

Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014

François-Xavier Roger
Chief Financial Officer

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Takeda Pharmaceutical Company Limited

Notes on Disclosure



Shift to IFRS and Core earnings

- From Q1 2014 Takeda reports its consolidated accounts according to **IFRS** and introduces **Core earnings**¹ as the key profit performance measure

Additional disclosure and transparency

- The term **Underlying growth**² is used to simply and accurately express company performance; this measure adjusts only for forex (constant currency) and disposals / acquisitions / exceptional items
- The following new disclosure items are introduced:
 - ✓ **Core net profit** and **Core EPS**
 - ✓ **Normalized core tax rate**

¹ Core earnings is calculated by deducting factors such as impacts from purchase accounting and amortization / impairment loss of intangible assets, restructuring costs and litigation costs from operating profit.

² See appendix slide 23 for details

- Key highlights
- Revenue
- Income statement
- Balance sheet and Cash flow
- Appendix

Key Highlights



GROWTH

- Q1 underlying revenue growth of -0.2% includes the impacts of the biennial NHI¹ price revision in Japan and inventory reductions in emerging markets (EM)
- Q1 revenue in-line with expectations, no change to full year guidance (between 2 - 4%² underlying revenue growth).
 - Velcade, Colcrys and Dexilant grew steadily, Brintellix (US) contributing in-line with expectations
 - Low growth in EM on one-time inventory reductions; Double digit growth in EM expected for the full year
- Q1 underlying growth of +0.5% for core earnings in-line with expectations, capital allocation optimized with reinvestment of cost savings into sales and marketing to support product launches

INNOVATION

- Entyvio was approved / launched in June in the US and in the EU. Entyvio is a humanized monoclonal antibody against $\alpha 4\beta 7$ integrin - a new biologic therapy for the treatment of ulcerative colitis (UC) and Crohn's disease (CD).

EFFICIENCY

- Project Summit continues to produce strong results including additional ¥5 billion in savings in Q1

¹ National Health Insurance (Japan)

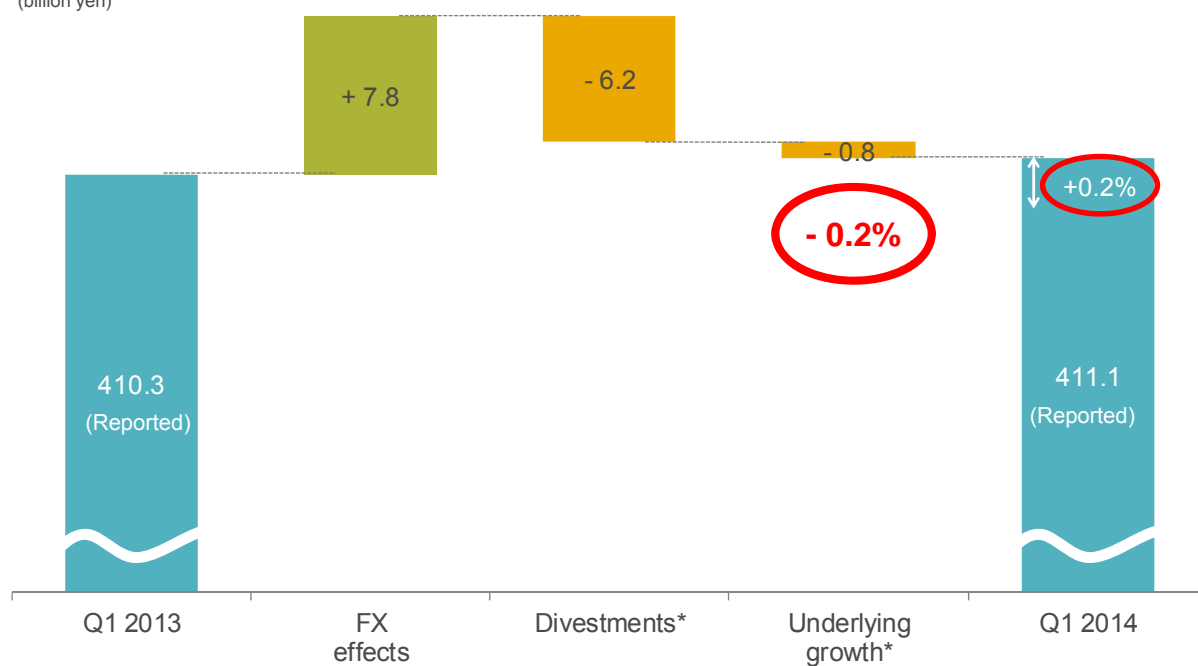
² The impact of LOEs is now included in growth guidance, while it had been excluded in previous guidance. This change in calculation method results in a new and more relevant guidance of "between 2 and 4%" (with LOEs) and is equivalent to the prior guidance of "between 3 and 5%" (without LOEs).

Revenue

Underlying revenue growth at - 0.2%, reflecting largely one-off items

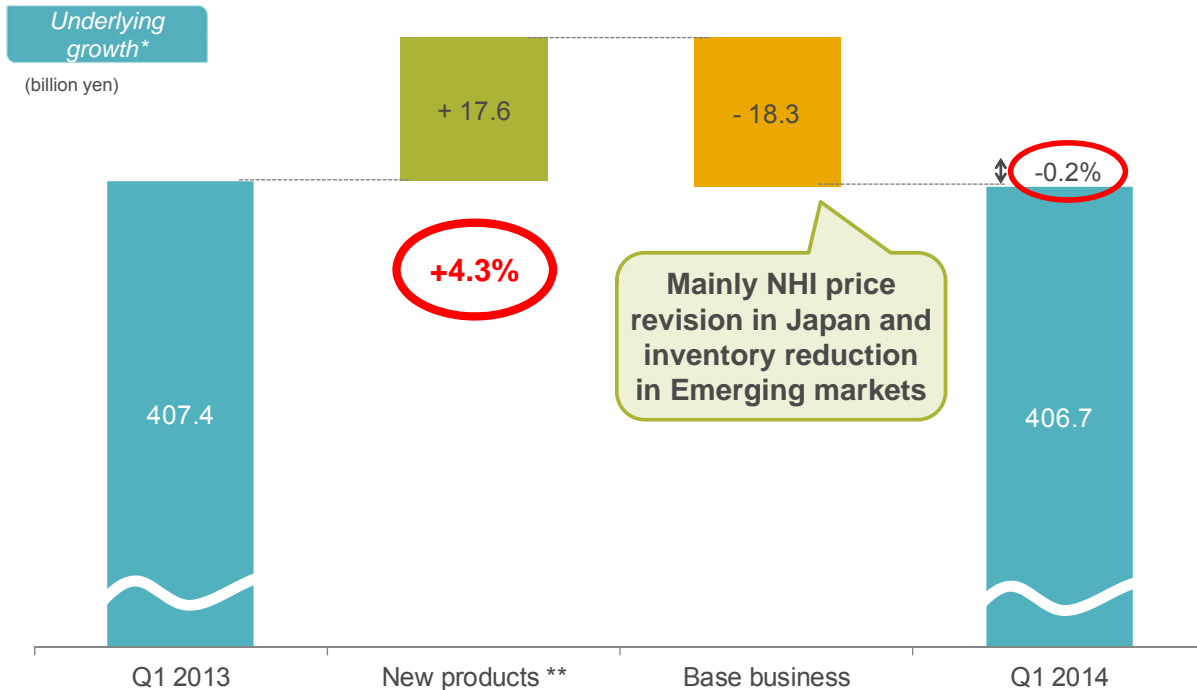


(billion yen)



* See appendix P.27, 28 for details

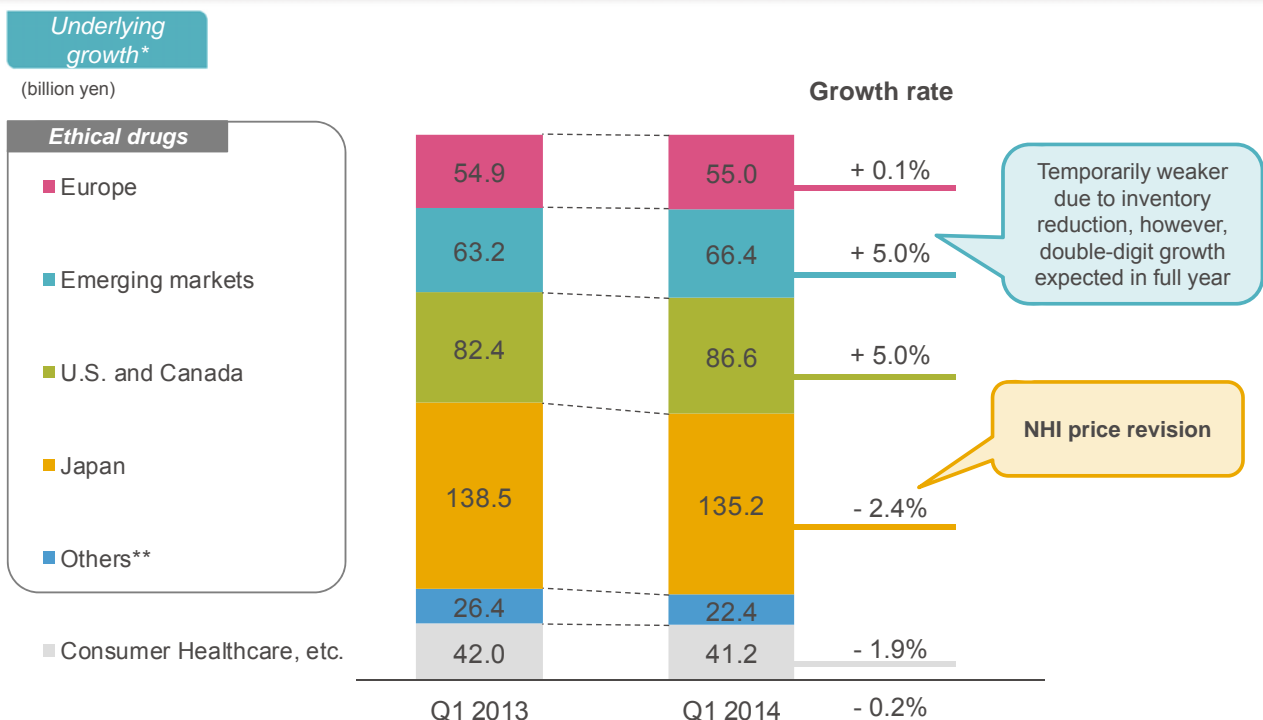
Strong innovation momentum with new products contributing to over 4.3% of revenue growth



* Underlying growth: Constant currency and w/o divestments. See appendix P.27, 28 for details

** New products: Represent products launched within 5 years and include new products in acquired companies, but excludes fixed dose drugs with existing drugs and formulation change drugs

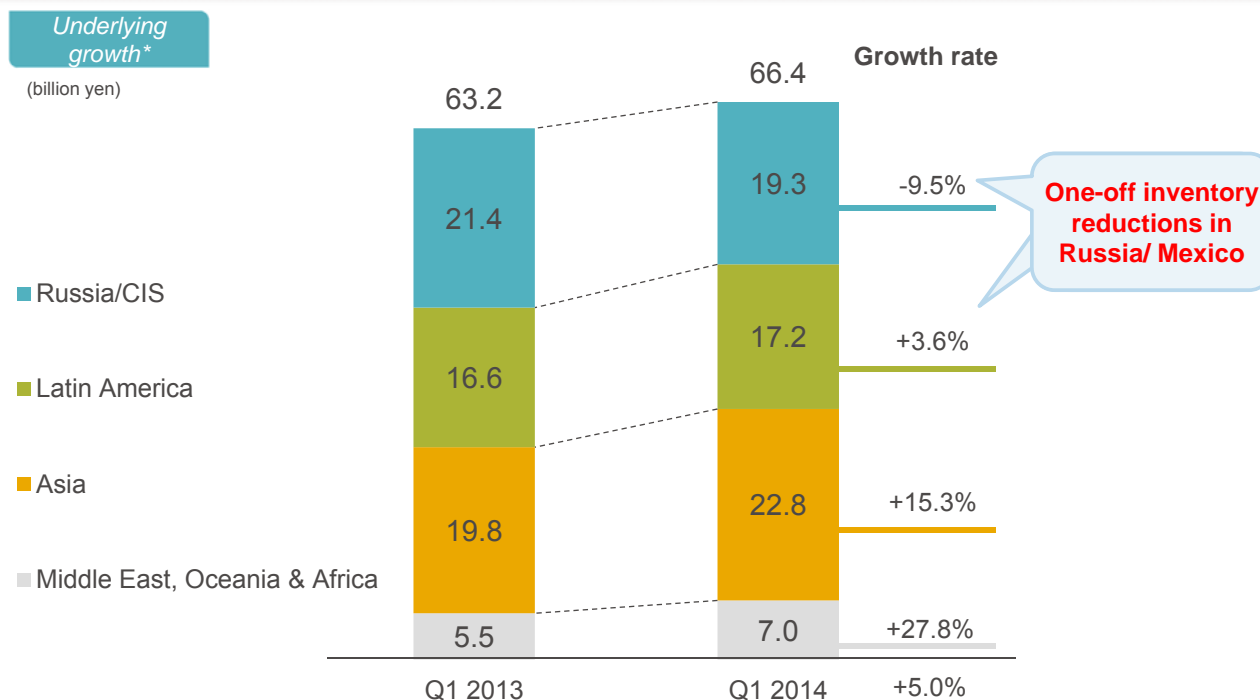
Good momentum in the U.S. and EM



* Underlying growth: Constant currency and w/o divestments. See appendix P.27, 28 for details

** Others: Representing mainly licensees business revenue

Emerging markets: Attractive growth driver hit by one-offs in Q1, fundamentals remain strong



* Underlying growth: Constant currency and w/o divestments. See appendix P.27, 28 for details

Top 10 products: New products deliver strong growth while base business impacted by NHI price revision and inventory reductions in EM



billion yen		Q1			Underlying growth*
Product name	Therapeutic areas	FY2013	FY2014	Growth	
Candesartan	Cardiovascular & metabolic	42.5	36.5	- 14.1%	- 15.1%
Velcade	Oncology	30.5	34.9	+ 14.6%	+ 8.8%
Leuprorelin	Oncology	33.5	29.6	- 11.7%	- 13.7%
Pantoprazole	General medicine	23.1	25.8	+ 11.8%	+ 7.3%
Lansoprazole	General medicine	30.1	25.5	- 15.4%	- 18.0%
<u>Colcrys</u>	Immunology & respiratory	13.7	14.3	+ 4.9%	+ 0.6%
<u>Dexilant</u>	General medicine	11.1	12.7	+ 14.2%	+ 8.8%
Actos	Cardiovascular & metabolic	10.6	12.3	+ 16.9%	+ 10.2%
<u>Nesina</u>	Cardiovascular & metabolic	7.3	10.8	+ 47.8%	+ 47.5%
<u>Azilva</u>	Cardiovascular & metabolic	3.0	9.7	+ 223.4%	+ 223.4%
Other products		205.1	199.1	- 2.9%	- 0.5%
Total Revenue		410.3	411.1	+ 0.2%	- 0.2%

Underlines indicate new products

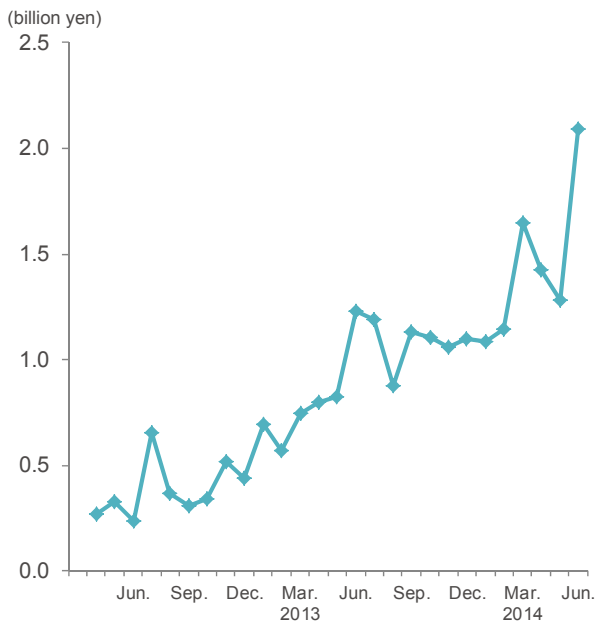
* Underlying growth: Constant currency and w/o divestments. See appendix P.27, 28 for details

New products contributing significantly to growth



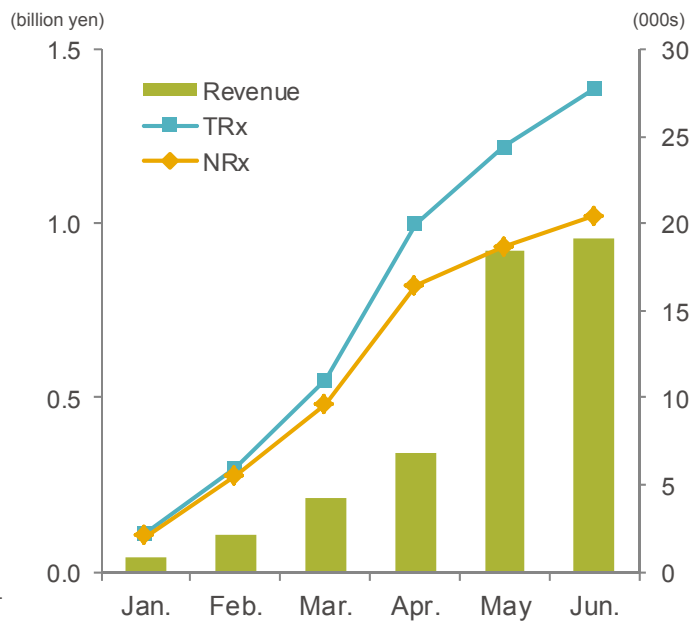
@Constant currency

Adcetris (Mainly Europe*)



* Including Named Patient Program (NPP) sales

Brintellix (U.S.)



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Income statement

Lower Core earnings in line with expectations, reflecting investment in new products



billion yen	P/L* Q1			Underlying growth**
	2013	2014	Reported growth	
Revenue	410.3	411.1	+ 0.2%	- 0.2%
Gross profit	293.1	293.1	- 0.0%	
% of Revenue	71.4%	71.3%	- 0.1 pts	
S&M	(88.1)	(99.6)	+ 13.1%	+ 4.4%
G&A	(39.3)	(35.1)	- 10.7%	- 7.4%
R&D	(78.7)	(75.0)	- 4.7%	- 5.3%
Other income / expenses	4.6	0.9	- 80.6%	
Core earnings	91.6	84.3	- 7.9%	+ 0.5%
% of Revenue	22.3%	20.5%	- 1.8 pts	

* P/L incorporates adjustments to Core earnings.

** Underlying growth: Constant currency and w/o divestments. See appendix P.27, 28 for details

Sustainable improvement in cost base



	P/L* FY2014 vs FY2013	
	Q1	Underlying growth
S&M	+ 13.1%	+ 4.4%
G&A	- 10.7%	- 7.4%
R&D	- 4.7%	- 5.3%
Total expenses (SG&A / R&D)	+ 1.7%	- 1.4%

Investment for new launch products (Brintellix and Entyvio)
Positive impact of project Summit

* P/L incorporates adjustments to Core earnings.

- Efficiency program Project Summit continues to produce strong results with good execution
- Approximately ¥5 billion yen additional savings generated in Q1
- Expect to cumulatively save an estimated ¥60 billion by the end of 2014
- Targeting >¥120 billion through 2017

Normalized Core tax rate in the low 30s

	Q1		Change
	2013	2014	
Reported tax rate	34.4%	42.8%	+ 8.4%
Impact of non-core items	+ 1.7%	+ 5.3%	+ 3.6%
Core tax rate	32.7%	37.5%	+ 4.8%
[One-off items]			
· Reduction of deductible NOL	-	+ 3.8%	+ 3.8%
· Impact of tax reform primarily in Japan	-	+ 0.8%	+ 0.8%
· Expiration of US R&D credit	-	+ 0.6%	+ 0.6%
Normalized Core tax rate	32.7%	32.3%	- 0.4%

Core EPS down, impacted by tax one-offs in Q1



billion yen	P/L* Q1			Underlying growth**
	2013	2014	Reported growth	
Core earnings	91.6	84.3	- 7.9%	+ 0.5%
% of Revenue	22.3%	20.5%	- 1.8 pts	
Core effective tax rate	32.7%	37.5%	+4.8 pts	
Core net profit	61.8	51.9	- 15.9%	- 10.0%
Core EPS	78 yen	66 yen	- 12 yen	- 9.8%

* P/L incorporates adjustments to Core earnings.

** Underlying growth: Constant currency and w/o divestments.



Balance sheet and Cash flow

Strong Balance sheet



billion yen	Mar. 2014	Jun. 2014	Change
Non-current assets	2,977	2,906	- 71
Intangible assets	1,136	1,099	- 37
Goodwill	815	800	- 14
Current assets	1,593	1,531	- 61
Cash and cash equivalents*	806	723	- 83
Total assets	4,569	4,437	- 132
Non-current liabilities	1,226	1,243	+ 17
Bonds and loans	705	703	- 2
Current liabilities	803	741	- 62
Bonds and loans	155	153	- 2
Total liabilities	2,029	1,983	- 45
Equity	2,541	2,454	- 87
Equity ratio**	54.1%	53.8%	-0.2 pts

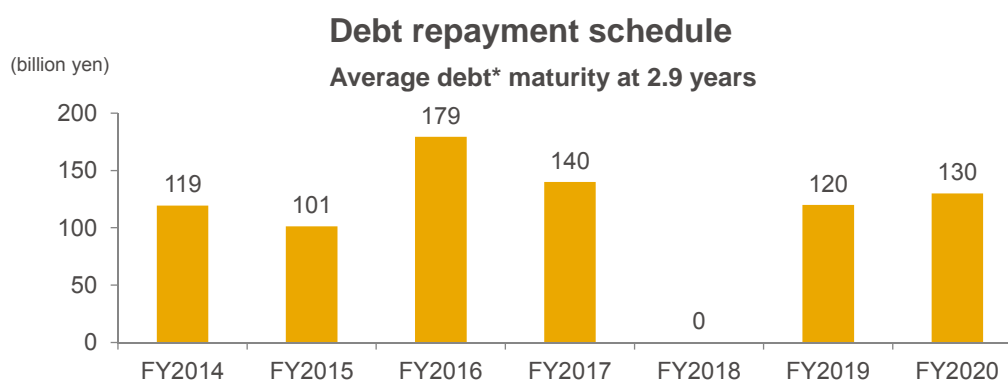
* Cash and cash equivalents: Includes short-term investments which mature or become due within one year from the reporting date

** Equity ratio: Represents Ratio of equity attributable to owners of the Company to Total assets

Liquidity secured



billion yen	Mar. 2014	Jun. 2014
Gross debt*	- 790	- 791
Cash and cash equivalents**	806	723
Net cash / Net debt	15	- 68
Net debt / EBITDA ratio	0.0	(0.1)



* Debt figures in this slide represent Bonds and loans FX rate hedged basis

** Cash and cash equivalents: Includes short-term investments which mature or become due within one year from the reporting date

Free cash flow in 2014 seasonably low in Q1



billion yen	Q1	
	FY2013	FY2014
EBITDA	104.9	113.4
Net trade working capital	- 41.7	- 36.1
Capital expenditures	- 11.5	- 21.2
Acquisition of intangible assets	- 3.3	- 18.8
Income taxes paid *	- 22.2	- 15.1
Other Balance sheet items **	- 26.1	- 22.8
Operating free cash flow	0.1	- 0.6

Improvements expected for free cash flow in 2014

* Income taxes paid does not include exceptional items, i.e. Tax refund related to Prevacid transactions and tax payments related to advance pricing agreement (APA). (FY2013 75.0 bil yen)
 ** LTIP

Guidance FY2014: A year of investment for growth



No change to our prior guidance.

Underlying Revenue Growth

Between 2 and 4%¹

Core Earnings

Flat to slightly declining

Commercial investment

Increase

Notes: ¹The impact of LOEs is now included in growth guidance, while it had been excluded in previous guidance. This change in calculation method results in a new and more relevant guidance of "between 2 and 4%" (with LOEs) and is equivalent to the prior guidance of "between 3 and 5%" (without LOEs). See slide 32 for more detailed disclosure.

APPENDIX

Definitions of new disclosure terms

Underlying growth

Underlying growth adjusts only for forex (constant currency) and disposals / acquisitions / exceptional items.

Core earnings

Core earnings is calculated by deducting factors such as impacts from purchase accounting and amortization / impairment loss of intangible assets, restructuring costs and litigation costs from operating profit.

FY2014 Financial outlook



billion yen	FY2014			
	Q1 (Actual)	Q2 (Estimate)	1st Half (Estimate)	Outlook
Revenue	411.1	433.9	845	1,725
R&D expenses	(75.2)	(84.8)	(160.0)	(350.0)
Operating profit	63.7	26.3	90	150
Net profit for the year*	33.4	16.6	50	85
EPS	42 yen	21 yen	63 yen	108 yen
Core Earnings**	84.3	60.7	145.0	280.0
% of Revenue	20.5%	14.0%	17.2%	16.2%
Core net profit	51.9	38.1	90.0	180.0
Core EPS	66 yen	48 yen	114 yen	228 yen
Exchange Rate	Yen per USD	102	98	100
	Yen per EUR	140	140	140

*Net Profit for the Year under IFRS represents Net Profit for the Year attributable to owners of the Company.

**Core earnings is calculated by deducting any temporary factors such as impacts from purchase accounting and amortization / impairment loss of intangible assets, restructuring costs and litigation costs from operating profit.

²⁴ Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014 | announced August 1, 2014

Takeda Pharmaceutical Company Limited

FY2014 Financial outlook

- P/L impact of 1 yen change in forex



billion yen	FY2014	
	USD	EUR
Revenue	4.0	4.5
Operating profit	- 0.7	0.7
Net profit for the year	- 0.5	0.4

²⁵ Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014 | announced August 1, 2014

Takeda Pharmaceutical Company Limited

Income statement – Reported under IFRS



billion yen	Q1		Change
	2013	2014	
Revenue	410.3	411.1	+ 0.2%
Gross profit	292.4	293.1	+ 0.2%
% of Revenue	71.3%	71.3%	+0.0 pts
SG&A	(129.6)	(136.6)	+ 5.4%
% of Revenue	31.6%	33.2%	+1.6 pts
R&D	(79.2)	(75.2)	- 5.2%
% of Revenue	19.3%	18.3%	-1.0 pts
Other income	8.1	24.1	+ 196.3%
Other expenses (incl. Amortization associated with products)	(34.5)	(41.8)	+ 21.3%
Operating profit	57.2	63.7	+ 11.3%
% of Revenue	13.9%	15.5%	+1.5 pts
Net profit for the period	35.9	33.4	- 7.1%
Core earnings	91.6	84.3	- 7.9%
% of Revenue	22.3%	20.5%	-1.8 pts
EPS	46 yen	42 yen	- 3 yen
Core EPS	78 yen	66 yen	- 12 yen

[Exchange rate] FY2013 USD: 98yen, EUR: 127yen FY2014 USD: 102yen, EUR: 140yen

26 | Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014 | announced August 1, 2014

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Revenue and Core earnings

- Adjustments from reported to underlying growth



billion yen	2014 Q1			Underlying growth
	Reported	Fx effect	Divestments	
Revenue	411.1	- 3.0	- 1.5	406.7
Core earnings	84.3	+ 2.2	- 1.3	85.2

billion yen	2013 Q1			Underlying growth
	Reported	Fx effect	Divestments	
Revenue	410.3	+ 4.8	- 7.7	407.4
Core earnings	91.6	+ 0.6	- 7.4	84.8

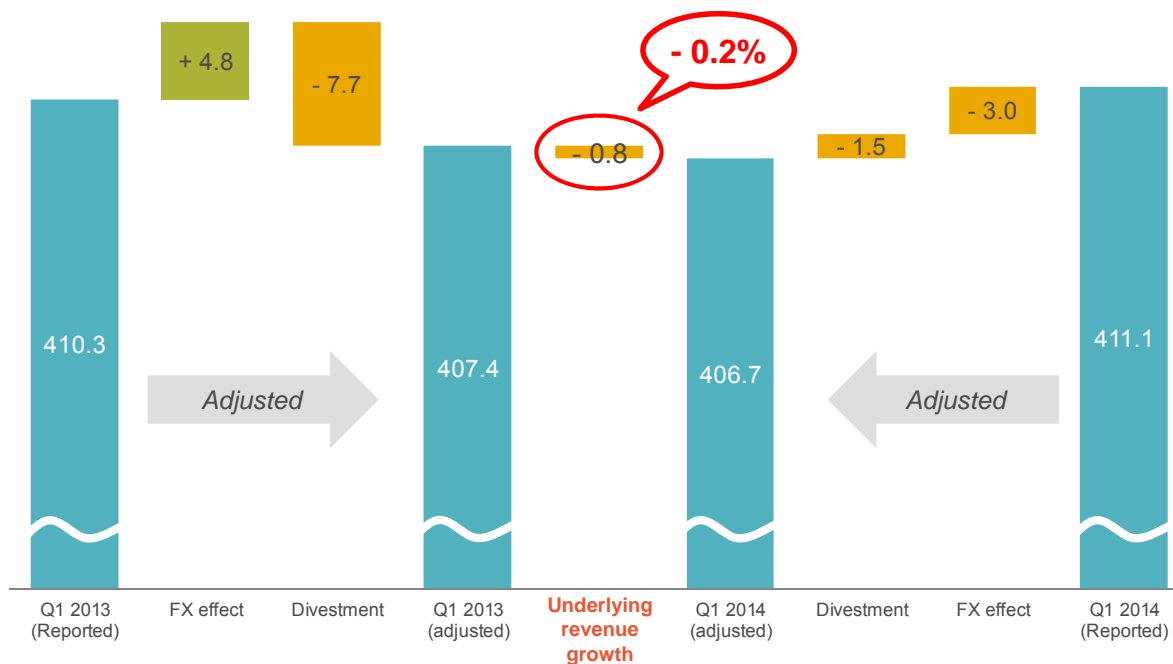
27 | Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014 | announced August 1, 2014

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Details of underlying revenue growth



(billion yen)



28 | Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014 | announced August 1, 2014

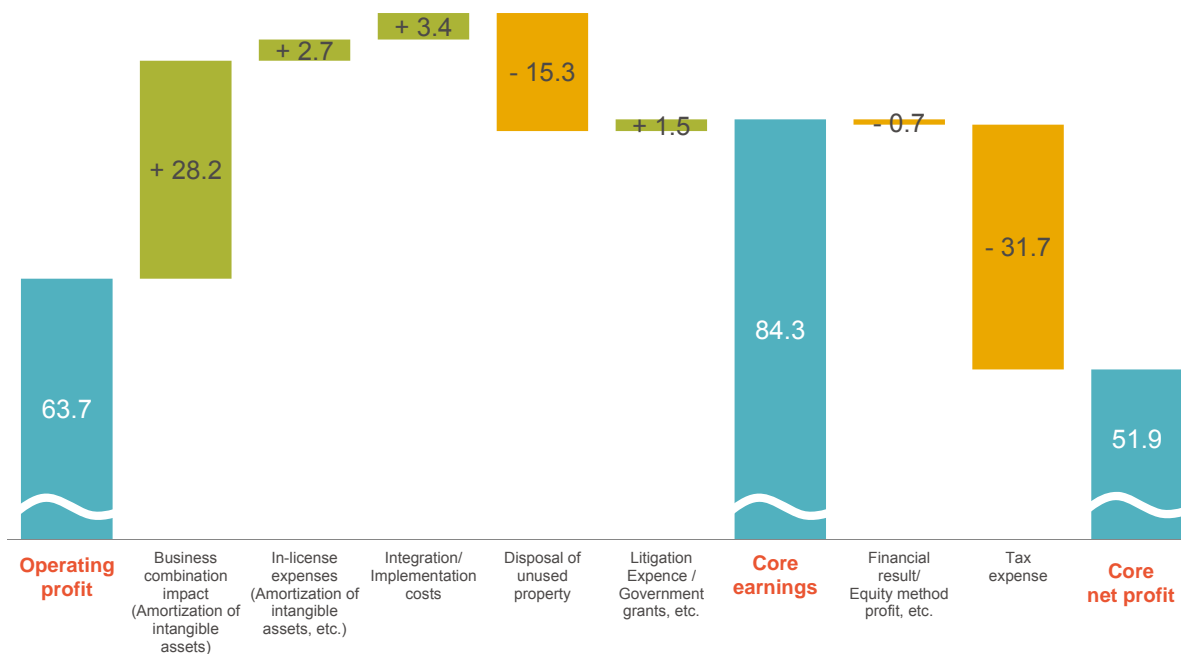
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Core earnings

- Adjustments from Operating profit to Core earnings and Core net profit



(billion yen)



29 | Consolidated Financial Results for the 1st Quarter of Fiscal Year 2014 | announced August 1, 2014

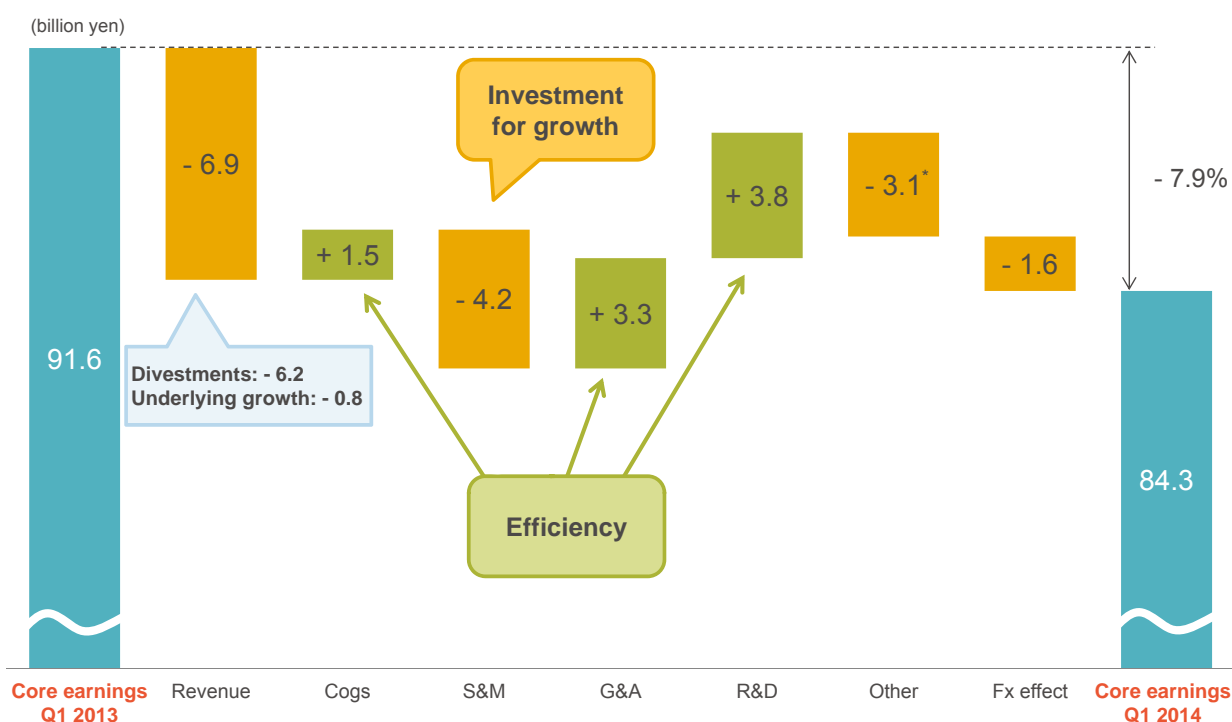
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Normalized Core tax rate (Historical basis)



	Full year		Change
	2012	2013	
Reported tax rate	-13.2%	31.0%	+ 44.2%
Impact of non-core items	- 27.3%	- 3.6%	+ 23.7%
Core tax rate	14.1%	34.6%	+ 20.5%
[One-off items]			
· Transfer pricing adjustments	-17.6%	-	+ 17.6%
· Reduction of deductible NOL	1.3%	- 1.6%	- 2.9%
· Impact of tax reform primarily in Japan	0.6%	+ 3.7%	+ 3.1%
Normalized Core tax rate	29.8%	32.5%	+ 2.7%

Reinvestment of efficiency savings to support growth



*Other mainly includes charges related to the termination of TAK-700.

- Underlying revenue growth between 2 and 4%*
- Flat to slightly declining underlying Core earnings (CE) in absolute value as savings do not fully offset increased sales & marketing investments
- Commercial investments will increase exceptionally in 2014 by about 1 pt of sales vs. prior year to support launches
 - Brintellix, Entyvio, Contrave
- Flat R&D spending
- Summit to deliver incremental savings of more than 20 billion yen

* The impact of LOEs is now included in growth guidance, while it had been excluded in previous guidance. This change in calculation method results in a new and more relevant guidance of "between 2 and 4%" (with LOEs) and is equivalent to the prior guidance of "between 3 and 5%" (without LOEs).

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All forward-looking statements are based on judgments derived from the information available to the Company at this time. Forward looking statements can sometimes be identified by the use of forward-looking words such as "may," "believe," "will," "expect," "project," "estimate," "should," "anticipate," "plan," "continue," "seek," "pro forma," "potential," "target," "forecast," or "intend" or other similar words or expressions of the negative thereof.

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