | (0.7) | (1.0) | 0.3 |
| Tax credit for research expenses, etc. | (2.0) | (3.1) | 1.1 |
| Other - net | <u>(0.8)</u> | <u>(3.8)</u> | <u>3.0</u> |
| Effective tax rate | 38.1 | 33.8 | 4.3 |

(24) Appointment/Retirement of Officers

(As of June 29, 2006)

Resigning

Takashi Soda (Director in charge of Special Missions)