

### (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.