

CONSOLIDATED BALANCE SHEETS

March 31, 1999 and 1998

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Current assets:			
Cash and cash equivalents —			
Cash	¥ 39,213	¥ 36,980	\$ 324,074
Time deposits.....	274,585	362,789	2,269,298
Total.....	313,798	399,769	2,593,372
Marketable securities (Note 3)	227,032	92,845	1,876,298
Notes and accounts receivable —			
Trade notes	61,173	69,342	505,562
Trade accounts	138,621	137,276	1,145,628
Due from unconsolidated subsidiaries and affiliates	28,859	26,946	238,504
Allowance for doubtful receivables and losses on sales returns	(3,775)	(4,010)	(31,198)
Total.....	224,878	229,554	1,858,496
Inventories (Note 4).....	107,767	107,049	890,636
Deferred income taxes.....	28,180	37,367	232,893
Other current assets	11,608	11,224	95,933
Total current assets	913,263	877,808	7,547,628
Property, plant and equipment (Note 5):			
Land	39,603	40,029	327,298
Buildings and structures	229,146	225,402	1,893,769
Machinery and equipment	382,256	371,249	3,159,140
Construction in progress.....	6,887	12,156	56,917
Total.....	657,892	648,836	5,437,124
Accumulated depreciation	(433,663)	(416,744)	(3,583,992)
Net property, plant and equipment	224,229	232,092	1,853,132
Investments and other assets:			
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 3).....	73,764	81,846	609,620
Investment securities (Note 3)	50,058	40,596	413,702
Deferred income taxes.....	36,612	38,430	302,579
Other assets.....	29,073	25,430	240,273
Total investments and other assets	189,507	186,302	1,566,174
TOTAL	¥1,326,999	¥1,296,202	\$10,966,934

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Current liabilities:			
Bank loans (Note 5).....	¥ 9,361	¥ 9,509	\$ 77,364
Current portion of long-term debt (Note 5).....	2,119	24,077	17,512
Notes and accounts payable —			
Trade notes.....	11,277	12,373	93,198
Trade accounts.....	80,154	78,287	662,430
Due to unconsolidated subsidiaries and affiliates.....	21,603	20,101	178,537
Total.....	113,034	110,761	934,165
Accrued expenses.....	68,464	76,014	565,818
Income taxes payable.....	38,698	54,902	319,818
Other current liabilities.....	48,382	49,472	399,852
Total current liabilities.....	280,058	324,735	2,314,529
Long-term liabilities:			
Long-term debt (Note 5).....	9,858	10,896	81,471
Retirement benefits (Note 6).....	93,961	96,909	776,537
Reserve for SMON compensation (Note 7).....	5,886	6,115	48,645
Total long-term liabilities.....	109,705	113,920	906,653
Minority interests	29,863	28,166	246,802
Commitments and contingencies (Note 13)			
Shareholders' equity (Notes 8 and 14):			
Common stock — authorized, 2,400,000,000 shares; issued and outstanding shares with par value of ¥50 per share:			
March 31, 1999 — 889,272,395 shares			
March 31, 1998 — 878,991,506 shares.....	63,540	52,468	525,124
Additional paid-in capital.....	49,637	38,578	410,223
Legal reserve.....	14,250	12,804	117,769
Retained earnings.....	779,946	725,531	6,445,834
Total shareholders' equity.....	907,373	829,381	7,498,950
TOTAL	¥1,326,999	¥1,296,202	\$10,966,934

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Net sales (Notes 3 and 12)	¥844,643	¥841,816	¥838,824	\$6,980,521
Operating costs and expenses (Note 12):				
Cost of sales (Note 3)	435,787	443,292	449,228	3,601,546
Selling, general and administrative (Note 9)	266,636	265,572	262,246	2,203,603
Total	702,423	708,864	711,474	5,805,149
Operating income (Note 12)	142,220	132,952	127,350	1,175,372
Other income (expenses):				
Interest and dividend income	8,603	6,677	5,783	71,099
Interest expense	(1,059)	(1,808)	(2,257)	(8,752)
Equity in earnings of unconsolidated subsidiaries and affiliates	35,981	24,193	17,270	297,364
Gain on sale of investment in an affiliate	—	4,833	—	—
Loss on sales and disposals of property, plant and equipment	(332)	(666)	(37)	(2,744)
Exchange gains (losses)	(734)	1,328	968	(6,066)
Other — net	(2,537)	(860)	(1,092)	(20,967)
Total	39,922	33,697	20,635	329,934
Income before income taxes and minority interests	182,142	166,649	147,985	1,505,306
Income taxes (Note 10):				
Current	78,014	93,088	78,219	644,744
Deferred	11,005	(9,720)	(3,125)	90,950
Total	89,019	83,368	75,094	735,694
Income before minority interests	93,123	83,281	72,891	769,612
Minority interests	1,368	1,671	1,508	11,306
Net income	¥ 91,755	¥ 81,610	¥ 71,383	\$ 758,306

	Yen			U.S. dollars (Note 1)
Amounts per common share (Note 11):				
Net income	¥103.52	¥92.97	¥81.52	\$0.86
Cash dividends applicable to the year	29.00	21.25	17.25	0.24

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Common stock:				
Balance, beginning of year	¥ 52,468	¥ 48,948	¥ 48,942	\$ 433,620
Shares issued upon conversion of debt.....	11,072	3,520	6	91,504
Balance, end of year	¥ 63,540	¥ 52,468	¥ 48,948	\$ 525,124
Additional paid-in capital:				
Balance, beginning of year	¥ 38,578	¥ 35,063	¥ 35,057	\$ 318,826
Increase due to conversion of debt.....	11,059	3,515	6	91,397
Balance, end of year	¥ 49,637	¥ 38,578	¥ 35,063	\$ 410,223
Legal reserve:				
Balance, beginning of year	¥ 12,804	¥ 12,235	¥ 12,235	\$ 105,818
Transfer from retained earnings	1,446	569	—	11,951
Balance, end of year	¥ 14,250	¥ 12,804	¥ 12,235	\$ 117,769
Retained earnings:				
Balance, beginning of year	¥725,531	¥660,893	¥603,675	\$5,996,124
Net income	91,755	81,610	71,383	758,306
Cash dividends paid; ¥24.75 (\$0.20) — 1999, ¥18.25 — 1998 and ¥15.75 — 1997 (per share).....	(21,885)	(16,001)	(13,792)	(180,868)
Bonuses to directors and corporate auditors.....	(239)	(402)	(373)	(1,975)
Transfer to legal reserve	(1,446)	(569)	—	(11,951)
Effect on beginning retained earnings of changing from the equity method to the cost method of accounting for an investment in a certain former affiliate	(13,770)	—	—	(113,802)
Balance, end of year	¥779,946	¥725,531	¥660,893	\$6,445,834

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Operating activities:				
Net income	¥ 91,755	¥ 81,610	¥ 71,383	\$ 758,306
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	32,651	32,763	31,473	269,843
Loss on sales and disposals of property, plant and equipment	332	666	37	2,744
Provision for deferred income taxes	11,005	(9,720)	(3,125)	90,950
Undistributed earnings of unconsolidated subsidiaries and affiliates	(7,998)	(16,370)	(16,252)	(66,099)
Gain on sale of investment in an affiliate	—	(4,833)	—	—
Changes in assets and liabilities, net of effects from consolidating a former affiliate (Note 2):				
Decrease in notes and accounts receivable	4,676	18,312	10,350	38,645
Decrease (increase) in inventories	(718)	(4,643)	802	(5,934)
Decrease (increase) in other current assets	(384)	342	1,458	(3,174)
Decrease (increase) in other assets	(4,853)	(13)	3,553	(40,107)
Increase (decrease) in notes and accounts payable	2,273	(6,784)	2,140	18,785
Increase (decrease) in accrued expenses	(7,550)	3,593	5,527	(62,397)
Increase (decrease) in income taxes payable	(16,204)	12,042	(111)	(133,917)
Increase (decrease) in other current liabilities	1,043	1,839	(13,175)	8,620
Decrease in liability for retirement benefits	(2,948)	(892)	(1,079)	(24,364)
Increase in minority interests	1,697	1,167	1,098	14,025
Other	202	(98)	(21)	1,669
Net cash provided by operating activities	104,979	108,981	94,058	867,595
Investing activities:				
Payment for purchases of property, plant and equipment	(28,932)	(33,936)	(31,745)	(239,107)
Proceeds from sales of property, plant and equipment	1,085	89	2,492	8,967
Payment for purchases of investment securities	(8,652)	(337)	(3,540)	(71,504)
Proceeds from sale of investment in an affiliate	—	5,488	—	—
Proceeds from sales of investment securities	1,199	1,350	911	9,909
Decrease (increase) in investments in and advances to unconsolidated subsidiaries and affiliates	184	(78)	17	1,521
Net increase in marketable securities	(134,187)	(40,191)	(13,175)	(1,108,984)
Cash paid for acquiring a majority interest in a former affiliate, net of cash and cash equivalents from consolidating this subsidiary	—	(5,078)	—	—
Net cash used in investing activities	(169,303)	(72,693)	(45,040)	(1,399,198)
Financing activities:				
Redemption of bonds	(215)	(500)	(600)	(1,777)
Proceeds from issuance of long-term debt	2,256	2,708	1,995	18,645
Repayment of long-term debt	(2,889)	(3,371)	(4,777)	(23,876)
Net increase (decrease) in bank loans	(148)	(2,438)	1,972	(1,223)
Dividends paid	(21,885)	(16,001)	(13,792)	(180,868)
Net cash used in financing activities	(22,881)	(19,602)	(15,202)	(189,099)
Effect of exchange rate changes (Note 2)	1,234	(274)	(1,907)	10,198
Net increase in cash and cash equivalents	(85,971)	16,412	31,909	(710,504)
Cash and cash equivalents, beginning of year	399,769	383,357	351,448	3,303,876
Cash and cash equivalents, end of year	¥313,798	¥399,769	¥383,357	\$2,593,372
Additional cash flow information:				
Interest paid	¥ 1,061	¥ 1,779	¥ 2,452	\$ 8,769
Income taxes paid	94,218	80,509	78,315	778,661
Noncash financing activity:				
Convertible debt converted into common stock	¥ 22,131	¥ 7,035	¥ 12	\$ 182,901
Noncash investing activities:				
The Company acquired a majority of a certain affiliate in the year ended March 31, 1998 and included it in the consolidation (Note 2). In conjunction with the acquisition, liabilities were assumed as follows:				
Assets acquired	¥ —	¥ 6,054	¥ —	\$ —
Investment eliminated	—	(723)	—	—
Cash paid to acquire a majority of the capital stock	—	(5,607)	—	—
Goodwill	—	4,885	—	—
Minority interests	—	(434)	—	—
Liabilities assumed	¥ —	¥ 4,175	¥ —	\$ —
Effect on beginning retained earnings of changing from the equity method to the cost method of accounting for an investment in a certain former affiliate	¥ (13,770)	¥ —	¥ —	\$ (113,802)

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 1999, 1998 and 1997

Note 1

BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law. Takeda Chemical Industries, Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles and practices in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards, and its overseas subsidiaries and affiliates in conformity with those of the countries of their domicile.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present them in a form which is more familiar to

readers outside Japan. Presentation of a consolidated statement of cash flows as an integral part of the basic financial statements is not required for domestic reporting purposes but is included herein for the convenience of readers. In addition, the accompanying notes include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

The financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥121 to US\$1, the approximate rate of exchange at March 31, 1999. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together the "Companies"). All significant intercompany balances and transactions are eliminated in consolidation.

During the fiscal year ended March 31, 1999, the Company established two new subsidiaries and acquired a majority interest of a certain affiliate (defined as ownership from 20% to 50%), previously accounted for by the cost method. During the fiscal year ended March 31, 1998, the Company established five new subsidiaries and acquired a majority interest of a certain affiliate, previously accounted for by the equity method. The consolidated financial statements include the balances of such subsidiaries and their operations and cash flows from the date of their inclusion in the consolidation.

During the fiscal year ended March 31, 1999, due to the decrease in ownership of a certain company, previously accounted for by the equity method, the former affiliate has been accounted for by the cost method and retained earnings at April 1, 1998 has been retroactively adjusted.

Cash and cash equivalents

In reporting cash flows, the Companies consider cash and time deposits with maturities of one year or less to be cash and cash equivalents. Such time deposits may be withdrawn on demand without diminution of principal.

Marketable securities and investments

Publicly traded marketable securities included in marketable and investment securities are carried at the lower of cost or mar-

ket value applied on an individual basis. Cost is determined by the average method. Except for certain insignificant affiliates, the Company's investments in unconsolidated subsidiaries and affiliates are stated at their underlying net equity values after elimination of intercompany profits. Other securities are stated at cost except that appropriate write-downs are recorded for securities with values that have been permanently impaired.

Inventories

Merchandise and raw materials are stated at the lower of cost or market value and finished products and work-in-process are stated at cost. Cost is primarily determined by the average method.

Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is primarily computed by the declining-balance method at rates based on the estimated useful lives of the assets.

Goodwill

The excess of the purchase price over net assets of a subsidiary acquired ("goodwill") is amortized on the straight-line method over five years. Goodwill at March 31, 1999 and 1998 were ¥2,929 million (\$24,207 thousand) and ¥3,907 million, net of amortization of ¥1,956 million (\$16,165 thousand) and ¥978 million, respectively.

Retirement benefits

The liability for retirement benefits is stated at an amount which would be required to be paid if all employees eligible under the Companies' retirement benefit plans voluntarily ter-

minated their employment as of the balance sheet date, less amounts funded under contributory and non-contributory trustee pension plans. The liability includes retirement benefits for directors and corporate auditors of the Company, payments of which are subject to the approval of the shareholders.

Stock and bond issue costs

Stock and bond issue costs are charged to income as incurred.

Foreign currency transactions

Foreign currency amounts are translated into Japanese yen at the rates in effect at each balance sheet date for monetary current assets and current liabilities, and at historical rates for all other assets and liabilities, except for those covered by forward exchange contracts which are translated at the contracted rates. However, when there is a significant unrealized exchange loss related to long-term receivables and payables, such receivables and payables are translated into Japanese yen at the exchange rates in effect at the balance sheet date. Revenue and expense items denominated in foreign currencies are translated at historical rates. Exchange gains or losses are credited or charged to income as incurred. However, exchange gains or losses arising from the translation of long-term receivables or payables at forward contract rates are deferred and amortized over the terms of the related contracts.

Foreign currency financial statements

The financial statements of overseas subsidiaries and affiliates are translated into Japanese yen by the following principal methods as set forth by the Financial Accounting Standard on Foreign Currency Translation in Japan.

The balance sheet accounts of overseas subsidiaries and affiliates are translated into Japanese yen at the current exchange rates as of the balance sheet date except intercompany accounts

and shareholders' equity, which are translated at historical rates. Revenue and expense accounts of overseas subsidiaries and affiliates are translated into Japanese yen at the average exchange rate for the year. Differences arising from such translation are included in other assets or liabilities.

Income taxes

Current income taxes are provided for based on amounts currently payable for each year. Deferred income taxes arising from timing differences in the recognition of income and expenses for tax and financial reporting purposes are reflected in the consolidated financial statements. Accrued income taxes on undistributed earnings of overseas subsidiaries and affiliates are also reflected in the consolidated financial statements. Accrued income taxes on the undistributed earnings of domestic subsidiaries and affiliates are not provided because dividends received from domestic companies are expected to be non-taxable.

At March 31, 1999, deferred tax assets were devalued at a new statutory tax rate, effective at the year end. The amount of devaluation of ¥8,009 million (\$66,190 thousand) was charged to income for the year ended March 31, 1999.

Cash dividends

Cash dividends charged to retained earnings are those actually paid during the year and consist of year-end dividends for the preceding year and interim dividends for the current year.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 1999. The consolidated financial statements for 1998 have been retroactively restated to conform to the 1999 presentation.

Note 3

MARKETABLE SECURITIES AND INVESTMENTS

Current marketable securities, which consisted principally of debt securities, approximated aggregate market value at March 31, 1999 and 1998. Information regarding non-current

marketable equity and debt securities included in investment securities at March 31, 1999 and 1998 was as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Carrying value	¥ 35,221	¥ 33,707	\$ 291,083
Aggregate market value	265,204	205,776	2,191,768
Gross unrealized gains	229,983	172,069	1,900,685

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Investments at cost.....	¥11,577	¥13,835	\$ 95,678
Equity in undistributed earnings.....	58,483	64,224	483,330
Total.....	70,060	78,059	579,008
Advances.....	3,704	3,787	30,612
Total.....	¥73,764	¥81,846	\$609,620

At March 31, 1999 and 1998, the Company's investment in one affiliate (1999) and two affiliates (1998), recorded at ¥13,609 million (\$112,471 thousand) and ¥29,334 million based on the equity method, had aggregate quoted market values of ¥12,377 million (\$102,289 thousand) and ¥31,900 million,

respectively.

Financial information with respect to unconsolidated subsidiaries and affiliates, which were recorded based on the equity method at March 31, 1999 and 1998 and for each of the three years ended March 31, 1999, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current assets.....	¥268,528	¥339,137	\$2,219,240
Other assets.....	99,075	138,814	818,802
Total.....	367,603	477,951	3,038,042
Current liabilities.....	179,465	211,040	1,483,182
Other liabilities.....	18,689	31,631	154,455
Net assets.....	¥169,449	¥235,280	\$1,400,405

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Net sales.....	¥613,588	¥639,777	¥590,096	\$5,070,975
Net income.....	72,404	53,146	40,178	598,380

Sales to and purchases from unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Sales.....	¥128,708	¥109,862	¥105,948	\$1,063,702
Purchases.....	65,401	58,124	58,384	540,504

Note 4

INVENTORIES

Inventories at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Finished products and merchandise.....	¥ 54,413	¥ 53,051	\$449,694
Work-in-process.....	36,393	35,816	300,768
Raw materials.....	16,961	18,182	140,174
Total.....	¥107,767	¥107,049	\$890,636

Note 5

BANK LOANS AND LONG-TERM DEBT

Bank loans consisted of short-term bank loans represented by notes, generally due in one year. The Companies obtain financing by discounting notes and export drafts with banks. Such discounted notes and drafts and the related contingent liabilities were not included in the balance sheets but are disclosed as contingent liabilities (see Note 13).

The weighted average annual interest rates of short-term bank loans and discounted notes and export drafts at March 31, 1999 and 1998 were 1.8% and 2.1%, respectively.

Long-term debt at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
1.9% unsecured convertible bonds due 1998	¥ —	¥22,347	\$ —
Unsecured loans from banks and financial institutions due through 2023			
with interest ranging from 1.4% to 6.7%	1,582	2,266	13,074
Secured bonds due through 2004 with interest ranging from 1.6% to 4.9%.....	1,300	1,200	10,744
Collateralized loans from financial institutions due through 2015			
with interest ranging from 0.7% to 6.7%	9,095	9,160	75,165
Total	11,977	34,973	98,983
Less current portion.....	2,119	24,077	17,512
Total.....	¥ 9,858	¥10,896	\$81,471

The annual maturities of long-term debt were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000.....	¥ 2,119	\$17,512
2001.....	6,133	50,686
2002.....	1,588	13,124
2003.....	1,101	9,099
2004.....	210	1,736
2005 and thereafter	826	6,826
Total.....	¥11,977	\$98,983

At March 31, 1999, assets pledged as collateral for long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation.....	¥12,332	\$101,917

As is customary in Japan, security must be given if requested by a lending bank. Banks have the right to offset cash deposited with them against any debt or obligation that becomes due

or, in case of default and certain other specified events, against all other debt payable to the banks. None of the lenders has ever exercised this right against the Companies' obligations.

Note 6

RETIREMENT BENEFITS

Employees of the Companies terminating their employment either voluntarily or upon reaching the mandatory retirement age are entitled to severance payments based on the rate of pay at the time of termination, length of service and certain other factors. The Company has a contributory trustee pension plan which is interrelated with the Japanese government social welfare program which consists of a basic portion requiring employee and employer contributions, plus an additional portion established by the Company. The Company and certain consolidated subsidiaries

also have non-contributory trustee pension plans. A portion of the above retirement benefits is funded under such pension plans.

At March 31, 1999 and 1998, the assets of the pension plans amounted to ¥116,919 million (\$966,273 thousand) and ¥109,587 million, respectively.

Charges to income with respect to retirement benefits for the years ended March 31, 1999, 1998 and 1997 were ¥15,615 million (\$129,050 thousand), ¥15,300 million and ¥22,268 million, respectively.

Note 7

RESERVE FOR SMON COMPENSATION

The Company was co-defendant with the Japanese government and other pharmaceutical companies in legal actions in Japan. The plaintiffs claimed that a certain medicine, a product of one of the co-defendants, which was distributed by the Company, was a cause of SMON, a neurological disease affecting the plaintiffs.

Compromise settlements have been made with all the plaintiffs through December 25, 1996.

The Company has made a provision in the accompanying consolidated financial statements for estimated future medical treatment payments over the remaining lives of the parties entitled under the compromise settlements.

Note 8

SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares, with the minimum of the par value thereof, is required to be designated as stated capital.

Under the Code, the Company is required to appropriate and set aside as a legal reserve an amount at least equal to 10% of the amounts paid as an appropriation of retained earnings, including dividends and other distributions, until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

The Company may transfer portions of additional paid-in capital to common stock by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to common stock by resolution of the shareholders.

Under the Code, the amount legally available for dividends is based upon retained earnings as recorded on the books of the Company. At March 31, 1999, retained earnings available for future dividends amounted to ¥556,414 million (\$4,598,463 thousand) subject to legal reserve requirements.

Note 9

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred. Research and development costs for the years ended

March 31, 1999, 1998 and 1997 were ¥77,487 million (\$640,388 thousand), ¥79,039 million and ¥71,754 million, respectively.

Note 10

INCOME TAXES

The effective income tax rates of the Companies differed from the statutory tax rate for the following reasons:

	1999	1998	1997
Statutory tax rate	47.7%	51.4%	51.4%
Expenses not deductible for tax purposes	2.2	2.9	3.4
Loss in subsidiaries	1.3	0.6	0.7
Equity in earnings of unconsolidated subsidiaries and affiliates	(6.6)	(4.5)	(4.6)
Non-taxable dividend income.....	(0.3)	(0.4)	(0.3)
Tax credits primarily for research and development costs	(0.2)	(0.2)	(0.7)
Effect of statutory tax rate change (see Note 2).....	4.4	—	—
Other — net	0.4	0.2	0.8
Effective tax rate	48.9%	50.0%	50.7%

Deferred income taxes consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Expenses recorded on books of account but not currently deductible for tax purposes	¥(1,976)	¥(9,468)	¥(5,687)	\$(16,331)
Accrued enterprise tax, deductible when paid	1,901	(1,661)	(62)	15,711
Accrued income taxes on undistributed earnings of overseas subsidiaries and affiliates	2,605	3,104	3,343	21,529
Elimination of intercompany profits	466	(1,695)	(719)	3,851
Effect of statutory tax rate change (see Note 2)	8,009	—	—	66,190
Total.....	¥11,005	¥(9,720)	¥(3,125)	\$ 90,950

Note 11

AMOUNTS PER COMMON SHARE

The computations of net income per common share were based on the weighted average number of shares outstanding. The average number of common shares used in the computations was 886,393 thousand shares, 877,766 thousand shares and 875,700 thousand shares for the years ended March 31, 1999, 1998 and 1997, respectively.

The effect of the dilution on net income per common share, assuming full conversion of outstanding convertible bonds at

the beginning of each year (or at the time of issuance, if after the beginning of the year) with applicable adjustment for related interest expense, net of tax, would be immaterial.

Cash dividends per common share are the amounts applicable to the respective years, including dividends to be paid after the end of the year.

Note 12

SEGMENT INFORMATION

The Companies' operations are classified into four business segments: pharmaceuticals, bulk vitamin and food, chemical products, and other. The pharmaceuticals segment is composed of those operations involved in the production and sale of ethical and over-the-counter pharmaceuticals and reagents. The bulk vitamin and food segment consists of operations principally involved in the production and sale of vitamins, beverages and food additives. The chemical products segment is involved in the production and sale of polyurethane, polyester resins, their

compounds and activated carbon. The other segment mainly consists of agro products, real estate management and warehousing operations. The agro products operations include the production and sale of agricultural chemicals such as insecticides, herbicides and fungicides, and animal health products such as veterinary medicines for pets, feed additives and medicines for fisheries. Summarized financial information by business segment for years ended March 31, 1999, 1998 and 1997 is as follows:

	Millions of yen						Thousands of U.S. dollars	
	Net sales			Operating income			Net sales	Operating income
	1999	1998	1997	1999	1998	1997	1999	1999
Pharmaceuticals	¥597,552	¥580,692	¥565,834	¥132,794	¥122,674	¥119,453	\$4,938,446	\$1,097,471
Bulk vitamin and food	78,307	82,776	87,505	(695)	(1,191)	(2,271)	647,165	(5,744)
Chemical products	110,573	117,611	122,340	6,860	7,922	6,895	913,826	56,694
Other.....	58,211	60,737	63,145	3,261	3,547	3,273	481,084	26,951
Consolidated	¥844,643	¥841,816	¥838,824	¥142,220	¥132,952	¥127,350	\$6,980,521	\$1,175,372

There were no significant intersegment sales. General corporate administrative expenses are generally allocated among the segments in proportion to their operating expenses. Income and expenses not allocated to business segments include other

income and expense items such as interest and dividend income, interest expense, and equity in earnings of unconsolidated subsidiaries and affiliates.

	Millions of yen						Thousands of U.S. dollars		
	Identifiable assets		Depreciation and amortization		Capital expenditures		Identifiable assets	Depreciation and amortization	Capital expenditures
	1999	1998	1999	1998	1999	1998	1999	1999	
Pharmaceuticals.....	¥ 502,238	¥ 464,380	¥20,098	¥19,771	¥19,101	¥24,043	\$ 4,150,727	\$166,099	\$157,860
Bulk vitamin and food	65,979	68,592	3,919	4,410	1,506	1,966	545,281	32,388	12,446
Chemical products	123,597	118,532	6,383	6,398	6,603	7,207	1,021,463	52,752	54,570
Other.....	69,948	70,573	2,251	2,184	2,031	875	578,083	18,604	16,785
	761,762	722,077	32,651	32,763	29,241	34,091	6,295,554	269,843	241,661
Corporate.....	565,237	574,125	—	—	—	—	4,671,380	—	—
Consolidated.....	¥1,326,999	¥1,296,202	¥32,651	¥32,763	¥29,241	¥34,091	\$10,966,934	\$269,843	\$241,661

Corporate assets are principally cash and cash equivalents, marketable securities and investment securities. For fiscal years beginning on and after April 1, 1997, the

Company is required to disclose geographic data for net sales to customers outside Japan, as follows:

	Millions of yen			Thousands of U.S. dollars		Percentage of consolidated net sales		
	Net sales to customers outside Japan			Net sales to customers outside Japan				
	1999	1998	1997	1999		1999	1998	1997
North America	¥ 82,717	¥ 53,753	—	\$ 683,612		9.7%	6.4%	—
Europe	58,895	47,923	—	486,736		7.0	5.7	—
Other.....	33,649	34,035	—	278,090		4.0	4.0	—
Total.....	¥175,261	¥135,711	¥114,153	\$1,448,438		20.7%	16.1%	13.6%

Note 13

COMMITMENTS AND CONTINGENCIES

Commitments outstanding at March 31, 1999 for the purchase of property, plant and equipment amounted to approximately

¥7,579 million (\$62,636 thousand).

At March 31, 1999, contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
Loans guaranteed.....	¥12,610	\$104,215
Notes and export drafts discounted.....	711	5,876

Note 14

SUBSEQUENT EVENT

On June 29, 1999, the shareholders of the Company approved payment of a year-end cash dividend of ¥16.25 (\$0.13) per share to holders of record at March 31, 1999 totaling ¥14,450 million (\$119,421 thousand) and bonuses to directors and corporate auditors of ¥182 million (\$1,504 thousand).

INDEPENDENT AUDITORS' REPORT

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Tohmatsu**



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To the Board of Directors and Shareholders of
Takeda Chemical Industries, Ltd.:

We have examined the consolidated balance sheets of Takeda Chemical Industries, Ltd. and consolidated subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1999, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Takeda Chemical Industries, Ltd. and consolidated subsidiaries as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 1999