

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2005

May 11, 2005

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

(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 2004	1,122,960	3.4	385,278	3.7	442,111	(0.9)
Fiscal 2003	1,086,431	3.9	371,633	19.6	446,083	10.1

	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 2004	277,438	(2.7)	313.01	—	14.7	18.1	39.4
Fiscal 2003	285,264	5.0	321.86	—	17.0	20.3	41.1

Notes:

1. Equity in earnings of affiliates: ¥45,431 million (Fiscal 2003: ¥72,663 million)

2. Average number of shares outstanding (consolidated): 885,240,576 shares (Fiscal 2003: 885,264,452 shares)

3. Changes in accounting methods: No

4. 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 2004	2,545,435	2,001,414	78.6	2,260.52
Fiscal 2003	2,335,660	1,781,010	76.3	2,011.48

Note: Number of shares outstanding at end of period (consolidated): 885,221,980 shares (Fiscal 2003: 885,254,945 shares)

(3) Cash Flows

	Net cash provided by operating activities (¥ million)	Net cash (used in) provided by investing activities (¥ million)	Net cash used in financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Fiscal 2004	295,539	(72,305)	(73,912)	1,264,324
Fiscal 2003	311,122	(139,322)	(59,344)	1,076,084

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

Consolidated subsidiaries: 48 companies

Unconsolidated subsidiaries accounted for by the equity method: None

Affiliated companies accounted for by the equity method: 23 companies

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

Consolidation: (New) 1 company (Eliminated) None

Equity method: (New) None (Eliminated) None

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

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)
Interim period	570,000	220,000	155,000
Fiscal 2005	1,155,000	445,000	295,000

Reference: Estimated earnings per share (fiscal 2005): ¥332.86

Notes: 1. Estimates of business results are rendered in accordance with Japanese regulations. All these estimates are forward-looking statements based on a number of assumptions. Actual results may differ substantially depending on a number of factors including but not limited to economic trends and exchange rates.

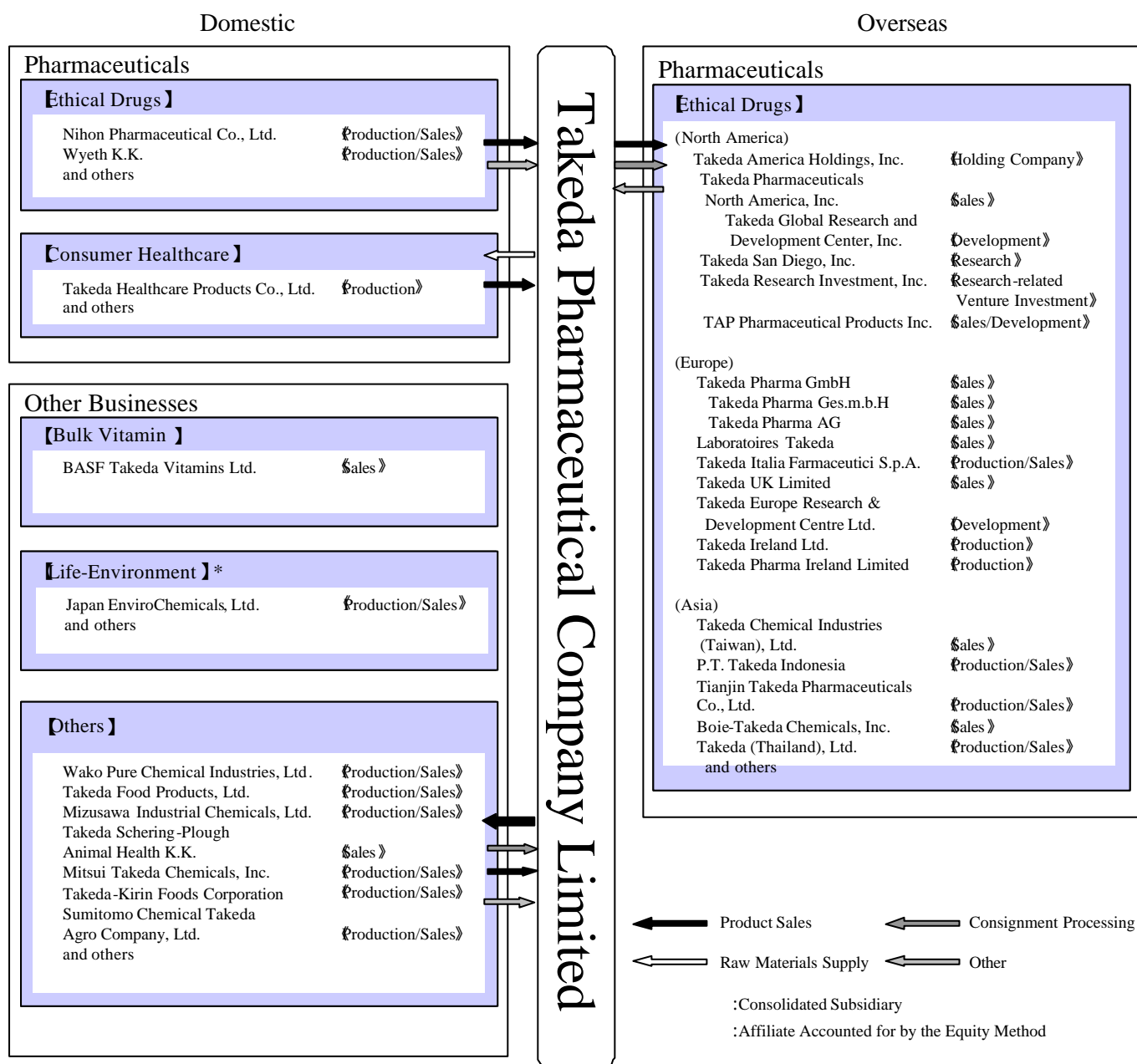
2. For the assumptions and other issues related to the above projections, please refer to page 12.

Contents

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2005		
Contents	-----	2
(1) The Takeda Group	-----	3
(2) Management Policies	-----	6
(3) Results of Operations and Financial Position	-----	7
(4) Risk Factors in Business	-----	13
(5) Basic Policies and Implementation of Measures concerning Corporate Governance	-----	15
(6) Litigation	-----	16
(7) Consolidated Statements of Income	-----	17
(8) Consolidated Balance Sheets	-----	18
(9) Consolidated Statements of Retained Earnings	-----	20
(10) Consolidated Statements of Cash Flows	-----	21
Preparation of the Consolidated Financial Statements	-----	22
Notes to Consolidated Statements of Income	-----	25
Notes to Consolidated Balance Sheets	-----	25
Notes to Consolidated Statements of Cash Flows	-----	25
(11) Segment Information	-----	26
(12) Lease Transactions	-----	29
(13) Transactions with Related Parties	-----	29
(14) Income Taxes	-----	30
(15) Marketable Securities	-----	31
(16) Derivative Transactions	-----	33
(17) Retirement Benefits	-----	34
(18) Production, Orders and Sales	-----	36
Summary of Unconsolidated Financial Statements for the Fiscal Year Ended March 31, 2005		37
(19) Unconsolidated Statements of Income	-----	38
(20) Unconsolidated Balance Sheets	-----	39
Sales	-----	41
(21) Statements of Appropriation of Retained Earnings	-----	42
Significant Accounting Policies	-----	43
Notes to Unconsolidated Statements of Income	-----	45
Notes to Unconsolidated Balance Sheets	-----	45
(22) Lease Transactions	-----	46
(23) Marketable Securities	-----	46
(24) Income Taxes	-----	47
(25) Change of Directors	-----	48

(1) The Takeda Group

The Takeda Group consists of 72 companies, including the parent company submitting these consolidated financial statements, 48 consolidated subsidiaries and 23 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.



* In the Life-Environment business, shares of three consolidated and affiliated companies (reported by the equity method), including Japan EnviroChemicals, Ltd. were assigned to Osaka Gas Chemicals Co., Ltd., a subsidiary of Osaka Gas Co., Ltd. on April 1, 2005.

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\$15 million	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\$12 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 Europe Research & Development Centre 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	Clondalkin 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
Japan EnviroChemicals, Ltd.	Chuo-ku, Osaka	¥ 2,055	Other (Life-Environment)	100.0	—	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)	54.3 (1.2)	—	—
and 25 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)	40.0	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	PHP77 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	—
BASF Takeda Vitamins Ltd.	Chiyoda-ku, Tokyo	¥ 10	Other (Bulk Vitamin)	34.0	—	—
Takeda Schering-Plough Animal Health K.K.	Chuo-ku, Osaka	¥ 710	Other (others)	40.0	Consigns production of animal health products to 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)	49.0	—	—
Sumitomo Chemical Takeda Agro Company, Ltd.	Chuo-ku, Tokyo	¥ 9,380	Other (others)	40.0	—	Leases land and buildings from Takeda
and 14 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. In June 2004, Takeda Pharmaceuticals North America, Inc. reduced its capital stock to one dollar.
7. In March 2005, the Company acquired Syrrx Inc., a biotechnology venture company in the U.S., through Takeda America Holdings Inc. The company name of the acquired business was changed Takeda San Diego, Inc.

(2) Management Policies

Through its management mission of “striving toward better health for individuals and progress in medicine by developing superior pharmaceutical products”, Takeda is aiming at becoming a “world-class pharmaceutical company” that specializes in the pharmaceutical business and conduct business operations globally.

While making every effort to accomplish the goals of the 2001 - 2005 Medium-term Management Plan in Fiscal 2005, the Plan’s final fiscal year, Takeda is carrying out the following measures in order to establish a foundation for the next medium-term management plan. Takeda is aiming at realizing its management mission through these measures, and will strive for the further growth of Takeda Group and for maximization of shareholder value.

1. Enhancing and strengthening the R&D pipeline

Takeda will seek to launch new products sustainably in the mid-and-long term by discovering and licensing candidate compounds and promptly moving them forward to the advanced research and development stage, through the three strategic pillars of in-house research and development, licensing and alliances, and maximization of added value in international strategic products.

2. Maintaining growth potential and expanding market share of existing core products

Takeda will implement differentiation focus strategies to succeed against competitive products and promote the maximization of product life-cycles, which actions will include the addition of new indications and formulations, with the objective of maintaining the growth potential of existing core products and increasing their market shares amid intensifying competition, as well as expanding the presence of the Takeda Group in the global market. In addition, Takeda will take all possible measures for launch of new products and their rapid penetration into the markets, which will serve as a core of growth in the next mid-term management plan period.

3. Building global operating infrastructure and scheme

As an essential condition for its transformation into a world-class pharmaceutical company originating in Japan that conducts a global pharmaceutical business, Takeda will build and strengthen a unique operating infrastructure that is simple and effective.

4. Establishing a solid business structure free of influence from environmental changes

While promoting further reform of organizational control and business operations with the placement of optimal numbers of human resources, Takeda will more thoroughly promote the efficient use of expenses and strengthen cost competitiveness with the aim of building a solid business structure that will be free of influence from environmental changes and allow for sustainable expansion of business performance.

(3) Results of Operations and Financial Position

1. Summary of Annual Results

1) Overview of Results

In the ethical pharmaceutical industry, various measures for restraining healthcare expenditures have been implemented around the world, and the overall market growth has been slowed year by year.

In the United States market, as various measures implemented by federal and state governments as well as private insurance companies have made generic drugs rapidly penetrating the market upon expiration of patent term of blockbuster products, there is increasing pressure to reduce the prices of branded products. In addition, competition has also intensified with the increasing use of generic drugs and prescription-to-OTC switches in markets including treatments for peptic ulcer, prostate cancer and endometriosis, Takeda's main therapeutic areas. In the Japanese market, stronger measures are being taken to restrain healthcare expenditures, including periodic reductions of National Health Insurance (NHI) drug prices by the government and promotion of the use of generic products. As a result, the pharmaceutical market growth rate in Japan is the lowest among developed countries. In the European market, too, growth is moderating due to factors including stronger measures for controlling drug costs and the expansion of parallel imports.

Due to the increased cost of creating new drugs, as well as slowdown in market growth rate, integration of the pharmaceutical companies has accelerated both in Japan and overseas, and intercorporate competition has further intensified.

Consolidated results for the fiscal year were as follows:

		<u>Year-on-year change</u>
Net sales	¥ 1,123.0 billion	¥ 36.5 billion (3.4 %) increase
Operating income	¥ 385.3 billion	¥ 13.6 billion (3.7 %) increase
Ordinary income	¥ 442.1 billion	¥ 4.0 billion (0.9 %) decrease
Net income	¥ 277.4 billion	¥ 7.8 billion (2.7 %) decrease

Note: Until last year, results for January-December period of overseas subsidiaries with fiscal years ending December were consolidated to Takeda's fiscal year (April - March period). Starting from this fiscal period, Takeda consolidates the accounts of these companies using the same months (April - March) to provide shareholders and investors with results that are more accurate and timely reflection of the actual state of operations. For this fiscal year—the transition period—results consolidating the January - December figures are used in stating results for previous fiscal years.

Net sales totaled ¥1,123 billion, a year-on-year increase of ¥36.5 billion (3.4 percent). Sales of ethical drugs increased ¥37.7 billion (4.3 percent)—primarily due to growth of drugs developed in-house by Takeda in Japan and Europe—and contributed to the overall increase in net sales. The effect of foreign exchange translations was a net decrease of ¥13.6 billion compared with the previous fiscal year, as the yen strengthened against the U.S. dollar while it weakened against the euro.

Operating income increased ¥13.6 billion (3.7 percent) to ¥385.3 billion. In March 2005, Takeda acquired a U.S. biotechnology venture, "Syrrx, Inc." (currently, "Takeda San Diego, Inc."). General and administrative expenses increased ¥13.1 billion, including an increase of ¥11.8 billion in R&D expenses, which was mainly due to a one-time charge of ¥20.6 billion arising from the acquisition of Syrrx, expensed as R&D expenses. However, the increase in

gross profit (increase of ¥26.7 billion) absorbed such increase in expenses and contributed to the increase in operating income.

Ordinary income was ¥442.1 billion, a decrease of ¥ 4 billion (0.9 percent). Although the rising U.S. interest level increased interest income, non-operating profit and loss decreased ¥17.6 billion from the previous fiscal year, mainly due to a decrease of equity in earnings of the U.S. equity method affiliate “TAP Pharmaceutical Products Inc.” (“TAP”), reflecting the weakening of market and the intensifying of competition with other companies’ products, in addition to the impact of the strengthening yen against the dollar.

Net income was ¥277.4 billion, a year-on-year decrease of ¥7.8 billion (2.7 percent).

2) Cash Flows

Cash flows for the period resulted in a net surplus of ¥164.5 billion (the expenditure for the Syrrx acquisition was \$270 million). Combined with the ¥23.7 billion increase from the change to same-month consolidated accounts of overseas subsidiaries and affiliates that have fiscal years ending in December, cash and cash equivalents (marketable securities and time deposits maturing or redeemable within 3 months of date of acquisition) as of March 31, 2005 totaled ¥1,264.3 billion.

Investment in property, plant and equipment totaled ¥49.2 billion, mainly comprising ¥9 billion for constructing a discovery research facility on the site of the Osaka Plant, ¥6 billion for constructing a facility for manufacturing vaccine solutions at the Hikari Plant and ¥3.5 billion for constructing a new production facility for healthcare products of Takeda Healthcare Products Co., Ltd.

Historical cash flow indicators are as shown below.

	Year ended 3/31/01	Year ended 3/31/02	Year ended 3/31/03	Year ended 3/31/04	Year ended 3/31/05
Shareholders’ equity ratio	69.4%	72.3%	76.1%	76.3%	78.6%
Shareholders’ equity ratio on market value basis	306.6%	235.2%	190.4%	175.9%	177.7%
Debt repayment term (years)	0.05	0.03	0.02	0.02	0.03
Interest coverage ratio	331.5	429.3	975.8	1,297.5	1,451.6

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 expense

* All indicators are calculated using consolidated financial figures.

* Market capitalization is calculated by multiplying fiscal year-end closing share price by number of shares outstanding (excluding treasury stock) at fiscal year end.

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

3) Cash Dividends

Takeda's basic policy is to return profits to shareholders according to consolidated results for each accounting period. Takeda seeks to increase distribution of profits, with a target consolidated payout ratio of 30 percent, taking into overall consideration its prospect of financial condition and medium- to long-term capital requirements for business investments to increase the value of the Company. Retained earnings are allocated to investments leading to future growth, such as the research and development of ethical drugs and reinforcement of Takeda's business infrastructure in Europe and the United States.

In regard to dividends for this fiscal year, Takeda plans to pay cash dividends of ¥88.00 per share, an increase of ¥11.00 from the previous fiscal year. This total comprises a year-end dividend of ¥44.00 per share and an interim dividend of ¥44.00 per share.

4) Results by Segment

(1) Business Segments

(Consolidated sales by segment below represent net sales to outside customers in each segment.)

Type of Business	Net Sales		Operating Income	
	Amount	Year-on-year change	Amount	Year-on-year change
Pharmaceuticals-total	970.5	35.2	397.4	16.1
Ethical Drugs	914.8	37.7		
Domestic	451.9	22.2		
Overseas	462.9	15.5		
Consumer Healthcare	55.7	(2.5)		

The **Pharmaceuticals** segment posted net sales of ¥970.5 billion, an increase of ¥35.2 billion (3.8 percent) over the previous fiscal year. Operating income increased ¥16.1 billion (4.2 percent) to ¥397.4 billion, in spite of the increase in R&D expenses.

In the **Ethical Drugs** business, net sales increased ¥37.7 billion (4.3 percent) to ¥914.8 billion.

In the **domestic** market, while competition increased in each therapeutic area, Takeda focused on providing high-quality scientific information to the medical profession in order to expand sales of core products. As a result, the fiscal year saw increased sales of the hypertension treatment *Blopress* (a ¥10.8 billion increase to ¥103.5 billion), the peptic ulcer treatment *Takepron* (a ¥5.3 billion increase to ¥47.5 billion), *Basen*, an improving agent for postprandial hyperglycemia in diabetes mellitus (a ¥4.6 billion increase to ¥61.5 billion) and *Actos*, a treatment for diabetes (a ¥3.9 billion increase to ¥15.5 billion). Sales of other core product *Benet*, an osteoporosis treatment, and *Leuplin*, a treatment for prostate cancer and endometriosis, also increased. These increases absorbed the impact of NHI drug price revisions implemented in April 2004; net sales of ethical drugs in Japan therefore increased ¥22.2 billion (5.2 percent) over the previous fiscal year to ¥451.9 billion. In May 2004, Takeda launched *Glufast* tablets, a novel, short-acting insulin secretagogue created and developed by Kissei Pharmaceutical Co., Ltd. In March 2005, Takeda launched *Enbrel* (generic name: *Etanercept*), a treatment for rheumatoid arthritis of Wyeth K.K., a domestic equity method affiliate. *Enbrel* is under co-promotion by Takeda and Wyeth K.K.

In the meantime, of the 40% equity stake in Wyeth K.K. originally held by Takeda, 10% was transferred to Wyeth Corporation in the U.S. The remaining 30% equity stake in Wyeth K.K.

currently held by Takeda will be transferred to Wyeth Corporation in the U.S. on a step-by-step basis in the coming years.

In **overseas** markets, there was a decrease in exports of the peptic ulcer treatment *Lansoprazole* (domestic brand name: *Takepron*) to TAP in the United States, and the royalty income decreased accordingly. The strengthening of the yen against the dollar also had a negative effect.

However, sales of the diabetes treatment *Actos* by Takeda Pharmaceuticals North America Inc. (“TPNA”), a consolidated subsidiary in the United States, increased \$165 million over the previous fiscal year to \$1,529 million; sales of *Lansoprazole*, *Actos*, leuprolide acetate (domestic brand name: *Leuplin*) and other core products also increased in Europe. As a result, overseas net sales of ethical drugs increased ¥15.5 billion (3.5 percent) over the previous fiscal year to ¥462.9 billion.

In the **Consumer Healthcare business**, net sales decreased ¥2.5 billion (4.3 percent) from the same period in the previous year to ¥55.7 billion. Sales of *Alinamin* products and *Hicee* products declined due to such factors as market slowdowns and increasing competition, which were only partially offset by higher sales of Benza products. This was supported by the launch of cold remedies, *Benza Block S* and *Benza Block L* in September 2004, and *Benza Bien Yaku α* (twice-a-day type) and *Benza Bien Spray* for rhinitis in December 2004; and higher sales of *Actage AN Jo*, an oral medication for joint and nerve pain.

[Other Businesses]		(Billions of yen)		
Type of Business	Net sales		Operating income	
	Amount	Year-on-year change	Amount	Year-on-year change
Other Businesses-total	152.5	1.3	13.7	(0.5)

Net sales for **other businesses** decreased ¥1.3 billion (0.9 percent) from the previous year to ¥152.5 billion, while operating income decreased ¥0.5 billion (3.6 percent) to ¥13.7 billion.

As of April 1, 2005, Takeda transferred its holding shares in three consolidated subsidiaries and equity method affiliates, including Japan EnviroChemicals Ltd., engaging in life-environment business, to Osaka Gas Chemicals Co., Ltd., a subsidiary of Osaka Gas Co., Ltd.

(2) Geographic Segments

Geographic segments are presented in three classifications: Japan, North America and Europe and Asia. Exports from Takeda to its consolidated group companies and unconsolidated affiliates accounted for by the equity method are included in net sales and operating income of the Japan segment.

(Billions of yen)

Geographic segment	Net sales		Operating income	
	Amount	Year-on-year change	Amount	Year-on-year change
Japan	917.3	22.8	376.7	22.6
North America	189.1	27.7	18.1	(8.6)
Europe and Asia	126.3	16.9	18.2	4.3
Eliminations / Corporate	(109.7)	(30.8)	(27.6)	(4.6)
Total	1,123.0	36.5	385.3	13.6

Note: In accordance with Regulation for Consolidated Financial Statements in Japan, equity in earnings of affiliates is recorded as non-operating income.

5) Research & Development

Takeda is focusing on to strengthen research activities in the selected core areas of lifestyle-related diseases, to reinforce its ability to identify drug discovery targets using genomic information and to accelerate its development projects.

In September 2004, Takeda submitted a new drug application to the U.S. Food and Drug Administration (FDA) to market TAK-375 (generic name: Ramelteon) earlier than originally planned. TPNA is constructing a sales structure for TAK-375, including an increase in sales force, in preparation for launch upon the FDA's approval to market TAK-375.

In October 2004, to strengthen the R&D functions of creating hit/lead compounds and of compound optimization, a new Discovery Research Facility was built in the Osaka Factory Area.

In addition, Takeda acquired a U.S. biotechnology venture, "Syrrx, Inc." in March 2005. Syrrx has high potential and excellent R&D pipelines with the world's most advanced technology in high throughput protein crystallography, and is researching for development of new drugs with a focus on selected areas in metabolic diseases, including oncology and diabetes. By positioning Syrrx as a critical research center in the U.S., Takeda will boost the efficiency of process in the discovery, identification and development of new drugs, to enhance the R&D pipeline both quantitatively and qualitatively through strong cooperation with domestic research centers.

With regard to new indications and formulations, Takeda takes active measures to strengthen life-cycle management by increasing the value of its existing products. With regard to *Candesartan* (domestic brand name: *Blopress*), in August 2004, Takeda received approval for 32 mg dose tablets in 14 countries in Europe; then, based on the results of the outcome study "CHARM" program, Takeda obtained approval for additional indications for the use of *Candesartan* for chronic heart failure in Europe in November 2004, and in the U.S. in February 2005. Furthermore, in October 2004, through its subsidiary, Takeda Global Research and Development Center, Inc., TPNA submitted to the FDA a new drug application for marketing a fixed combination product of *Actos* and *Metformin* (brand name: *Actoplus Met*).

In addition to in-house research and development, Takeda also conducts in-licensing and alliance activities as measures for enhancing the R&D pipeline. Important agreements concluded in this fiscal term are as follows:

Execution month/year	Counterparty	Content of conclusion
July 2004	Lexicon Genetics (U.S.)	Joint research on targets for creating new drugs for hypertension
October 2004	BioNumeric Pharmaceuticals, Inc. (U.S.)	Licensing of <i>Tavocept</i> (generic name: <i>Dimensna</i>), a chemoprotective agent
October 2004	Sucampo Pharmaceuticals, Inc. (U.S.)	Licensing of new drug for chronic constipation and constipation-predominant irritable bowel syndrome (generic name: lubiprostone) * Submitted application to FDA in March 2005 for indication of chronic constipation.
February 2005	3M Pharmaceuticals, Inc. (U.S.)	Co-development and joint marketing of potential treatment for cervical high-risk human papillomavirus (HPV) infection and cervical dysphasia
March 2005	Toray Industries, Inc.	Joint development and marketing of "TAK-363 (Takeda's development code)" for frequent urination/urinary incontinence, an investigational compound found through joint research with Toray

In addition, in December 2004 TAP submitted to the FDA an application for a new drug discovered by Teijin Pharma Limited (generic name: Febuxostat) for hyperuricemia in patients with chronic gout.

2. Outlook for the Next Fiscal Year

Outlook for Consolidated Results

		<u>Year-on-year change</u>
Net sales	¥1,155.0 billion	¥32.0 billion (2.9%) increase
Ordinary income	¥445.0 billion	¥2.9 billion (0.7%) increase
Net income	¥295.0 billion	¥17.6 billion (6.3%) increase

Net Sales

Takeda expects continued growth in sales of core products such as *Blopress* and *Takepron* in Japan, growth in sales of *Actos* in the United States and core products in Europe. As a result, total net sales are projected to increase compared with the previous year.

Ordinary Income

Takeda expects increased selling, general and administrative expenses, including R&D expenses, to be absorbed by higher gross profit deriving from increased sales, primarily of in-house ethical drugs; and improvement in equity earnings of TAP, as well as in non-operating income and expenses. As a result, ordinary income is projected to increase compared with the previous year.

Net Income

In addition to the increase in ordinary income, gain on return of a substituted portion of the retirement pension fund (welfare pension fund) and capital gain on the partial transfer of Wyeth K.K. stocks as well as on stocks of consolidated subsidiaries and equity method affiliates engaging in life-environment business, would be posted as extraordinary profits. As a result, net income is expected to increase compared with the previous year.

[Outlook Assumptions]

The exchange rate for the next fiscal year is assumed to be US\$1 = ¥105 and 1 euro = ¥130.

[Note concerning the Above Projections]

The results outlook is calculated according to judgments based on information available to management at the present time. 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. The below is a discussion of assumed main risks Takeda might face in its business activities. Takeda intends to work to prevent such occurrence, insofar as possible—while fully identifying these potential risks—and will ensure a precise response in the event of their occurrence.

In addition, the future events contained in these items are envisioned as of the end of this fiscal term.

1. Risks in R&D

While Takeda strives for efficient R&D activities aimed at launching new products in the trilateral markets of Japan, U.S. and Europe as early as possible, ethical drugs are in nature only allowed placement on the market when they are approved through rigorous investigations of efficacy and safety as stipulated by the competent authorities, irrespective of in-house or licensed compounds.

If it turns out that the efficacy and safety of such compounds do not meet the required level for approval, or if reviewing authorities express concern regarding the nonconformity of such compounds, Takeda will have to give up R&D activities for such compounds at that point, or will conduct additional clinical or non-clinical testing. As a result, Takeda might be exposed to risk of uncollectibility of costs incurred, experience delay in launching new products, or be forced to revise its R&D strategy.

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. Moreover, if Takeda's in-house product proves to infringe a third party's intellectual property rights, Takeda might be asked for compensation.

3. Risk in 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 of branded products. In addition, as 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 influences.

4. Risk in 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" 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 in price-lowering due to measures for reducing drug prices

In the United States market, which is the world's largest, federal and state governments, as well as private insurance companies, implement various measures to reduce drug costs, further

increasing the pressure to reduce prices of branded products. In Japan, National Health Insurance (NHI) prices for drugs have been reduced every other year. In the European market, drug prices have been reduced in a similar way, due to strong measures to control drug costs in each country, and the expansion of parallel imports. Price reduction as a result of drug cost-restrictive measures taken by each country can significantly influence the business performance and financial standing of Takeda Group.

6. Influence from exchange fluctuations

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

7. Risk in 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 complaints claim damages due to price discrepancies between the AWP (Average Wholesale Prices) as made publicized by independent industry compendia and the actual selling prices. As part of the civil litigations, actions have been brought against TAP and TPNA for damages in federal and state courts; Takeda has also faced part of such litigations. The progress of these suits may affect Takeda's business performance and financial standing.

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

(5) Basic Policies and Implementation of Measures concerning Corporate Governance

Takeda seeks to enhance compliance and internal control as well as improve organization structure, so as to accurately assess changes in the external environment, such as increasing competition in the market, the continuing implementation of various measures to contain healthcare expenditures worldwide and large-scale corporate consolidation in Japan and abroad, and thereby quickly find the best ways to respond to such changes.

1. Management Structure

Starting in June 2003, Takeda established a new senior management structure designed to promote faster, more efficient decision-making. The Chairman of the Board, serving as Chief Executive Officer, oversees the whole Takeda Group, supervises management and performs strategic decision-making for management in general. The President, as Chief Operating Officer, supervises overall execution of business operations.

Under this structure, as part of its task of establishing an operating structure suited to a world-class pharmaceutical company originating in Japan, Takeda is promoting the strengthening of collaboration between headquarters and overseas subsidiaries and affiliates by stipulating global operating standards for every function of business units and headquarters divisions.

2. Compliance

As demonstrated in its management mission, Takeda believes that it must not only comply with laws and regulations, it must also maintain high ethical standards to justify the trust placed in us by society, since Takeda is a company that manufactures and markets pharmaceuticals related to human life. Therefore, Takeda is promoting company-wide compliance measures by institutionalizing the “Takeda Compliance Program,” to clearly define a code of conduct for management and employees to follow, thereby to ensure that Takeda management complies with laws and corporate ethics (compliance).

3. Audit System

(1) Audit by Corporate Auditors

Based on the corporate auditor system adopted by Takeda, each auditor attends Board of Directors’ meetings and other important meetings and expresses his/her opinions, appropriately conducting rigorous periodic audits of business execution conditions according to the policies and scope of work determined by the Board of Auditors.

(2) Internal Audit

At Takeda, periodic internal auditing is conducted and strengthened under the control of the Auditing Department, an independent function reporting directly to the president, who acts its role in collaboration with and assigns a partial role to each related division, such as Finance & Accounting Department.

From this fiscal period, Takeda introduced a “Control Self-Assessment” program for each business unit and domestic and overseas affiliate companies, that is designed to self-check the internal control system over financial reporting.

(3) Accounting Audit

The certified public accountants that conducted accountancy services for Takeda during the fiscal 2004 were Mr. Masao Takagi (for eight fiscal periods, including this term) and Mr. Shojiro Yoshimura of Deloitte Touche Tohmatsu. In addition, the assistants comprised six certified public accountants, five junior accountants and eight other persons.

The audit fees for this fiscal term were as follows.

Compensation pursuant to Article 2-1 of Certified Public Accountant Law (Law No. 103, 1948) ¥ 132 million

Compensation pursuant to other than above ¥ 35 million

4. Board of Directors, Directors' and Auditors' Remuneration

Takeda had nine directors (including no outside directors) and four auditors (including three outside auditors) as of March 31, 2005, and has established no voluntary committees. There are no personal, equity or business relationships, nor any other interests, between Takeda and the outside auditors. As a rule, Board of Directors' meetings are held once a month to resolve and report on important matters concerning Takeda's management.

The directors' and auditors' remuneration paid in this fiscal period were as follows:

Remuneration paid to directors	¥ 641 million
Remuneration paid to auditors	¥ 134 million

(Note) The above figures include bonus to directors by appropriation of retained earning and retirement bonus to retiring directors.

The above figures do not include that portion of employee remuneration paid to directors having duties in employee capacity.

(6) Litigation

Regarding losses alleged to have been sustained as a result of marketing and sales practices for *Leuplin* (U.S. brand name: Lupron Depot), a treatment for prostate cancer and endometriosis by TAP Pharmaceutical Products Inc. (TAP), in which Takeda's wholly owned subsidiary Takeda America Holdings, Inc. owns a 50 percent stake (the other 50 percent is owned by Abbott Laboratories), civil (class) actions have been brought against TAP, Abbott Laboratories and Takeda in federal and state courts by patients, insurance companies and others, in which plaintiffs claim damages due to price discrepancies between the AWP (Average Wholesale Prices) as made publicized by independent industry compendia and the actual sales prices (the lawsuits alleging similar causes of actions are sometimes collectively called as "AWP Suits"). In negotiating reconciliation with these Lupron AWP suits, TAP, Abbott and Takeda concluded a class and another settlement agreement with plaintiff attorneys on November 15, 2004, which will release TAP, Abbott and Takeda on condition that TAP pay \$150 million. The proposed settlement was on November 24, 2004, preliminarily approved and is under the review for the final approval by the United States District Court for the District of Massachusetts in Boston. Apart from the above suits, industry-wide AWP Suits involving numerous U.S. major pharmaceutical companies have been under dispute. As part of the industry-wide civil litigations, several actions have been brought against TAP and Takeda Pharmaceuticals North America Inc. (a consolidated subsidiary of Takeda, "TPNA") in federal and state courts, in regard to medicinal products other than *Leuplin*; Takeda is also a defendant in some litigations together with the above companies.

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

Takeda is diligently coping with these matters.

(7) Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2005		Year ended March 31, 2004		Increase (decrease)
Net sales	1,122,960	100.0%	1,086,431	100.0%	36,529
Cost of sales	279,179	24.9	269,395	24.8	9,784
Selling, general and administrative expenses	458,503	40.8	445,403	41.0	13,100
Operating income	385,278	34.3	371,633	34.2	13,645
Non-operating income:	74,803	6.7	91,830	8.5	(17,027)
Interest income	14,980		7,918		7,062
Dividend income	3,118		2,978		140
Equity in earnings of affiliates	45,431		72,663		(27,232)
Other non-operating income	11,274		8,271		3,003
Non-operating expenses:	17,970	1.6	17,380	1.6	590
Interest expense	334		359		(25)
Other non-operating expenses	17,636		17,021		615
Ordinary income	442,111	39.4	446,083	41.1	(3,972)
Extraordinary gain	1,070	0.1	1,814	0.2	(744)
Gain on sale of fixed assets	*1,070		*1,814		(744)
Extraordinary loss	2,079	0.2	1,753	0.2	326
Losses on bulk vitamin and other cartel cases	**2,079		**614		1,465
Loss on impairment of fixed assets	—		***1,139		(1,139)
Income before income taxes and minority interests	441,102	39.3	446,144	41.1	(5,042)
Income taxes:	160,231		157,911		2,320
Current	172,867		173,457		(590)
Deferred	(12,637)		(15,546)		2,909
Minority interests	(3,433)		(2,969)		(464)
Net income	277,438	24.7	285,264	26.3	(7,826)

Notes:

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

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

*** States the loss on impairment of a bulk vitamin manufacturing facility, etc.

(8) Consolidated Balance Sheets**ASSETS**

(Millions of yen)

	As of March 31, 2005		As of March 31, 2004		Increase (decrease)
Current assets	1,969,915	77.4%	1,730,147	74.1%	239,768
Cash and deposits	429,530		472,989		(43,459)
Notes and accounts receivable	225,413		209,790		15,623
Marketable securities	1,092,590		849,765		242,825
Inventories	94,565		92,931		1,634
Deferred income taxes	93,857		81,367		12,490
Other current assets	34,230		23,946		10,284
Allowance for doubtful receivables	(271)		(641)		370
Fixed assets	575,520	22.6	605,513	25.9	(29,993)
Tangible fixed assets:	220,133	8.6	230,538	9.9	(10,405)
Buildings and structures	104,715		108,365		(3,650)
Machinery, equipment and carriers	42,618		34,098		8,520
Tools and fixtures	7,374		7,457		(83)
Land	44,500		54,256		(9,756)
Construction in progress	20,927		26,361		(5,434)
Intangible fixed assets:	8,092	0.3	8,873	0.4	(781)
Goodwill	3,136		4,705		(1,569)
Other intangible fixed assets	4,955		4,169		786
Investments and other assets:	347,296	13.6	366,102	15.7	(18,806)
Investment securities	302,404		355,149		(52,745)
Long-term loans	1,610		1,548		62
Real estates for lease	24,460		—		24,460
Deferred income taxes	12,542		5,270		7,272
Other	6,386		4,267		2,119
Allowance for doubtful receivables	(105)		(132)		27
Total assets	2,545,435	100.0	2,335,660	100.0	209,775

LIABILITIES, MINORITY INTERESTS
AND SHAREHOLDERS' EQUITY

(Millions of yen)

	As of March 31, 2005		As of March 31, 2004		Increase (decrease)
Total liabilities	499,185	19.6%	512,190	21.9%	(13,005)
Current liabilities:	365,500	14.4	370,562	15.9	(5,062)
Notes and accounts payable	70,750		73,193		(2,443)
Short-term loans	8,301		6,838		1,463
Income taxes payable	80,790		93,852		(13,062)
Accrued expenses	103,823		85,597		18,226
Reserve for bonuses	28,444		28,729		(285)
Other reserves	7,312		7,038		274
Other current liabilities	66,080		75,315		(9,235)
Long-term liabilities:	133,684	5.3	141,628	6.1	(7,944)
Deferred tax liabilities	75,493		77,075		(1,582)
Reserve for retirement benefits	39,859		46,787		(6,928)
Reserve for directors' retirement bonuses	1,784		1,473		311
Reserve for SMON compensation	4,664		4,850		(186)
Other long-term liabilities	11,884		11,444		440
Minority interests	44,836	1.8	42,460	1.8	2,376
Shareholders' equity	2,001,414	78.6	1,781,010	76.3	220,404
Common stock	63,541		63,541		—
Additional paid-in capital	49,638		49,638		—
Retained earnings	1,834,931		1,616,676		218,255
Unrealized gain on securities	125,342		127,658		(2,316)
Foreign currency translation adjustment	(69,130)		(73,762)		4,632
Treasury stock	(2,908)		(2,742)		(166)
Total liabilities, minority interests and shareholders' equity	2,545,435	100.0	2,335,660	100.0	209,775

(9) Consolidated Statements of Retained Earnings

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004
Additional paid-in capital		
Balance at the beginning of the year	49,638	49,638
Balance at the end of the year	49,638	49,638
Retained earnings		
Balance at the beginning of the year	1,616,676	1,392,640
Additions	293,570	285,264
Net income	277,438	285,264
Increase in retained earnings due to accounting period change for subsidiaries and affiliates	16,132	—
Deductions	75,315	61,227
Cash dividends paid	74,979	60,867
Bonuses to directors and corporate auditors	337	361
Balance at the end of the year	1,834,931	1,616,676

(10) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
Net income before income taxes and minority interests	441,102	446,144	(5,042)
Depreciation and amortization	31,226	28,083	3,143
Net interest and dividend income	(17,764)	(10,537)	(7,227)
Equity in earnings of affiliates	7,301	(1,434)	8,735
Loss (gain) on sales and disposals of property, plant and equipment	(600)	(1,295)	695
Loss (gain) on sales of marketable securities	875	57	818
Losses on bulk vitamin and other cartel cases	2,079	614	1,465
Loss on impairment of fixed assets	—	1,139	(1,139)
Amount incurred as operational expenses upon acquisition of Syrrx, Inc. *	20,637	—	20,637
Decrease (increase) in notes and accounts receivable	(23,399)	(8,653)	(14,746)
Decrease (increase) in inventories	(3,398)	(3,974)	576
Increase (decrease) in notes and accounts payable	(1,815)	(3,635)	1,820
Other	17,354	18,319	(965)
Subtotal	473,598	464,828	8,770
Interest received and paid and dividends received	17,970	10,676	7,294
Income taxes paid	(194,758)	(163,403)	(31,355)
Settlement paid related to bulk vitamin and other cartel cases	(1,270)	(979)	(291)
Net cash provided by operating activities	295,539	311,122	(15,583)
Payment for purchases of marketable securities	(377,079)	(251,232)	(125,847)
Proceeds from sales and redemption of marketable securities	395,793	163,738	232,055
Payment for deposit of funds into time deposits	—	(30,000)	30,000
Proceeds from redemption of time deposits	5,000	50,000	(45,000)
Payment for purchases of property, plant and equipment	(53,669)	(54,160)	491
Proceeds from sales of property, plant and equipment	2,622	3,094	(472)
Payment for purchases of investment securities	(14,211)	(22,717)	8,506
Proceeds from sales of investment securities	72	2,097	(2,025)
Payment for purchases of stock of subsidiaries in connection with change in scope of consolidation	(29,093)	—	(29,093)
Other	(1,740)	(142)	(1,598)
Net cash used in investing activities	(72,305)	(139,322)	67,017
Net increase (decrease) in short-term bank loans	(289)	2,560	(2,849)
Proceeds from issuance of long-term debt	3,541	900	2,641
Repayment of long-term debt	(553)	(936)	383
Dividends paid	(74,958)	(60,869)	(14,089)
Other	(1,653)	(999)	(654)
Net cash used in financing activities	(73,912)	(59,344)	(14,568)
Effect of exchange rate changes on cash and cash equivalents	15,197	(59,330)	74,527
Net increase in cash and cash equivalents	164,520	53,126	111,394
Cash and cash equivalents, beginning of period	1,076,084	1,022,958	53,126
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	1,264,324	1,076,084	188,240

* Certain portion of acquisition cost was booked as R&D expenses in fiscal 2004.

Preparation of the Consolidated Financial Statements

1. Scope of Consolidation

Number of consolidated subsidiaries: 48 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: 23 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

Of the consolidated companies, the account settlement date of Davao Central Chemical Corporation and Tianjin Takeda Pharmaceuticals Co., Ltd. is December 31 each year. In preparing the consolidated financial statements of Takeda Pharmaceutical Company Limited, financial statements of Davao Central Chemical Corporation prepared for the year ending on December 31 were used, and adjustments are made as necessary to account for significant transactions occurring between January 1 and March 31. As for Tianjin Takeda Pharmaceuticals Co., Ltd., from the current fiscal year, financial statements prepared based on the provisional accounts settlement conducted as of March 31 are used.

From the current fiscal year, Takeda Pharmaceuticals North America, Inc. and 14 other subsidiaries changed their annual account settlement date from December 31 to March 31. TAP Pharmaceutical Products Inc., an affiliate reported by the equity method, also prepares, from the current fiscal year, financial statements for the consolidation based on the provisional accounts settlement conducted as of March 31.

As for the impact on earnings caused by this change, the increase of retained earnings of 16,132 million yen related to the period from January 1, 2004 to March 31, 2004 are not reflected in the consolidated statement of income, but included in the “retained earnings” on the consolidated balance sheet.

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 contributory and non-contributory pension plans.
- Four 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.
- Two of the Company's consolidated subsidiaries use non-contributory pension plans. These 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 plus the amount of the voluntary reserve in view of pension finances, less amounts funded under the non-contributory pension plan.
- 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)

The Company received approval of the exemption from the obligation for payments of benefits related to future employee services with respect to the substituted portion of its employee pension fund. The approval was received from the Minister of Health, Labour and Welfare on March 26, 2004, in accordance with the enforcement of the Defined-Benefit Corporate Pension Plan Act.

The amount of pension plan assets expected to be transferred back to the government (minimum liability reserve) was measured at ¥14,775 million as of March 31, 2005. If the payment of the amount were made on that date, the expected gain in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No.13 "Practical Guideline for Accounting of Retirement Benefits (Interim Report)" would be ¥20,414 million.

The Company received approval of the exemption from the obligation for payment of benefits related to the past employee services from the Minister of Health, Labour and Welfare on May 1, 2005.

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.

9. Change in Classification

In the previous year, real estates for lease were reported as tangible fixed assets. From the current fiscal year, they are reported under the category of “investments and other assets.” The amount of real estates for lease reported as tangible fixed assets in the previous year was ¥25,741 million.

Notes to Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
1. Selling, general and administrative expenses			
(1) Selling expenses			
Advertising expense	22,721	21,761	960
Sales promotion expense	32,270	31,663	607
Freight and storage expense	8,433	8,667	(234)
(2) General and administrative expenses			
Salaries	57,761	57,357	404
Bonuses and provision for bonuses	26,888	26,103	785
Retirement benefit expenses	9,478	14,408	(4,930)
R&D expenses	141,453	129,652	11,801
2. R&D expenses	141,453	129,652	11,801
Manufacturing cost	—	—	—
General and administrative expenses	141,453	129,652	11,801

Notes to Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2005	As of March 31, 2004	Increase (decrease)
1. Accumulated depreciation of property, plant and equipment	404,370	385,329	19,041
2. Investments in affiliates' stocks	47,450	70,608	(23,158)
3. Pledged assets			
Assets pledged as collateral	16,344	15,804	540
Debt corresponding to pledged assets	4,420	3,813	607
4. Loans guaranteed			
Guarantees	4,670	5,600	(930)
5. Discounted trade notes receivable	24	309	(285)
Endorsed trade notes receivable	15	13	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, 2005	Year ended March 31, 2004	Increase (decrease)
Cash and deposits	429,530	472,989	(43,459)
Time deposits with maturities exceeding three months	—	(5,000)	5,000
Securities redeemable within three months	834,794	608,095	226,699
Cash and cash equivalents	1,264,324	1,076,084	188,240

(11) Segment Information

1. Business Segment Information

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	579,248	145,709	724,957	12,726	737,682
Operating income	397,354	13,716	411,070	(25,792)	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
Loss on impairment of fixed assets	—	—	—	—	—
Capital investments	42,024	7,206	49,230	—	49,230

Fiscal 2003 (April 1, 2003-March 31, 2004)

(Millions of yen)

	Pharmaceuticals	Other	Total	Eliminations/ Corporate	Consolidated
1. Net sales & operating income:					
Net sales:					
(1) Sales to outside customers	935,291	151,140	1,086,431	—	1,086,431
(2) Intersegment sales and transfers	7,725	7,030	14,755	(14,755)	—
Total	943,016	158,170	1,101,186	(14,755)	1,086,431
Operating expenses	561,751	143,947	705,698	9,099	714,798
Operating income	381,265	14,222	395,488	(23,854)	371,633
2. Identifiable assets, depreciation & amortization, and capital investments:					
Identifiable assets	658,719	260,282	919,001	1,416,659	2,335,660
Depreciation & amortization	19,729	8,354	28,083	—	28,083
Loss on impairment of fixed assets	—	1,139	1,139	—	1,139
Capital investments	38,540	23,933	62,472	—	62,472

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

*: On April 1, 2005, shares of three consolidated and affiliated companies (reported by the equity method) in the Life-Environment business, including Japan EnviroChemicals, Ltd., were assigned to Osaka Gas Chemicals Co., Ltd., a subsidiary of Osaka Gas Co., Ltd.

Note 3: Unallocable operating expenses included in “Eliminations/Corporate” consisted principally of expenses related to Takeda’s administrative departments, the Corporate Strategy & Planning Department, Strategic Product Planning Department, Human Resources Department, Finance & Accounting Department, Legal Department and Corporate Communications Department.

Fiscal 2004: ¥27,732 million
Fiscal 2003: ¥24,613 million

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 2004: ¥1,646,378 million
Fiscal 2003: ¥1,419,526 million

2. Geographical Segment Information

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

(Millions of yen)

	Japan	North America	Europe and Asia	Total	Eliminations / Corporate	Consolidated
1. Net sales & operating income:						
Net sales:						
(1) Sales to outside customers	841,762	170,247	110,951	1,122,960	—	1,122,960
(2) Intersegment sales and transfers	75,535	18,822	15,327	109,683	(109,683)	—
Total	917,297	189,069	126,278	1,232,643	(109,683)	1,122,960
Operating expenses	540,622	170,979	108,122	819,724	(82,041)	737,682
Operating income	376,674	18,089	18,156	412,920	(27,642)	385,278
2. Identifiable assets	737,194	121,532	114,287	973,013	1,572,423	2,545,435

Fiscal 2003 (April 1, 2003 - March 31, 2004)

(Millions of yen)

	Japan	North America	Europe and Asia	Total	Eliminations / Corporate	Consolidated
1. Net sales & operating income:						
Net sales:						
(1) Sales to outside customers	828,306	159,914	98,211	1,086,431	—	1,086,431
(2) Intersegment sales and transfers	66,231	1,503	11,191	78,925	(78,925)	—
Total	894,536	161,417	109,402	1,165,356	(78,925)	1,086,431
Operating expenses	540,444	134,689	95,558	770,691	(55,893)	714,798
Operating income	354,093	26,728	13,844	394,665	(23,032)	371,633
2. Identifiable assets	705,263	176,930	92,427	974,621	1,361,039	2,335,660

Notes:

- Main countries and regions included in each segment:
North America: United States
Europe and Asia: Germany, France, Italy, United Kingdom, Ireland, Taiwan, Indonesia, China, and others
- Amounts and composition of unallocable operating expenses included in “Eliminations/Corporate” are the same as Note 3 of “Business Segment Information”.
- Amounts and composition of corporate assets included in “Eliminations/Corporate” are the same as Note 4 of “Business Segment Information”.
- In the geographical segment information, net sales in the Japan segment are the total of domestic sales and exports of the Company and its consolidated subsidiaries in Japan, net sales in the North America segment are the total net sales of consolidated subsidiaries in the North America region, and net sales in the Europe and Asia segment are the total net sales of consolidated subsidiaries in the Europe and Asia regions.

3. Overseas Sales

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%

Fiscal 2003 (April 1, 2003-March 31, 2004)

(Millions of yen)

Category	North America	Europe	Others	Total
1. Overseas sales	296,004	147,334	18,582	461,920
2. Total consolidated net sales				1,086,431
3. Overseas sales/Total consolidated net sales	27.2%	13.6%	1.7%	42.5%

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.

(12) Lease Transactions

Omitted due to disclosure on EDINET.

(13) Transactions with Related Parties

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

Not applicable.

Fiscal 2003 (April 1, 2003-March 31, 2004)

Not applicable.

(14) Income Taxes

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

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
(Deferred tax assets)			
Deferred tax assets (current)			
Bonuses	10,240	10,616	(376)
Research & development expenses	23,330	29,048	(5,718)
Enterprise taxes	7,664	10,499	(2,835)
Intercompany profits	7,747	6,899	848
Others	<u>43,515</u>	<u>25,671</u>	<u>17,844</u>
Deferred tax assets (current) - total	92,496	82,733	9,763
Deferred tax assets (fixed)			
Retirement benefits	13,674	15,359	(1,685)
Tax loss carryforwards	9,086	2,880	6,206
Others	<u>32,814</u>	<u>26,361</u>	<u>6,453</u>
Deferred tax assets (fixed) - subtotal	55,574	44,600	10,974
Valuation allowance	<u>(3,681)</u>	<u>(3,198)</u>	<u>(483)</u>
Deferred tax assets (fixed) - total	51,893	41,402	10,491
Total deferred tax assets	144,389	124,135	20,254
(Deferred tax liabilities)			
Deferred tax liabilities (current)			
Unrealized gain on securities	(13)	(25)	12
Others	<u>(114)</u>	<u>(1,341)</u>	<u>1,227</u>
Deferred tax liabilities (current) - total	(127)	(1,366)	1,239
Deferred tax liabilities (fixed)			
Unrealized gain on securities	(81,659)	(83,745)	2,086
Undistributed earnings of foreign subsidiaries and affiliates	(11,930)	(10,947)	(983)
Reserve for reduction of fixed assets	(12,026)	(11,447)	(579)
Others	<u>(9,229)</u>	<u>(7,068)</u>	<u>(2,161)</u>
Deferred tax liabilities (fixed) - total	(114,844)	(113,207)	(1,637)
Total deferred tax liabilities	(114,971)	(114,573)	(398)
Net deferred tax assets	29,418	9,562	19,856

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

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
Statutory tax rate	40.9	42.1	(1.2)
(Adjustment)			
Expenses not deductible for tax purposes	0.7	0.8	(0.1)
Loss in subsidiaries	0.1	0.2	(0.1)
Equity in earnings of affiliates	(3.2)	(5.3)	2.1
Non-taxable dividend income	0.0	0.0	—
Tax credit for research expenses, etc.	(2.6)	(2.1)	(0.5)
Other - net	<u>0.4</u>	<u>(0.3)</u>	<u>0.7</u>
Effective tax rate	36.3	35.4	0.9

(15) Marketable Securities

Fiscal 2004

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

Consolidated balance sheet amount	¥21,398 million
Valuation gain 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	0	0	0
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 (excluding stock traded over-the-counter) ¥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

Fiscal 2003

1. Trading securities (As of March 31, 2004)

Consolidated balance sheet amount

¥56,542 million

Valuation gain on securities included in fiscal 2003 income

¥(731 million)

2. Securities to be held until maturity with market values (As of March 31, 2004)

(Millions of yen)

	Balance sheet amount	Market value	Difference
Securities with market values that exceed amount on consolidated balance sheets:			
(1) Corporate/public bonds	1,800	1,807	7
(2) Others	2,200	2,200	0
Sub-total	4,000	4,007	7
Securities with market values that do not exceed amount on consolidated balance sheets:			
(1) Corporate/public bonds	3,011	3,000	(11)
(2) Others	0	0	0
Sub-total	3,011	3,000	(11)
Total	7,011	7,007	(4)

3. Other marketable securities with market values (As of March 31, 2004)

(Millions of yen)

	Acquisition cost	Balance sheet amount	Difference
Securities with balance sheet amounts that exceed acquisition cost:			
(1) Stocks	33,546	245,171	211,625
(2) Bonds	96,264	96,374	110
Corporate/public bonds	96,264	96,374	110
Other	—	—	—
(3) Other	458,590	458,592	2
Sub-total	588,400	800,137	211,737
Securities with balance sheet amounts that do not exceed acquisition cost:			
(1) Stocks	245	201	(44)
(2) Bonds	205,079	204,957	(122)
Corporate/public bonds	205,079	204,957	(122)
Other	—	—	—
(3) Other	58,404	58,399	(5)
Sub-total	263,728	263,557	(171)
Total	852,128	1,063,694	211,566

4. Other marketable securities sold during fiscal 2003 (April 1, 2003 - March 31, 2004) (Millions of yen)

Amount sold	Total profit on sales	Total loss on sales
8,461	62	—

5. Description and consolidated balance sheet amount of main securities without market values (As of March 31, 2004)
Other marketable securities

Unlisted stock (excluding stock traded over-the-counter) ¥6,960 million

6. Projected future redemption of securities with maturities and bonds held to maturity included in other marketable securities (As of March 31, 2004)

	(Millions of yen)		
	Within one year	1-5 years	Over 5 years
(1) Bonds	275,664	31,180	1,544
Corporate/government bonds	275,664	31,180	1,544
Other	—	—	—
(2) Other	315,438	—	—
Total	591,102	31,180	1,544

(16) Derivative Transactions

Omitted due to disclosure on EDINET.

(17) Retirement Benefits

1. Description of retirement benefit system used

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

The Company received approval of the exemption from obligation for payments of benefits related to future employee services and past employee services with respect to the substituted portion of the welfare pension fund from the Minister of Health, Labour and Welfare on March 26, 2004 and on May 1, 2005, respectively.

2. Retirement benefit obligation

(Millions of yen)

	As of March 31, 2005	As of March 31, 2004	Increase (decrease)
(1) Projected benefit obligation	(303,754)	(302,486)	(1,268)
(2) Plan assets at fair value	262,916	240,721	22,195
(3) Funded status ((1) + (2))	(40,838)	(61,765)	20,927
(4) Unrecognized net actuarial gain and losses	13,350	30,037	(16,687)
(5) Unrecognized prior service cost (reduction of debt)	(12,372)	(15,059)	2,687
(6) Reserve for retirement benefits ((3) + (4) + (5))	(39,859)	(46,787)	6,928

Notes: 1. Includes substituted portion of welfare pension fund.

2. Some subsidiaries use the simplified method in calculating the retirement benefit obligation.

The amount of pension plan assets expected to be transferred back to the government (minimum liability reserve) was measured at ¥14,775 million as of March 31, 2005. If the payment of the amount were made on that date, the expected gain in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No.13 "Practical Guideline for Accounting of Retirement Benefits (Interim Report)" would be ¥20,414 million.

3. Retirement benefit expenses

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
(1) Service cost (Notes)	6,850	9,075	(2,225)
(2) Interest cost	6,058	7,314	(1,256)
(3) Expected return on assets	(4,798)	(4,686)	(112)
(4) Amortization of net actuarial gain and losses	10,715	11,982	(1,267)
(5) Amortization of prior service cost	(3,019)	(377)	(2,642)
(6) Retirement benefit expenses ((1)+(2)+(3)+(4)+(5))	15,806	23,308	(7,502)

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, 2005	Year ended March 31, 2004
(1) Periodic allocation method for projected benefits	Straight-line standard	Same
(2) Discount rate	2.0%-2.5%	1.5%-2.5%
(3) Expected rate of return	0.6%-2.5%	0.3%-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

(18) Production, Orders and Sales

1. Production

(Millions of yen)

	Year ended March 31, 2005		Year ended March 31, 2004		Increase (decrease)
Pharmaceuticals	592,420	87.6%	599,466	88.3%	(7,045)
Ethical Drugs	571,679	84.5	574,107	84.6	(2,427)
Consumer Healthcare	20,741	3.1	25,359	3.7	(4,618)
Other Businesses	84,116	12.4	79,360	11.7	4,756
Vitamin	11,163	1.6	10,856	1.6	307
Life-Environment	5,084	0.8	3,850	0.6	1,235
Others	67,869	10.0	64,654	9.5	3,214
Total	676,536	100.0	678,826	100.0	(2,290)

2. Purchases

(Millions of yen)

	Year ended March 31, 2005		Year ended March 31, 2004		Increase (decrease)
Pharmaceuticals	105,426	77.8%	103,402	78.0%	2,024
Ethical Drugs	89,762	66.2	88,242	66.5	1,520
Consumer Healthcare	15,664	11.6	15,160	11.4	504
Other Businesses	30,158	22.2	29,230	22.0	928
Life-Environment	6,358	4.7	6,643	5.0	(285)
Others	23,800	17.6	22,587	17.0	1,213
Total	135,584	100.0	132,632	100.0	2,952

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, 2005		Year ended March 31, 2004		Increase (decrease)
Pharmaceuticals	970,477	86.4%	935,291	86.1%	35,186
Ethical Drugs	914,794	81.5	877,122	80.7	37,672
Japan	451,890	40.2	429,728	39.6	22,162
Overseas	462,903	41.2	447,394	41.2	15,510
Consumer Healthcare	55,683	5.0	58,169	5.4	(2,486)
Other Businesses	152,483	13.6	151,140	13.9	1,343
Vitamin	11,515	1.0	10,981	1.0	533
Life-Environment	14,578	1.3	14,042	1.3	536
Others	126,391	11.3	126,117	11.6	275
Total	1,122,960	100.0	1,086,431	100.0	36,529
[Overseas in Total]	[478,433]	[42.6]	[461,920]	[42.5]	[16,513]
[Royalty Income in Total]	[50,290]	[4.5]	[50,520]	[4.7]	[(230)]

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, 2005		Year ended March 31, 2004	
MEDICEO Holdings Co., Ltd	244,217	21.7%	235,411	21.7%

*: On October 1, 2004, Kuraya Sanseido Inc. adopted the holding company system.

Accordingly, sales to Kuraya Sanseido are reported as sales to MEDICEO Holdings Co., Ltd. from the current fiscal year.

Sales in the previous year are restated accordingly to enable comparison between the current year and the previous year.

Summary of Unconsolidated Financial Statements for the Fiscal Year Ended March 31, 2005

May 11, 2005

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, 2005

Scheduled starting date

of dividend payments: June 30, 2005

Ordinary General Meeting

of Shareholders: June 29, 2005

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

(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 2004	784,848	2.7	344,435	11.9	356,696	14.4
Fiscal 2003	764,076	0.5	307,707	16.6	311,673	15.4

	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 2004	235,488	24.1	264.69	—	16.3	20.1	45.4
Fiscal 2003	189,708	8.1	213.18	—	14.9	19.7	40.8

Notes:

1. Average number of shares outstanding: 888,778,956 shares (Fiscal 2003: 888,802,832 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 2004	88.00	44.00	44.00	78,212	33.2	5.1
Fiscal 2003	77.00	36.00	41.00	68,437	36.1	5.0

(3) Financial Position

	Total assets (¥ million)	Shareholders' equity (¥ million)	Shareholders' equity/total assets (%)	Shareholders' equity per share (¥)
Fiscal 2004	1,847,590	1,519,728	82.3	1,709.68
Fiscal 2003	1,694,530	1,365,516	80.6	1,536.11

Notes:

1. Number of shares outstanding at end of period: 888,760,360 shares (Fiscal 2003: 888,793,325 shares)

2. Number of shares of treasury stock at end of period: 512,035 shares (Fiscal 2003: 479,070 shares)

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

	Net sales (¥ million)	Ordinary income (¥ million)	Net income (¥ million)	Annual dividends per share (¥)		
				Interim	Year-end	
Interim period	400,000	170,000	135,000	50.00	—	—
Fiscal 2005	820,000	355,000	250,000	—	50.00	100.00

Reference: Estimated earnings per share (fiscal 2005): ¥281.02

Notes:

1. Estimates of business results are rendered in accordance with Japanese regulations. All these estimates are forward-looking statements based on a number of assumptions. Actual results may differ substantially depending on a number of factors including but not limited to economic trends and exchange rates.

2. For the assumptions and other issues related to the above projections, please refer to page 12.

(19) Unconsolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2005		Year ended March 31, 2004		Increase (decrease)
Net sales	784,848	100.0%	764,076	100.0%	20,772
Cost of sales	199,088	25.4	197,130	25.8	1,958
Selling, general and administrative expenses	241,325	30.7	259,240	33.9	(17,915)
Operating income	344,435	43.9	307,707	40.3	36,728
Non-operating income:	25,454	3.2	17,796	2.3	7,658
Interest income and dividends	18,074		8,423		9,651
Interest on securities	329		749		(420)
Other non-operating income	7,052		8,623		(1,571)
Non-operating expenses:	13,193	1.7	13,829	1.8	(636)
Interest expense	116		132		(16)
Other non-operating expenses	13,076		13,697		(621)
Ordinary income	356,696	45.4	311,673	40.8	45,023
Extraordinary gains	1,070	0.1	1,814	0.2	(744)
Gain on sale of fixed assets	*1,070		*1,814		(744)
Extraordinary loss	2,079	0.3	1,721	0.2	358
Losses on bulk vitamin and other cartel cases	**2,079		**614		1,465
Loss on impairment of fixed assets	—		***1,107		(1,107)
Income before income taxes	355,688	45.3	311,766	40.8	43,922
Income taxes:	120,199	15.3	122,058	16.0	(1,859)
Current	131,780		138,881		(7,101)
Deferred	(11,581)		(16,823)		5,242
Net income	235,488	30.0	189,708	24.8	45,780
Profit brought forward from the previous term	143,544		124,433		19,111
Interim dividends	39,106		31,997		7,109
Unappropriated retained earnings at the end of the term	339,926		282,144		57,782

Notes:

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

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

*** States the loss on impairment of a bulk vitamin manufacturing facility, etc.

(20) Unconsolidated Balance Sheets

ASSETS

(Millions of yen)

	As of March 31, 2005		As of March 31, 2004		Increase (decrease)
Current assets	983,629	53.2%	843,163	49.8%	140,466
Cash and deposits	232,931		208,821		24,110
Trade notes receivable	10,879		13,664		(2,785)
Trade accounts receivable	142,767		130,349		12,418
Marketable securities	445,628		354,978		90,650
Merchandise and products	25,915		25,833		82
Work-in-progress and semi-finished products	22,964		21,387		1,577
Materials	11,629		10,395		1,234
Deferred income taxes	76,356		66,513		9,843
Other current assets	14,583		11,245		3,338
Allowance for doubtful receivables	(22)		(22)		0
Fixed assets	863,961	46.8	851,367	50.2	12,594
Tangible fixed assets:	111,935	6.1	128,917	7.6	(16,982)
Buildings and structures	62,622		71,000		(8,378)
Machinery and equipment	16,752		14,391		2,361
Vehicles and carriers	39		21		18
Tools, furniture and fixtures	2,390		2,660		(270)
Land	20,418		30,433		(10,015)
Construction in progress	9,715		10,412		(697)
Intangible fixed assets	90	0.0	95	0.0	(5)
Investments and other assets:	751,936	40.7	722,355	42.6	29,581
Investment securities	178,255		212,436		(34,181)
Equity in subsidiaries and affiliates	496,494		462,968		33,526
Long-term deposits	51,197		45,463		5,734
Long-term loans	1,458		1,461		(3)
Long-term prepaid expenses	104		74		30
Real estates for lease	24,460		—		24,460
Allowance for doubtful receivables	(31)		(47)		16
Total assets	1,847,590	100.0	1,694,530	100.0	153,060

LIABILITIES AND SHAREHOLDERS' EQUITY

(Millions of yen)

	As of		As of		Increase (decrease)
	March 31, 2005		March 31, 2004		
Total liabilities	327,862	17.7%	329,014	19.4%	(1,152)
Current liabilities:	259,173	14.0	248,039	14.6	11,134
Trade notes payable	—		18		(18)
Trade accounts payable	47,331		44,463		2,868
Accrued liabilities and accrued expenses	105,694		84,333		21,361
Income taxes payable	69,677		82,539		(12,862)
Reserve for bonuses	21,841		22,494		(653)
Other reserves	6,935		6,659		276
Other current liabilities	7,696		7,533		163
Long-term liabilities:	68,689	3.7	80,975	4.8	(12,286)
Deferred income taxes	39,104		44,531		(5,427)
Reserve for retirement benefits	22,886		29,739		(6,853)
Reserve for directors' retirement bonuses	990		773		217
Reserve for SMON compensation	4,664		4,850		(186)
Other long-term liabilities	1,045		1,082		(37)
Shareholders' equity	1,519,728	82.3	1,365,516	80.6	154,212
Common stock	63,541	3.4	63,541	3.7	—
Additional paid-in capital	49,638	2.7	49,638	2.9	—
Retained earnings	1,324,231	71.7	1,164,522	68.7	159,709
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	1,125		30		1,095
Reserve for compression of fixed assets	14,907		14,075		832
General reserve	932,500		832,500		100,000
Unappropriated retained earnings	339,926		282,144		57,782
Unrealized gain on securities	84,997	4.6	90,328	5.3	(5,331)
Treasury stock	(2,678)	(0.1)	(2,513)	(0.1)	(165)
Total liabilities and shareholders' equity	1,847,590	100.0	1,694,530	100.0	153,060

(Sales)

(Millions of yen)

	Year ended March 31, 2005		Year ended March 31, 2004		Increase (decrease)	
Ethical Drugs Business	711,166	90.6%	687,447	90.0%	23,719	3.5%
Japan	450,920	57.5	426,341	55.8	24,579	5.8
Exports	260,246	33.2	261,105	34.2	(859)	(0.3)
Consumer Healthcare Business	60,953	7.8	64,410	8.4	(3,457)	(5.4)
Non-Pharmaceutical Business	12,729	1.6	12,219	1.6	510	4.2
Vitamin Business	11,515	1.5	10,984	1.4	532	4.8
Agro Business	1,213	0.2	1,236	0.2	(22)	(1.8)
Total	784,848	100.0	764,076	100.0	20,772	2.7
[Exports in Total]	[267,790]	[34.1]	[268,044]	[35.1]	[(254)]	[(0.1)]
[Royalty Income in Total]	[66,910]	[8.5]	[66,226]	[8.7]	[685]	[1.0]

(21) Statements of Appropriation of Retained Earnings

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004
Unappropriated retained earnings at the end of the year	339,926	282,144
We propose to appropriate the foregoing as follows:		
Dividends	39,105	36,441
[Dividends per share (¥)]	[44.00]	[41.00]
Bonuses to directors	220	210
Bonuses to auditors	13	22
Reserve for extraordinary write-down	302	1,095
Reserve for compression of fixed assets	458	833
General reserve	140,000	100,000
Balance to be carried forward	159,828	143,544
Total amount appropriated	339,926	282,144

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.

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)

The Company received approval of the exemption from the obligation for payments of benefits related to future employee services with respect to the substituted portion of its employee pension fund. The approval was received from the Minister of Health, Labour and Welfare on March 26, 2004, in accordance with the enforcement of the Defined-Benefit Corporate Pension Plan Act.

The amount of pension plan assets expected to be transferred back to the government (minimum liability reserve) was measured at ¥14,775 million as of March 31, 2005. If the payment of the amount were made on that date, the expected gain in accordance with paragraph 44-2 of the JICPA Accounting Committee Report No.13 "Practical Guideline for Accounting of Retirement Benefits (Interim Report)" would be ¥20,414 million.

The Company received approval of the exemption from the obligation for payment of benefits related to the past employee services from the Minister of Health, Labour and Welfare on May 1, 2005.

(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.

9. Change in Classification

In the previous year, real estates for lease were reported as tangible fixed assets. From the current fiscal year, they are reported under the category of "investments and other assets."

The amount of real estates for lease reported as tangible fixed assets in the previous year was ¥25,741 million.

Notes to Unconsolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
1. Net sales ratios before deduction of rebates			
Net sales of finished products	77.1%	76.8%	0.3%
Net sales of merchandise	22.9%	23.2%	(0.3%)
2. Transactions with subsidiaries and affiliates			
Net sales	179,304	185,121	(5,817)
Dividend income	16,353	6,583	9,770
3. Selling, general and administrative expenses			
(1) Selling expenses			
Advertising expense	15,907	16,096	(189)
Sales promotion expense	15,492	16,052	(560)
Freight and storage expense	2,359	2,362	(3)
(2) General and administrative expenses			
Salaries	21,571	21,912	(341)
Bonuses and provision for bonuses	16,118	16,429	(311)
Retirement benefit expenses	8,307	12,962	(4,655)
Depreciation cost	1,432	1,645	(213)
R&D expenses	94,289	117,205	(22,916)
4. R&D expenses	94,289	117,205	(22,916)
Manufacturing cost	—	—	—
General and administrative expenses	94,289	117,205	(22,916)

Notes to Unconsolidated Balance Sheets

(Millions of yen)

	As of March 31, 2005	As of March 31, 2004	Increase (decrease)
1. Accumulated depreciation of property, plant and equipment	267,851	258,249	9,602
2. Loans guaranteed			
Guarantees	17,234	17,600	(366)
3. Discount trade notes for exports	235	929	(694)
4. Assets and liabilities with subsidiaries and affiliates			
Notes and accounts receivable	12,884	11,725	1,159
Accounts payable	22,338	18,729	3,609

(22) Lease Transactions

Omitted due to disclosure on EDINET.

(23) Marketable Securities

There were no stocks of subsidiaries or affiliated companies with market values in either of the years ended March 31, 2004 and 2005.

(24) Income Taxes

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

(Millions of yen)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
(Deferred tax assets)			
Deferred tax assets (current)			
Bonuses	8,933	9,200	(267)
Research & development expenses	23,055	28,798	(5,743)
Enterprise taxes	7,387	10,121	(2,734)
Reserve for rebates	2,338	2,113	225
Others	34,656	16,306	18,350
Deferred tax assets (current)-total	<u>76,369</u>	<u>66,538</u>	<u>9,831</u>
Deferred tax assets (fixed)			
Retirement benefits	8,351	10,144	(1,793)
Excess depreciation of property, plant and equipment	7,828	6,194	1,634
Others	15,844	12,683	3,161
Total deferred tax assets (fixed)-total	<u>32,023</u>	<u>29,021</u>	<u>3,002</u>
Total deferred tax assets	108,392	95,559	12,833
(Deferred tax liabilities)			
Deferred tax liabilities (current)			
Unrealized gain on securities	(13)	(25)	12
Deferred tax liabilities (current)-total	<u>(13)</u>	<u>(25)</u>	<u>12</u>
Deferred tax liabilities (fixed)			
Unrealized gain on securities	(58,826)	(62,548)	3,722
Reserve for compression of fixed assets	(10,764)	(10,226)	(538)
Others	(1,536)	(778)	(758)
Deferred tax liabilities (fixed)-total	<u>(71,126)</u>	<u>(73,552)</u>	<u>2,426</u>
Total deferred tax liabilities	(71,139)	(73,577)	2,438
Net deferred tax assets	37,252	21,982	15,270

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

(%)

	Year ended March 31, 2005	Year ended March 31, 2004	Increase (decrease)
Statutory tax rate	40.9	42.1	(1.2)
(Adjustment)			
Expenses not deductible for tax purposes	0.8	1.1	(0.3)
Non-taxable dividend income	(1.0)	(0.9)	(0.1)
Tax credit for research expenses, etc.	(3.1)	(2.8)	(0.3)
Other - net	(3.8)	(0.3)	(3.5)
Effective tax rate	<u>33.8</u>	<u>39.2</u>	<u>(5.4)</u>

(25) Change of Directors (As of June 29, 2005)

1. New Corporate Auditor Candidate
Tadashi Ishikawa (Attorney)

Mr. Tadashi Ishikawa meets the conditions of an Outside Corporate Auditor as provided for in Article 18, Paragraph 1 of the “Commercial Code Special Measures Law Concerning Audit, etc., of *Kabushiki Kaisha* (Corporations)”.

2. Retiring Director
Shozo Nakamura (currently Executive Vice President)
3. Retiring Auditor
Naoaki Yoshii (currently Outside Corporate Auditor)