

### [3.Results of Operations and Financial Position]

#### 1. Overview of the Interim Period

##### 1) Summary of Results

In the ethical pharmaceutical industry, various measures intended to restrain healthcare expenditures have been implemented worldwide, including a reduction in the price of drugs. Consequently, growth in all markets has been slowing year by year.

In the U.S. market, the growth rate of the market has been slowing down due to the intensified pressure for price reductions of branded products, including the addition of plans offered by the federal and state governments and private insurance companies that encourage use of generic drugs and change in method used to calculate reimbursement cost of drugs under Medicare. Competition with generic drugs has become harsher in Takeda's main therapeutic areas of peptic ulcer, prostate cancer and endometriosis. Competition has also intensified due to the penetration of prescription-to-OTC switches especially in the area of peptic ulcer.

In the Japanese market, National Health Insurance (NHI) drug prices have been reduced periodically and the use of generic products is being encouraged by the government. As a result, the rate of growth in the pharmaceutical market in Japan remains low. In addition, the launch of generic drugs into market in July 2005, competing with our core products in the peptic ulcer and diabetes treatment areas, has further intensified competition.

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

In addition to this slowdown in market growth, with the increase in new drug development costs in the background, there is a pronounced tendency of corporate merger among pharmaceutical companies both in Japan and overseas aiming at expanding the scale of their operations, and accordingly, competition among companies is becoming fiercer.

Consolidated results for the interim period ended September 30, 2005 were as follows:

		Year-on-year change
Net sales	¥599.8 billion	¥33.1 billion ( 5.8%) increase
Operating income	¥215.2 billion	¥ 3.8 billion ( 1.7%) decrease
Ordinary income	¥259.4 billion	¥ 4.7 billion ( 1.9%) increase
Net income	¥181.3 billion	¥18.0 billion (11.0%) increase

**Consolidated net sales** increased ¥33.1 billion (5.8%) to ¥599.8 billion over the same period in the previous year.

- Increase in net sales was supported by the sales growth of in-house ethical drugs, which was partially offset by the decrease in sales resulting from transfer of stocks of subsidiaries and affiliated companies engaged in the Life-Environment business in April 2005.
- The impact of foreign exchange rate fluctuations increased revenues by ¥0.4 billion compared to the previous period, as a result of the slight shift to a stronger euro against the Japanese currency while the US dollar-Japanese yen rate remained almost the same as that in the same period last year.
- The table below shows consolidated sales of international strategic products:

(Billions of yen)

Drug for prostate cancer and endometriosis treatment Leuprorelin (Domestic product name: Leuplin)	62.2	¥ 4.1 billion ( 7.1%) increase
Drug for peptic ulcer treatment Lansoprazole (Domestic product name: Takepron)	86.0	¥ 0.4 billion ( 0.5%) increase
Drug for hypertension treatment Candesartan (Domestic product name: Blopress)	93.0	¥18.0 billion (23.9%) increase
Drug for diabetic treatment Pioglitazone (Product name: Actos)	111.3	¥18.5 billion (19.9%) increase

**Gross profit income** increased ¥33.2 billion (7.8%) to ¥458.4 billion.

- The gross profit margin ratio improved 1.4 points to 76.4%, supported by an increase in sales of ethical drugs that have high gross profit ratios, and the impact of discontinuance of sales of products by subsidiaries engaged in the Life-Environment Business that has a lower gross profit ratio.

**Operating income** decreased ¥3.8 billion (1.7%) to ¥215.2 billion.

- Selling, general, and administrative expenses increased ¥37.1 billion from the same period last year to ¥243.1 billion.

In addition to the increase in R&D costs, there were marketing preparation expenses incurred by our US consolidated subsidiary Takeda Pharmaceuticals North America, Inc. (“TPNA”) for the launches of *ROZERM*, used a treatment of insomnia, (generic-name: *ramelteon*) and *Actosplus Met*, a treatment of Type 2 diabetes (a fixed combination of *Actos* and *metformin*).

R&D expenses included in these SGA expenses increased by ¥28.5 billion to ¥82.3 billion mainly due to progress in development activities, licensing and alliance activities, and R&D expenditures in Takeda San Diego, Inc. , a consolidated subsidiary acquired in March 2005.

**Ordinary income** increased ¥4.7 billion (1.9%) from the same period last year to ¥259.4 billion.

- Net total of non-operating income/expense increased ¥8.5 billion to ¥44.2 billion of profit. Equity in earnings of affiliated companies decreased ¥0.4 billion (1.6%) to ¥26.1 billion. Equity in earnings of TAP Pharmaceutical Products Inc. (“TAP”), a U.S. affiliated company reported by the equity method, decreased by ¥0.1 billion (0.3%) to ¥24.4 billion. In contrast, net total of other non-operating income/expense increased ¥9.0 billion profitable compared to the same period last year, mainly due to the increase in interest income. As a result, offsetting the decrease in operating income of ¥3.8 billion, ordinary income increased by ¥4.7 billion.

**Consolidated net income** increased ¥18.0 billion (11.0%) to ¥181.3 billion.

- Extraordinary income/expense totaled ¥32.6 billion profitable.

Extraordinary income includes profit from discontinuance of the handling of retirement annuities (employee pension fund) for the Company's employees on behalf of the government, a gain from the transfer of stocks of subsidiaries and affiliated companies engaged in the Life Environment business, and a gain from the partial transfer of stocks of Wyeth K.K. and Takeda-Kirin Foods Corporation.

- Earnings per share increased ¥20.38 to ¥204.78 over the same period of the previous year.

## 2) Cash Flow

Cash flow for the interim period resulted in a net surplus of ¥236.7 billion.

Cash flow increased ¥141.7 billion from the same period last year due to the increase in net income before taxes, and a gain from the transfer of stocks of subsidiaries and affiliated companies engaged in the Life Environment business, and a gain from the partial transfer of stocks of Wyeth K.K. and Takeda-Kirin Foods Corporation.

As a result, cash and cash equivalents (marketable securities and time deposits that mature or are redeemable within 3 months of the date of acquisition) as of September 30, 2005 were ¥1,501.1 billion.

Investment in property, plant and equipment totaled ¥14.1 billion.

Historical cash flow indicators are as shown below.

	Year ended 3/31/02	Year ended 3/31/03	Year ended 3/31/04	Year ended 3/31/05	Six months ended 9/30/05
Shareholders' equity ratio	72.3%	76.1%	76.3%	78.6%	77.8%
Shareholders' equity ratio on market value basis	235.2%	190.4%	175.9%	177.7%	210.7%
Debt repayment term (years)	0.03	0.02	0.02	0.03	0.02
Interest coverage ratio	429.3	975.8	1,297.5	1,451.6	1,350.7

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

(Operating cash flow for the six months ended 9/30/05 is multiplied by two for calculation on an annual basis.)

Interest coverage ratio: Operating cash flow/interest expenses

\* Each indicator is calculated based on consolidated financial results.

\* Market capitalization is calculated by: multiplying 1st half year end closing share price at the period end by number of outstanding shares at the period end (excluding treasury stocks).

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

### 3) Interim Dividend

The Company's basic policy is to return profits to shareholders according to consolidated results for each accounting period. The Company seeks to increase distribution of profits, with a target consolidated payout rate 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 research and development of ethical drugs and reinforcement of the Company's business infrastructure in Europe and the United States.

For the interim period ended September 30, 2005 Takeda will pay a cash dividend of ¥53.00 per share, an increase of ¥9.00 over the same period in the previous fiscal year.

### 4) Results by Segment

#### (1) Business Segment

(Billions of yen)

Type of business	Net sales		Operating income	
	Amount	Year-on-year change	Amount	Year-on-year change
Pharmaceuticals Segment	530.3	41.4 increase	210.1	7.0 decrease
Ethical Drugs	500.9	40.6 increase		
(Domestic)	(243.5)	(21.3 increase)		
(Overseas)	(257.4)	(19.2 increase)		
Consumer Healthcare	29.4	0.9 increase		
Other Segment	69.6	8.3 decrease	5.1	3.1 increase

Note: From this interim period, the handling of costs and expenses not allocatable to specific business segments, which previously included in "Eliminations/Corporate" category, was changed.

(For details, refer to Note 3, 1. Business Segment Information of [10. Segment Information] in page 27.)

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

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

#### [Pharmaceuticals Segment]

Consolidated net sales by the **Pharmaceuticals** segment increased ¥41.4 billion (8.5%) to ¥530.3 billion. Operating income decreased ¥7.0 billion (3.2%) to ¥210.1 billion.

- Sales by the **Ethical Drugs** business increased ¥40.6 billion (8.8%) to ¥500.9 billion.

Sales in the **Japanese market** increased ¥21.3 billion (9.6%) to ¥243.5 billion, supported by strong sales growth of major products:

(Billions of yen)

Blopress	60.3	¥11.8 bn (24.4%) increase
Takepron	27.0	¥4.1 bn (17.9%) increase
Actos	10.9	¥3.9 bn (54.9%) increase
Basen *	32.9	¥2.6 bn ( 8.6%) increase

\* improving agent for postprandial hyperglycemia in diabetes mellitus

Sales of ethical drugs in **overseas markets** increased ¥19.2 billion (8.1%) from the same period last year to ¥257.4 billion.

Although royalty income from TAP decreased in the U.S., it was offset by higher sales from TPNA for *Actos* (increased US\$ 116 million (16.0%) to US\$ 842 million), and by higher sales in Europe of international strategic products such as *Leuprorelin* and *Actos*.

- Sales by the **Consumer Healthcare** business increased ¥0.9 billion (3.0%) to ¥29.4 billion.

The revenue increase for this period, after reporting decrease for four consecutive years, was mainly supported by sales growth of *Alinamin* tablets, *Actage AN* tablets, and *Nicorette*.

[Other Segment]

Sales by **Other** segment decreased ¥8.3 billion (10.7%) from the same period in the previous year to ¥69.6 billion.

Operating income increased ¥3.1 billion (149.3%) to ¥5.1 billion.

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

## (2) Geographical Segments

Geographical segment	Net sales		Operating income	
	Amount	Year-on-year change	Amount	Year-on-year change
Japan	486.7	16.1 increase	261.9	24.6 increase
North America	97.7	14.8 increase	25.5	2.4 decrease
Europe	62.9	9.7 increase	16.0	5.6 increase
Asia	4.0	0.0 increase	0.8	0.0 decrease
Eliminations/Corporate	(51.4)	7.5 decrease	(89.0)	31.6 decrease
Total	599.8	33.1 increase	215.2	3.8 decrease

Note: From this interim period, geographical segments, which were formerly classified as “Japan”, “North America” and “Europe and Asia”, are now divided into the four regions of “Japan”, “North America”, “Europe” and “Asia”.

From this interim period, the handling of costs and expenses not allocatable to specific geographical business segments, which previously included in “Eliminations/Corporate” category, was changed.

(For details, refer to Note 2, 2. Geographical Segment of [10. Segment Information] in page 28 and 29.)

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

In accordance with rules for interim consolidated financial statements, equity in earnings of affiliates is recorded as non-operating income.

## 5) Research & Development

The Company is focusing on promoting research activities in lifestyle-related diseases which is one of the core therapeutic areas, searching for new drug targets through utilization of genomic information and other sources, and accelerating development projects.

The Group is also actively pursuing maximization of added-value of its international strategic products through obtaining approvals for additional formulations and indications as well as licensing and alliance activities.

Major results of R&D activities during this interim period are:

[Independent R&D]

- In July 2005, Takeda Global Research and Development Center, Inc.(TGR&D), a subsidiary of TPNA in the U.S., was granted an approval from the Food and Drug Administration (FDA) in the U.S. to market *ROZEREM* (generic-name: *ramelteon*), which is a treatment of insomnia. TPNA worked efficiently to establish the necessary infrastructure for the marketing of *ROZEREM*, a major new product following on from *Actos*, including increase of the sales force, and launched the product in September 2005.
- In July 2005, TGR&D received “Fast Track Designation” from the U.S. FDA for TAK-242, a drug for severe sepsis. In accordance with this designation, we can receive advice from the FDA time to time, which is expected to accelerate development processes. Moreover, if good trial results are obtained from the clinical trials, the product may be granted another “Fast Track Designation” for the review of the New Drug Application (NDA), which means that the product can be approved six months from the date of the submission of NDA. Now the global Phase III trial is conducted concurrently in Japan, the U.S. and Europe, without conducting Phase II trials.
- In the U.S., TAP received an approval from the FDA to conduct Phase III trials without Phase II trials for TAK-390MR, a peptic ulcer treatment created by the Company. In accordance with this approval, it was determined that the Phase III trial would start in August 2005.

[Maximization of added value of international strategic products]

< Candesartan >

- In the United States, the FDA approved an additional indication for chronic heart failure: the February 2005 approval was for its monotherapy in patients non-tolerant of ACE inhibitors. This was followed by additional approval in May 2005 for combined use with ACE inhibitor.
- With regard to the hypertension treatment *Blopress tablet 2mg, 4mg and 8mg*, Takeda received an approval for the indication in Japan for chronic heart failure from the Ministry of Health, Labour and Welfare in October 2005, as the first angiotensin II receptor blockers (ARB) approved for that indication in Japan.

< Actos >

- In June 2005, in the United States, TGR&D submitted to the FDA a new drug application for marketing, a fixed combination with sulfonylurea (SU), *Glymepirid*. In addition, Takeda Europe Research & Development Centre Ltd. submitted to the European Medicines Agency (EMA) a new drug application for this fixed combination drug through European Union’s Centralized Procedures in July 2005.
- In August 2005, TGR&D received approval from FDA for marketing in the United States of *Actoplus Met<sup>TM</sup>*, a fixed combination of *Actos* with *Metformin*. Upon receipt of this approval, Takeda Pharmaceuticals North America Inc. (TPNA) started marketing of this drug in November 2005.
- In September 2005, the results of *PROactive* Study (a randomised, double blind, placebo-controlled outcome study to determine the effects of ACTOS on mortality and morbidity associated with cardiovascular disease progression in high risk patients with type 2 diabetes) were announced. This is the first in the world to prospectively show that a specific oral glucose lowering medication, *Actos*, can significantly improve cardiovascular outcomes by helping to delay or reduce heart attacks, strokes and death in high-risk patients.

< Leuprorelin >

- In August 2005, with regard to *Leuplin SR Injection Kit 11.25*, one of the formulations of *Leuplin*, Takeda received an indication of premenopausal breast cancer from the Ministry of Health, Labour and Welfare. This approval also paved the way for the use of *Leuplin 3.75 for Injection* and *Leuplin Injection Kit 3.75* as adjuvant therapy for premenopausal breast cancer after surgery.

[In-licensing and alliance activities]

- In June 2005, Takeda reached an agreement with Paradigm Therapeutics, a British biotechnological pharmaceutical company, in connection with joint research in the central nervous system therapeutic area. Under this agreement, for the next three years Takeda is entitled to exclusive access, including evaluation and purchase, to proprietary drug targets created by Paradigm in defined CNS fields.
- In July 2005, Takeda signed an agreement with Pharmaceutical Product Development, Inc. (PPD) to take over the latter's rights with regard to joint development and marketing of therapeutic agent for diabetes *Dipeptidylpeptidase IV inhibitor (DPP4)*, which was invented by Takeda San Diego, Inc., a U.S. consolidated subsidiary of Takeda.
- In July 2005, Takeda entered into an agreement with Santhera Pharmaceuticals Ltd. (Santhera), a Swiss biotechnological pharmaceutical company, in connection with joint development and sales in Europe of *Idebenone*, a proprietary drug created by Takeda as a therapeutic agent for Friedreich's ataxia.
- In September 2005, Takeda and Merck KGaA of Germany reached an agreement on the joint development and sale in the United States, Japan, Europe and some of the Asian countries, of *Matuzumab* (Merck's development code: EMD72000), the humanized antibody (invented by Merck) against epidermal growth factor receptor (EGFR), which is responsible for production and progression of cancer.
- In November 2005, Takeda and Pronova Biocare AS, a Norway pharmaceutical company, entered into a license and supply agreement for *Omacor*, a treatment of hypertriglyceridemia. Under the agreement, Takeda was granted an exclusive development, marketing and distribution right in Japan.

## 2. Outlook for the Current Fiscal Year ending March 31, 2006

### 1) Outlook for Consolidated Results

		Year-on-year change
Net sales	¥1,195.0 billion	¥72.0 billion ( 6.4%) increase
Ordinary income	¥ 465.0 billion	¥22.9 billion ( 5.2%) increase
Net income	¥ 310.0 billion	¥32.6 billion (11.7%) increase

#### Net Sales

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

#### Ordinary Income

Takeda anticipates that increased selling, general and administrative expenses, including R&D expenses and marketing expenses for launch of new products by TPNA will 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 net total of non-operating income and expenses, including increased interest received. As a result, ordinary income is projected to increase compared to the previous fiscal year.

#### Net Income

Net income is expected to grow compared to the previous fiscal year, as a result of increase in ordinary income and extraordinary income recorded in this first half of the current fiscal year.

#### [Outlook Assumptions]

The foreign exchange rate for this projection is assumed to be US\$1 = ¥110 and 1 euro = ¥130.

#### [Note concerning Above Projections]

The results outlook is calculated according to judgments based on information currently available to management. Certain risks and uncertainties could cause actual results to differ from these projections.

### 2) Annual Dividend

Final dividend will be 53 yen per share. As a result, annual dividend including interim dividend is expected to increase by 18 yen per share from the previous fiscal year to 106 yen per share.