

## Preparation of the Consolidated Financial Statements

### 1. Scope of Consolidation

Number of consolidated subsidiaries: 46 companies

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

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

### 2. Application of the Equity Method

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

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

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

### 3. Items Related to Account Settlement Date of Consolidated Subsidiaries

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

### 4. Accounting Standards

#### (1) Valuation of Major Assets

##### 1) Securities

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

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

Other securities

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

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

##### 2) Derivatives

Fair value

##### 3) Inventories

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

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

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

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

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

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

Buildings and structures: 15-50 years

Machinery, equipment and carriers: 4-15 years

### (3) Accounting Standards for Major Reserves

#### 1) Allowance for doubtful receivable:

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

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

#### 2) Reserve for bonuses:

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

#### 3) Reserve for retirement benefits:

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

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

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

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

#### (Additional information)

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

#### 4) Reserve for directors' retirement bonuses

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

#### 5) Reserve for SMON compensation

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

### (4) Accounting for Lease Transactions

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

### (5) Principal Methods of Hedge Accounting

#### 1) Methods of hedge accounting

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

2) Hedging instruments, hedging targets and hedging policies

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

3) Method of assessing effectiveness of hedges

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

(6) Other

Consumption taxes are excluded from revenues and expenses.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

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

6. Amortization of Goodwill

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

7. Treatment of Profit Distribution Items, etc.

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

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

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