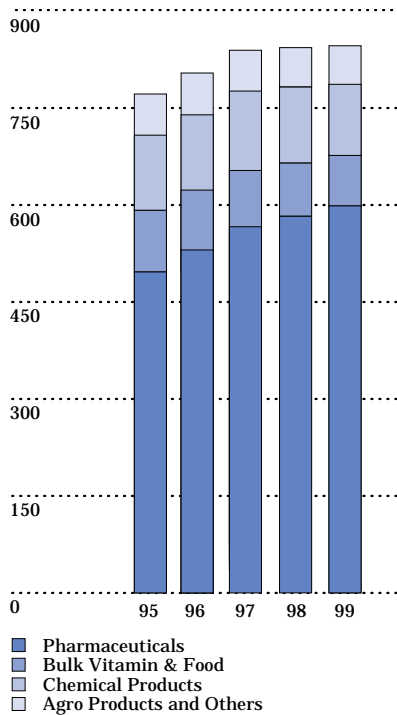


FINANCIAL REVIEW

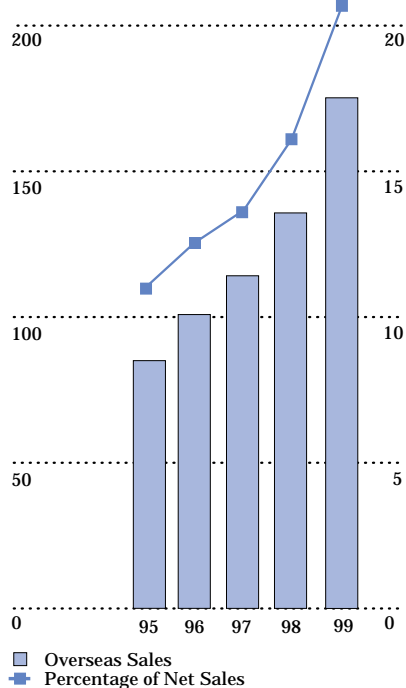
Net Sales Breakdown

(¥ Billion)



Overseas Sales

(¥ Billion; %)



Consolidated Sales and Income

The business environment surrounding the Takeda Group grew more severe during fiscal 1998, the year ended March 31, 1999, due to the effects of global credit instability and the Asian economic crisis. In the pharmaceutical industry, Takeda's principal business, a succession of large-scale mergers and acquisitions, especially by major companies in Europe and the United States, combined with borderless markets to usher in an era of intense competition.

Amid these trends, the Takeda Group, which aims to be an R&D-driven international enterprise, is developing its global operations and drawing on the strengths of each group company to improve consolidated financial results and raise the value of the Company.

During fiscal 1998, Takeda continued to make rapid strides in its global business. We established our own marketing company in the United States and filed a New Drug Application for diabetes treatment AD-4833 (pioglitazone hydrochloride) in Europe and the United States.

The tough business environment in Japan continued during fiscal 1998 with no sign of economic recovery. Overseas, however, market conditions for ethical drugs were favorable, particularly in the United States. As a result, both net sales and income increased compared with the previous fiscal year.

Net sales increased 0.3 percent to ¥844.6 billion (US\$6,980 million) as increased sales of ethical drugs in overseas markets offset a decrease in domestic sales. Net sales to customers outside Japan totaled ¥175.2 billion (US\$1,448 million), a year-on-year increase of 29.1 percent, and accounted for 20.7 percent of total net sales, an increase of 4.6 percentage points from fiscal 1997.

In income categories, operating income increased 7.0 percent to ¥142.2 billion (US\$1,175 million), reflecting Takeda's success in expanding sales of high-value-added products and other factors. U.S. affiliate TAP Holdings Inc., accounted for by the equity method, achieved growth in sales of the proton pump inhibitor lansoprazole (U.S. brand name: *Prevacid*), an international strategic product, which contributed strongly to a 9.3 percent increase in income before income taxes and minority interests to ¥182.1 billion (US\$1,505 million). As a result, net income increased 12.4 percent to ¥91.7 billion (US\$758 million).

Net income per share was ¥103.52 (US\$0.86), ¥10.55 higher than in the prior fiscal year. Furthermore, return on shareholders' equity increased to 10.6 percent from 10.3 percent. Takeda increased cash dividends per share to ¥29.00 (US\$0.24) from ¥21.25 in fiscal 1997.

Segment Information

The Company's operations, as explained in Note 12 of

the Notes to Consolidated Financial Statements, are classified into four business segments: Pharmaceuticals, Bulk Vitamin and Food, Chemical Products and Other.

Pharmaceuticals

In keeping with its goal of being an R&D-driven international enterprise, Takeda focused efforts in its pharmaceutical business on creating and developing original new drugs for the global market. At the same time, the Company moved quickly to expand its marketing bases in the United States and Europe.

In the United States, the world's largest market for pharmaceuticals, we established our second marketing base, Takeda Pharmaceuticals America, Inc., in May 1998. In Europe, we established Takeda Europe Research & Development Centre Ltd. in September 1998 in the United Kingdom, where regulatory affairs for the European pharmaceutical market are centered.

In January 1999 in the United States, and in March 1999 in Europe, we filed a New Drug Application for diabetes treatment AD-4833 (pioglitazone hydrochloride). AD-4833, our newest international strategic product, was launched in August 1999 under the brand name *Actos* in the United States.

Following introductions in the United States and Europe, in June 1999 we began sales of hypertension treatment *Blopress* in Japan.

In Japan, where policies to contain healthcare costs make market expansion difficult, Takeda successfully expanded sales of core products such as *Leuplin*, a luteinizing hormone-releasing hormone (LH-RH) analog, and *Basen*, a disaccharidase inhibitor for preventing postprandial hyperglycemia in diabetes mellitus. However, factors such as the withdrawal from the market of *Avan*, a brain-energy metabolism enhancer, resulted in a decrease in domestic pharmaceutical sales.

Outside Japan, sales of lansoprazole (brand name: *Prevacid*) in the United States contributed strongly to overseas results.

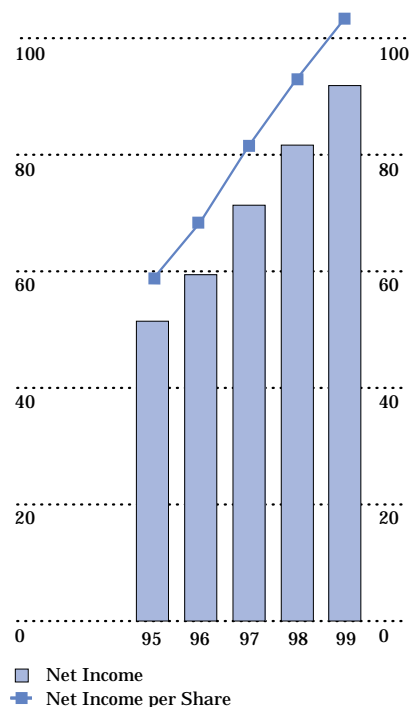
Total net sales of the Pharmaceuticals business therefore increased 2.9 percent, to ¥597.5 billion (US\$4,938 million), and operating income from this business increased 8.2 percent to ¥132.7 billion (US\$1,097 million). The Pharmaceuticals business thus increased its weighting in the overall business of the Takeda Group.

Bulk Vitamin and Food

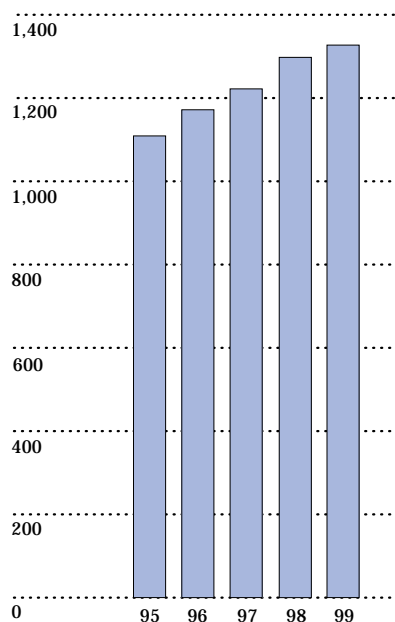
In April 1998, the U.S. manufacturing and marketing subsidiaries merged to bolster earnings potential in the North American market. However, price declines for vitamin C and *Ribotide* led to a decrease of 5.4 percent in Bulk Vitamin and Food business sales to ¥78.3 billion (US\$647 million).

Although the Bulk Vitamin and Food business posted an operating loss of ¥0.6 billion (US\$5 million), this represented an improvement of ¥0.4 billion over the prior fiscal year, in part due to better performance at subsidiary Takeda Food Products, Ltd.

Net Income and Net Income per Share
(¥ Billion; ¥)



Total Assets
(¥ Billion)



Chemical Products

The Chemical Products business, which includes the Life-Environment business, further developed its overseas presence in fiscal 1998 with the acquisition of activated carbon manufacturer Davao Central Chemical Corporation in the Philippines. However, the economic slump in Japan reduced demand related to housing and automobiles. Consequently, sales in the Chemical Products business declined 6.0 percent to ¥110.5 billion (US\$913 million), and operating income fell 13.4 percent to ¥6.8 billion (US\$56 million).

Other Businesses

In the Agro business, sales of agricultural chemicals and animal health products decreased due to weak domestic demand. As a result, net sales of other businesses decreased 4.2 percent to ¥58.2 billion (US\$481 million), and operating income dropped 8.1 percent to ¥3.2 billion (US\$26 million).

Financial Position and Liquidity

As of March 31, 1999, total assets were ¥1,326.9 billion (US\$10,966 million), an increase of 2.4 percent from a year earlier resulting primarily from an increase in marketable securities and investment securities. Total liabilities, the sum of current and long-term liabilities, decreased 11.1 percent to ¥389.7 billion (US\$3,221 million) as conversion into shares of an issue of 1.9 percent unsecured convertible bonds due in 1998 reduced the current portion of long-term debt and

income taxes payable decreased.

Higher retained earnings resulted in a 9.4 percent increase in shareholders' equity to ¥907.3 billion (US\$7,498 million), which accounted for 68.4 percent of total assets, compared to 64.0 percent at March 31, 1998. Shareholders' equity per share increased ¥76.79 from a year earlier to ¥1,020.35 (US\$8.43).

Net cash provided by operating activities decreased ¥4.0 billion to ¥104.9 billion (US\$867 million). This decrease in cash flow occurred despite increased net income as accrued expenses and income taxes payable decreased.

Net cash used in investing activities increased ¥96.6 billion from the previous fiscal year to ¥169.3 billion (US\$1,399 million). This was due mainly to an increase in purchases of marketable securities.

Net cash used in financing activities increased ¥3.2 billion to ¥22.8 billion (US\$189 million), primarily because of the increase in cash dividends paid for the fiscal year.

Cash and cash equivalents at the end of the year decreased ¥85.9 billion to ¥313.7 billion (US\$2,593 million) from a year earlier.

Takeda will continue working to improve results and deploy capital efficiently in order to maintain a sound financial structure.

Year 2000 (Y2K) Issue

Takeda recognizes the Y2K issue as a critical management concern, and has charged a director with responsibility for ensuring that Takeda and its group companies deal with it effectively. To prevent a material adverse impact caused by external entities such as suppliers on its business operations, the Company is also working to ensure their Y2K readiness. Remediation and replacement of information systems and equipment have been progressing according to plan, with remediation and replacement of all critical systems scheduled for completion in September 1999. The Company has also prepared a comprehensive contingency plan detailing responses to foreseeable risks. Expenses related to Y2K remediation are not expected to have a material impact on the operations or results of the Takeda Group.

Legal Proceedings

The Company's 100-percent-owned subsidiary, Takeda Vitamin & Food USA, Inc. (TVFU), which manufactures and sells vitamin bulks in the U.S.A., submitted the documents regarding its vitamin business to the U.S. Department of Justice according to certain subpoena issued in May 1998.

The Company and TVFU are among co-defendants with other companies in class-action law suits brought in the U.S.A. by plaintiffs claiming that they suffered damages from an alleged conspiracy of price fixing and market allocations in the worldwide vitamins market.

Shareholders' Equity & ROE

(¥ Billion; %)

