Please note that the following is an English translation of the original Japanese version, prepared only for the convenience of shareholders residing outside Japan. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.

Items Disclosed via the Internet Concerning the Notice of Convocation of the 143rd Ordinary General Meeting of Shareholders

1. Consolidated Statement of Changes in Equity on the Consolidated Financial Statements

2. Notes on the Consolidated Financial Statements

3. Unconsolidated Statement of Changes in Net Assets on the Unconsolidated Accounts

4. Notes on the Unconsolidated Accounts

Takeda Pharmaceutical Company Limited (the "Company")

The items listed above are the information which shall be deemed to have been provided to shareholders through posting on the Company's website in the internet (https://www.takeda.com/investors/reports/shareholders-meetings/) based on laws and regulations and Article 14 of the Company's Articles of Incorporation.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [IFRS]

(April 1, 2018 to March 31, 2019)

(Million JPY)

	Equity attributable to owners of the Company						
					Other components of equity		
	Share capital	Share premium	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Changes in fair value of financial assets measured at fair value through other comprehensive income	Net changes on revaluation of available-for-sale financial assets
As of April 1, 2018	77,914	90,740	(74,373)	1,557,307	272,597	–	73,037
Cumulative effects of changes in accounting policies				15,401		84,672	(73,037)
Restated balance	77,914	90,740	(74,373)	1,572,708	272,597	84,672	–
Net profit for the period				109,126			
Other comprehensive income					29,964	5,938	
Comprehensive income for the period	–	–	–	109,126	29,964	5,938	–
Issuances of new shares	1,565,671	1,565,671					
Acquisitions of treasury shares			(1,172)				
Disposals of treasury shares		(0)	3				
Dividends				(142,697)			
Changes in ownership				(2,337)	230		
Transfers from other components of equity				32,565		(44,230)	
Share-based compensation		20,102					
Exercise of share-based awards		(26,281)	18,400				
Transfers to non-financial assets							
Total transactions with owners	1,565,671	1,559,492	17,231	(112,469)	230	(44,230)	–
As of March 31, 2019	1,643,585	1,650,232	(57,142)	1,569,365	302,791	46,380	–

	Equity attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Other components of equity				Other comprehensive income related to assets held for sale			
	Cash flow hedges	Hedging cost	Re-measurement gain or loss on defined benefit plans	Total				
As of April 1, 2018	3,391	1,606	–	350,631	(4,795)	1,997,424	19,985	2,017,409
Cumulative effects of changes in accounting policies	(1,378)			10,257		25,658	(10)	25,648
Restated balance	2,013	1,606	–	360,888	(4,795)	2,023,082	19,975	2,043,057
Net profit for the period				–		109,126	(112)	109,014
Other comprehensive income	(33,793)	(4,909)	(11,665)	(14,465)	4,795	(9,670)	(152)	(9,822)
Comprehensive income for the period	(33,793)	(4,909)	(11,665)	(14,465)	4,795	99,456	(264)	99,192
Issuances of new shares				–		3,131,342		3,131,342
Acquisitions of treasury shares				–		(1,172)		(1,172)
Disposals of treasury shares				–		3		3
Dividends				–		(142,697)	(169)	(142,866)
Changes in ownership				230		(2,107)	(15,536)	(17,643)
Transfers from other components of equity			11,665	(32,565)		–		–
Share-based compensation				–		20,102		20,102
Exercise of share-based awards				–		(7,881)		(7,881)
Transfers to non-financial assets	34,739	4,715		39,454		39,454		39,454
Total transactions with owners	34,739	4,715	11,665	7,119	–	3,037,044	(15,705)	3,021,339
As of March 31, 2019	2,959	1,412	–	353,542	–	5,159,582	4,006	5,163,588

Notes on the Consolidated Financial Statements

[Notes for Items that Form the Basis of Preparing Consolidated Financial Statements]

1. Accounting Standards of Consolidated Financial Statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), in compliance with Article 120, paragraph 1 of the Company Accounting Regulations. In compliance with the second sentence of the same paragraph, certain disclosures required on the basis of IFRS are omitted.

2. Scope of Consolidation

(1) Number of consolidated subsidiaries: 357

Names of major consolidated subsidiaries:

(Domestic) Takeda Consumer Healthcare Company Ltd., Nihon Pharmaceutical Co., Ltd., Shire Japan KK

(Overseas) Shire plc, Shire Pharmaceuticals International Unlimited Company, Shire Pharmaceutical Holdings Ireland Limited, Takeda Pharmaceuticals International AG, Takeda Pharma A/S, Baxalta US Inc., Takeda Pharmaceuticals U.S.A., Inc., Shire US Inc, Shire Human Genetic Therapies, Inc., Baxalta GmbH, Shire Deutschland GmbH, Shire-NPS Pharmaceuticals, Inc., Takeda GmbH, Takeda Pharmaceuticals Limited Liability Company, Takeda Austria GmbH, Millennium Pharmaceuticals, Inc.,Takeda Vaccines, Inc., Baxalta Innovations GmbH, ARIAD Pharmaceutical, Inc., Shire Acquisitions Investments Ireland Designated Activity Company, Baxalta Incorporated, Dyax Corp., Shire Ireland Finance Trading Limited

(2) Increase and decrease of consolidated subsidiaries:

Increase : 240 (mainly due to acquisition)

Decrease : 13 (mainly due to divestiture and liquidation)

3. Application of the Equity Method

(1) Number of associates accounted for using the equity method: 19

Names of major associates accounted for using the equity method:

Teva Takeda Pharma Ltd., Cerevance, LLC, Amato Pharmaceutical Products, Ltd.

(2) Increase and decrease of associates accounted for using the equity method:

Increase : 7 (mainly due to acquisition)

Decrease : 3 (due to divestiture)

4. Significant Accounting Policies

(1) Valuation Standards and Methods for Major Assets (excluding Financial Instruments)

1) Property, Plant and Equipment

Property, plant and equipment are measured using the cost model and is stated at cost less accumulated depreciation and accumulated impairment loss. Acquisition cost includes mainly the costs directly attributable to the acquisition and the initial estimated dismantlement, removal, and restoration costs associated with the asset.

2) Goodwill

Goodwill arising from business combinations is stated at its cost less accumulated impairment losses. Goodwill is not amortized. Goodwill is allocated to cash-generating units or groups of cash- generating units based on expected synergies and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statements of income and no subsequent reversal will be made.

3) Intangible Assets

Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

Takeda regularly enters into collaboration and in-license agreements with third parties for products and compounds for research and development projects. Payments for collaboration agreements generally take the form of subsequent development milestone payments. Payments for in-license agreements generally take the form of up-front payments and subsequent development milestone payments.

Up-front payments for in-license agreements are capitalized upon commencement of the in- license agreements, and development milestone payments are capitalized when the milestone is triggered.

If and when Takeda obtains approval for the commercial application of a product in development, the related in-process research and development assets will be reclassified to intangible assets associated with marketed products and amortized over its estimated useful life from marketing approval.

4) Impairment of Non-financial Assets

Takeda assesses the carrying amounts of non-financial assets at the end of each reporting period, excluding inventories, deferred tax assets, assets held for sale, and assets arising from employee benefits, to determine whether there is any indication of impairment.

If any such indication exists, or in cases in which an impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases in which the recoverable amount cannot be estimated for each asset, they are estimated at the cash-generating unit level.

The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less cost of disposal, or its value in use. In determining the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset.

If the carrying amount of the asset or cash- generating unit exceeds the recoverable amount, impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.

An asset or a cash-generating unit other than goodwill, for which impairment losses were recognized in prior years, is assessed at the end of the reporting period to determine whether there is any indication that the impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the estimated recoverable amount or the carrying amount that would have been determined if no impairment loss had been recognized in prior years. The reversal of impairment loss is immediately recognized in profit or loss.

5) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined mainly using the weighted-average cost formula. The cost of inventories includes purchase costs, costs of conversion, and other costs incurred in bringing the inventories to the present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(2) Depreciation and Amortization Method of Assets

1) Property, Plant and Equipment

Except for assets that are not subject to depreciation, such as land and construction in progress, assets are depreciated mainly using the straight-line method over the estimated useful life of the asset. Leased assets are depreciated using the straight-line method over the shorter of the lease term or the estimated useful life if it is reasonably certain that Takeda will obtain ownership by the end of the lease term. The depreciation of these assets begins when they are available for use.

The estimated useful life of major asset items is as follows:

Buildings and structures	3 to 50 years
Machinery and vehicles	2 to 20 years
Tools, furniture and fixtures	2 to 20 years

2) Intangible Assets

An intangible asset associated with a product is amortized on a straight-line basis over the estimated useful life, which is based on expected exclusivity period, ranging from 3 to 20 years. Software is amortized on a straight-line basis over the expected useful life. The useful life used for this purpose is 3 to 10 years.

(3) Valuation Standards and Methods for Financial Instruments

1) Financial assets

(i) Initial recognition and measurement

Debt Instruments at Amortized Cost: Assets such as trade and other receivables that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost. Trade receivables are initially recognized at their invoiced amounts, including any related sales taxes less adjustments for estimated revenue deductions such as rebates, and cash discounts.

Debt Instruments at FVTOCI: Assets that are held within a business model objective whose objective is achieved by both collecting contractual cash flows and selling financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at FVTOCI.

Debt Instruments at Fair value through net profit or loss (FVTPL): Assets that do not meet the criteria for amortized cost or FVTOCI are measured at PVTPL.

Equity Instruments at FVTOCI: On initial recognition, Takeda made an irrevocable FVTOCI election (on an instrument-by-instrument basis) to present the subsequent changes in the fair value of equity instruments in other comprehensive income. At the reporting date, Takeda designates all of its equity instruments as financial assets at FVTOCI.

(ii) Subsequent Measurement and Derecognition

Debt Instruments at Amortized Cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Debt Instruments at FVTOCI: These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Debt Instruments at FVTPL: These assets are subsequently measured at fair value, and a gain or loss on debt instruments that is subsequently measured at FVTPL is recognized in net profit or loss.

Equity Instruments at FVTOCI: These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(iii) Impairment

Provisions for doubtful trade receivables are established using an ECL model. The provisions are based on a forward-looking ECL, which includes possible default events on the trade receivables over the entire holding period of the trade receivables. Takeda has elected to measure provisions for trade receivables and lease receivables at an amount equal to lifetime ECL. Takeda uses a provisions matrix to calculate ECL. These provisions represent the difference between the carrying amount of the trade receivables and the lease receivables in the consolidated financial statements of financial position and the estimated collectible net amount.

2) Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are recognized in the consolidated statements of financial position when Takeda becomes party to contractual provisions of financial instruments. Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, bonds and loans, or payables.

Financial liabilities, except for financial liabilities at fair value through profit or loss, are initially measured at fair value less transaction costs that are directly attributable to the issuance.

(ii) Subsequent measurement

Financial liabilities at FVPL: Financial liabilities at fair value through profit or loss are measured at fair value, and any gains or losses arising on re-measurement are recognized in profit or loss.

Other financial liabilities, including bonds and loans: Other financial liabilities are measured at amortized cost mainly using the effective interest method.

(iii) Derecognition

Takeda derecognizes a financial liability only when the obligation specified in the contract is discharged, cancelled, or expires. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid or payable is recognized in profit or loss.

3) Derivatives

Takeda hedges the risks arising mainly from their exposure to fluctuations in foreign currency exchange rates and interest rates using derivative financial instruments such as foreign exchange forward contracts, interest rate swaps, foreign currency options , and currency swaps. Takeda does not enter into derivative transactions for trading or speculative purposes. Derivatives are measured at FVTPL unless the derivative contracts are designated as hedging instruments. Gain and losses on derivatives are recognized in net profit or loss.

4) Hedge accounting

For foreign currency exposure as a result of translation risk, Takeda designates certain derivatives and non-derivatives, such as foreign-currency-denominated debt, as net investment hedges of foreign operations. For foreign currency exposure due to foreign denominated transactions, Takeda designates certain derivatives, such as foreign-currency forwards, as cash flow hedges of forecasted transactions. Within the designation documentation at inception, Takeda documents the risk management objective, nature of the risk being hedged, and relationship between hedging instruments and hedged risk based on the strategy for undertaking the hedging relationships. At inception and on a quarterly basis, Takeda also assesses whether the hedging instruments are highly effective in offsetting changes in the hedged transactions or net investment.

Cash flow hedges: the effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. The cumulative gain or loss that was previously recognized in other comprehensive income is reclassified to profit or loss in the same period when the cash flows of the hedged items are recognized in profit or loss and in the same line item in the consolidated statements of income. The currency basis spread is accounted for is accounted for and presented as “Hedging Cost” under other components of equity separately from “Cash Flow Hedges”.

Net investment hedges: the gain or loss on hedging instruments is recognized in other comprehensive income. At the time of disposal of the foreign operations, the cumulative gain or loss recognized in other comprehensive income is reclassified to profit or loss.

Hedge accounting is discontinued when Takeda revokes the designation, when the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer qualifies for hedge accounting.

(4) Provisions

Takeda recognizes rebates and return reserves if Takeda receives consideration from customer and expects to refund some or all of that consideration to the customer.

In addition, Takeda recognizes provisions when Takeda has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations and reliable estimates can be made of the amount of the obligations. Takeda's provisions consist primarily of provisions for litigation and restructuring.

1) Rebates and return reserves

Rebates and return reserves are related mainly to sales rebates and sales returns for products and merchandises and include sales linked rebates such as government health programs in the U.S.

2) Provisions for litigation

Provisions for litigation are recorded, after taking appropriate legal and other specialist advice, where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute. For certain product liability claims, Takeda will record a provision where there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims.

3) Provisions for restructuring

A restructuring provision is recorded when Takeda has a detailed formal plan for the restructuring, including communication of the overall plan to its employees. Takeda records the provision and associated expenses based on estimated costs associated with the plan.

(5) Post-Employment Benefit

Takeda sponsors lump-sum payments on retirement, pensions and other plans such as post- retirement medical care as post- employment benefit plans. They are classified into defined benefit plans and defined contribution plans.

1) Defined benefit plans

Takeda uses the projected unit credit method to determine the present value, the related current service cost, and the past service cost by each defined benefit obligation. The discount rate is determined by reference to market yields on high quality corporate bonds at the end of the reporting period. The net defined benefit liabilities (assets) in the consolidated statements of financial position are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. Past service cost defined as the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment is recognized in profit or loss upon occurrence of the plan amendment or curtailment.
Re-measurement of net defined benefit plans is recognized in full as other comprehensive income and transferred to retained earnings in the period in which they are recognized.

2) Defined contribution plans

The costs for defined contribution plans are recognized as expenses when the employees render the related service.

(6) Other Significant Accounting Policies for the Consolidated Financial Statements

1) Stated Amount

All amounts shown are rounded to the nearest million JPY, i.e. half of a million or more is rounded up to a full one million and less than a half of a million is disregarded.

2) Consumption taxes

Consumption taxes are excluded from the items in the consolidated statement of operations.

[Notes for Changes in Accounting Policies]

During the year ended March 31, 2019, Takeda has adopted the following new accounting standards:

IFRS 9 'Financial instruments'

IFRS 9 'Financial instruments' ("IFRS 9") was issued in its final form in July 2014 and has been implemented by Takeda as of April 1, 2018. IFRS 9 replaces the majority requirements of IAS 39 'Financial Instruments: Recognition and Measurement' and covers the classification, recognition, measurement and de-recognition of financial assets and financial liabilities; introduces a new impairment model for financial assets based on expected losses rather than incurred losses and provides a new hedge accounting model. The principal impact for Takeda will be the re-measurement of certain available-for-sale financial instruments to fair value on initial application on April 1, 2018.

The principal impact for Takeda will be the re-measurement of certain available-for-sale financial instruments as April 1, 2018. In addition, as a result of adoption, Takeda elected to designate equity instruments as financial assets measured at fair value through other comprehensive income (FVOCI). This designation has been made on the basis of the facts and circumstances that existed at the date of initial application. Changes in the fair value of financial assets at FVTOCI are recognized in other comprehensive income, and the cumulative amount of the other comprehensive income is transferred to retained earnings when the instruments are derecognized due to liquidation or sale.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The determination of the business model within a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

The impairment of financial assets measured at amortized cost is assessed using an expected credit loss (ECL) model where previously the incurred loss model was used. Given the nature of Takeda's financial assets, there was no significant impact on the provisions for doubtful accounts or impairment upon the adoption of the new standard.

The adoption of IFRS 9 has not had a material impact on Takeda's financial liabilities and derivatives.

The new hedge accounting model introduced by the standard requires hedge accounting relationships to be based upon Takeda's own risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The model is to be discontinued only when the hedging relationships no longer qualify for hedge accounting. All hedging relationships designated under IAS 39 at March 31, 2018 met the criteria for hedge accounting under IFRS 9 at April 1, 2018, and are therefore regarded as continuing hedging relationships.

Takeda applied IFRS 9 using the modified retrospective method with respective to classification and measurement (including impairment). These cumulative effects of initially applying IFRS 9 were recognized in equity as of the date of initial application of IFRS 9 (April 1, 2018). As a result of the adoption on the date of initial application, the opening balance of retained earnings and other components of equity will increase by 14,073 million JPY and 10,257 million JPY, respectively, while other financial assets (non-current), other financial assets (current), deferred tax liabilities, increased by 32,809 million JPY, 856 million JPY and 9,345 million JPY, respectively, with non-controlling interests decreasing by 10 million JPY.

In addition, under IAS 39, the currency basis spread was included in "Cash Flow Hedges" under other component of equity. Under IFRS 9, this basis spread is separately accounted for and presented as "Hedging Cost" under other component of equity. Takeda retrospectively applied the accounting treatment of hedging cost. As of April 1, 2018, the amounts retrospectively recorded as "Hedging Cost" and deducted from "Cash Flow Hedges" were 1,606 million JPY.

Classification and carrying amounts of financial assets under IAS 39 and IFRS 9 as of the date of adoption were changed as presented in the table below. For investments in equity instruments, Takeda made an irrevocable election at the time of initial recognition to account for the equity instruments at FVTOCI. There were no changes to the classification and carrying amounts of the financial liabilities.

(Million JPY)

	IAS 39	Carrying amount	IFRS 9	Carrying amount
Cash and cash equivalents	Loans and receivables	294,522	Financial assets measured at amortized cost	294,522
Derivative assets	Financial assets measured at fair value through profit or loss	762	Financial assets measured at fair value through profit or loss	762
Derivative assets to which hedge accounting is applied	Derivative assets to which hedge accounting is applied	2,527	Derivative assets to which hedge accounting is applied	2,527
Trade and other receivables, other financial assets	Loans and receivables	516,853	Financial assets measured at amortized cost	516,853
Equity instruments	Available-for-sale financial assets	169,814	Financial assets measured at fair value through other comprehensive income	203,276
Convertible notes	Loans and receivables	5,303	Financial assets measured at fair value through profit or loss	7,576
Convertible notes	Financial assets measured at fair value through profit or loss	2,070		
Total		991,851		1,025,516

The following changes were made to the carrying amount of the financial assets as of the application date.

(Million JPY)

IAS 39	Carrying amount	Change of classification	Re-measurement	IFRS 9	Carrying amount
Loans and receivables	816,678	(5,303)	-	Financial assets measured at amortized cost	811,375
Financial assets measured at fair value through profit or loss	2,832	5,303	203	Financial assets measured at fair value through profit or loss	8,338
Derivative assets to which hedge accounting is applied	2,527	-	-	Derivative assets to which hedge accounting is applied	2,527
Available-for-sale financial assets	169,814	-	33,462	Financial assets measured at fair value through other comprehensive income	203,276
Total	991,851	-	33,665		1,025,516

IFRS 15 ‘Revenue from Contracts with Customers’

Takeda adopted IFRS 15 on April 1, 2018. The new standard provides a single, principles-based approach to the recognition of revenue from all contracts with customers. The standard focuses on the identification of performance obligations in a contract and requires revenue to be recognized when or as those performance obligations are satisfied. The standard also has more detailed disclosure requirements.

The impacts of adoption of the new standard are summarized below:
• Takeda derives revenue from sales of pharmaceutical products as well as other services where control transfers to customers and performance obligations are satisfied either at the point in time of shipment, receipt of the products by the customer or when the services are performed.

• Takeda also recognizes royalty revenue relating to the out-licensing of intellectual property (IP), which is recognized when the underlying sales have occurred, and revenue from other services such as research and development of compounds out-licensed, which is recognized over the service period.

• Takeda's revenue also includes revenue from out-licensing and granting of IP rights and Takeda usually receives upfront payments or milestone payments for these arrangements. Revenue from the upfront payments is generally recognized when Takeda provides a right to use the IP. Revenue from the milestone payment is generally recognized at the point in time when it is highly probable that the respective milestone event criteria are met, and a significant reversal in the amount of revenue.

Takeda elected the modified retrospective method upon adoption of IFRS 15, which requires the recognition of the cumulative effect of initially applying IFRS 15 in opening equity at the date of initial application. As a result of the adoption of IFRS 15, due to the difference in allocation of revenue to performance obligations, other non-current liabilities, other current liabilities, deferred tax assets decreased by 1,247 million JPY, 495 million JPY and 414 million JPY respectively, and opening retained earnings increased by 1,328 million JPY.

For the year ended March 31, 2019, the impact from adoption of IFRS 15 on the consolidated financial statements, compared to IAS18, was immaterial.

[Notes for Changes in Presentation and disclosure]

Takeda has revised the presentation and disclosure of the consolidated financial statements and notes on the consolidated financial statements as of, for the year ended March 31, 2019, for the purpose of providing more useful information. Due to this revision, significant information have been additionally disclosed, while disclosure of less significant information has been omitted.

[Notes on Consolidated Statement of Operations]

1. Other operating income

Other operating income included the 50,330 million JPY gain on sale of Property, Plant & Equipment and Investment Property including Takeda's old headquarter building in Tokyo and a 38,244 million JPY gain on sale of shares of the subsidiary, to which respective real estate businesses of Takeda Pharmaceutical Real Estate Co., Ltd. were transferred.

2. Other operating expenses

Other operating expenses included the restructuring expenses of 82,963 million JPY. Restructuring expenses are from reorganization, such as the consolidation of a number of sites and functions (including the potential merger or liquidation of subsidiaries) and the reduction of the workforce to build an efficient operating model. The major factor of the restructuring expenses was the integration costs related to the

3. Income tax expenses

Profit before income tax was 94,896 million JPY whereas income tax expenses resulted in tax benefit of 14,118 million JPY mainly due to 57,447 million JPY capital loss related to restructuring of subsidiaries.

[Notes on Consolidated Statement of Financial Position]

1. Accumulated depreciation on assets (including accumulated impairment losses)

Property, plant and equipment	635,623 million JPY
Investment property	1,613 million JPY

2. Allowance for doubtful receivables directly deducted from trade and other receivables

Trade and other receivables	3,318 million JPY
Other financial assets	2 million JPY

3. Contingent liabilities

(1) Guarantees

The amount of guarantees was 99 million JPY as of March 31, 2019. It was related to the transactions with financial institutions and was not recognized as financial liabilities in the consolidated statement of financial position because the possibility of loss from guarantees was remote.

(2) Litigation

Takeda is involved in various legal and administrative proceedings. The most significant matters are described below.

Takeda may become involved in significant legal proceedings for which it is not possible to make a reliable estimate of the expected financial effect, if any, which may result from ultimate resolution of the proceedings. In these cases, appropriate disclosures about such cases would be included in this note, but no provision would be made for the cases.

With respect to each of the legal proceedings described below, other than those for which a provision has been made, Takeda is unable to make a reliable estimate of the expected financial effect at this stage. This is due to a number of factors, including, but not limited to, the stage of proceedings, the entitlement of parties to appeal a decision, if any, and lack of clarity as to the merits of theories of liability, the merits of Takeda's defenses, the amount and recoverability of damages and/or governing law. The Company does not believe that information about the amount sought by the plaintiffs, if that is known, is, by itself, meaningful in every instance with respect to the outcome of those legal proceedings.

Legal expenses incurred and charges related to legal claims are recorded in selling, general and administrative expenses. Provisions are recorded, after taking appropriate legal and other specialist advice, where an outflow of resources is considered probable and a reliable estimate can be made of the likely outcome of the dispute. For certain product liability claims, Takeda will record a provision where there is sufficient history of claims made and settlements to enable management to make a reliable estimate of the provision required to cover unasserted claims. As of March 31, 2019, Takeda's aggregate provisions for legal and other disputes were 46,775 million JPY. The ultimate liability for legal claims may vary from the amounts provided and is dependent upon the outcome of litigation proceedings, investigations and possible settlement negotiations. Unless otherwise stated below, Takeda is unable to predict the outcome or duration of these matters at this time.

Takeda's position could change over time, and, therefore, there can be no assurance that any losses that result from the outcome of any legal proceedings will not exceed by a material amount the amount of the provisions reported in these consolidated financial statements.

Certain of the matters discussed below were originally brought against Shire or its subsidiaries prior to Takeda's acquisition of Shire. Refer to [Notes on Business Combinations] for discussion of Takeda's purchase accounting for the acquisition of Shire.

Product Liability and Related Claims

Pre-clinical and clinical trials are conducted during the development of potential products to determine the safety and efficacy of products for use by humans following approval by regulatory bodies. Notwithstanding these efforts, when drugs and vaccines are introduced into the marketplace, unanticipated safety issues may become, or be claimed by some to be, evident. Takeda is currently a defendant in a number of product liability lawsuits related to its products. For the product liability lawsuits and related claims, other than those for which a provision has been made, Takeda is unable to make a reliable estimate of the expected financial effect at this stage.

Actos

Takeda has been named as a defendant in lawsuits in U.S. federal and state courts in which plaintiffs allege to have developed bladder cancer or other injuries as a result of taking products containing type 2 diabetes treatment pioglitazone (U.S. brand name Actos). Eli Lilly and Company ("Lilly"), which co-promoted Actos in the United States for a period of time, also has been named as a defendant in many of these lawsuits. Under the parties' co-promotion agreement, Takeda has agreed to defend and indemnify Lilly in the U.S. matters. Outside the U.S., lawsuits and claims have also been brought by persons claiming similar injuries.

In April 2015, Takeda reached an agreement with the lead plaintiffs' lawyers that resolved the vast majority of Actos product liability lawsuits pending against Takeda and Lilly in the U.S. The settlement covered all bladder cancer claims pending in any U.S. court as of the date of settlement. Claimants with unfiled claims in the U.S. represented by counsel as of the date of settlement and within three days thereafter were also eligible to participate. The settlement became effective when 95% of litigants and claimants opted-in. In connection with this broad settlement, Takeda has paid $2.4 billion (approximately 288 billion JPY) into a qualified settlement fund. Takeda received insurance proceeds totaling approximately 58 billion JPY under various policies covering product liability claims against Takeda. Takeda also established provisions for the remaining Actos claims and lawsuits.

In addition to remaining product liability claims, the following lawsuits have been filed against Takeda by public and private third-party payors, as well as consumers, seeking damages for alleged economic losses:

A purported nation-wide class action lawsuit has been filed federal court in California—the Painters' Fund case—on behalf of third-party payors and consumers seeking, among other things, reimbursement of monies spent on Actos. In April 2018, the court dismissed the Painters' Fund case. Plaintiffs appealed.

A purported California class action has been filed in federal court in California asserting claims similar to the Painters' Fund case.

The States of Mississippi and Louisiana have filed lawsuits against Takeda and Lilly alleging that defendants did not warn about bladder cancer and other risks of Actos. The lawsuits seek reimbursement of the cost of Actos, paid by the states on behalf of patients through programs such as Medicaid, and for medical treatment of patients allegedly injured by Actos, attorneys' fees and expenses, and punitive damages. The court granted Takeda's motion to dismiss the Louisiana case. The decision has been appealed. In November 2018, Takeda and Lilly agreed to settle the lawsuit brought by the State of Mississippi. The lawsuit brought by the State of Louisiana remains pending.

Proton Pump Inhibitor ("PPI") Related Claims
As of March 31, 2019, approximately 4,400 product liability lawsuits involving PREVACID and DEXILANT have been filed against Takeda in U.S. federal and state courts. The federal lawsuits are consolidated for pre-trial proceedings in a multi-district litigation in federal court in New Jersey. The plaintiffs in these cases allege they developed kidney injuries as a result of taking PREVACID and/or DEXILANT, and that Takeda failed to adequately warn them of this potential risk. It remains unclear how many of the plaintiffs actually took PREVACID or DEXILANT. Similar cases are pending against other manufacturers of drugs in the same PPI class as Takeda's products, including AstraZeneca, Procter & Gamble Company ("Procter & Gamble") and Pfizer Inc. ("Pfizer"). Outside the U.S., three proposed class actions have been filed in three provinces in Canada (Quebec, Ontario, and Saskatchewan). The defendants in these actions include Takeda, AstraZeneca plc ("AstraZeneca"), Janssen Pharmaceutical Companies ("Janssen") and several generic manufacturers. It is unclear how many additional actions, if any, may be filed against Takeda in the U.S., Canada or elsewhere.

Elaprase
In 2014, Shire's Brazilian affiliate, Shire Farmaceutica Brasil Ltda, was served with a lawsuit brought by the State of Sao Paulo where the Brazilian Public Attorney's office has intervened alleging that Shire would be obligated to supply Elaprase for an indefinite period at no cost to patients who participated in Elaprase clinical trials in Brazil, and seeking recoupment to the Brazilian government for amounts paid on behalf of these patients to date, and moral damages associated with these claims. On May 6, 2016, the trial court judge ruled on the case and dismissed all the claims under the class action, which was appealed. On February 20, 2017, the Court of Appeals in Sao Paulo issued a decision upholding the decision rendered by the lower court judge, dismissing, therefore, all the claims under the class action. On July 12, 2017, the Public Prosecutor filed an appeal addressed to the Supreme Court. On October 10, 2017, the State of Sao Paulo filed appeals addressed to the Superior Court of Justice and to the Supreme Court. On November 13, 2017, Shire submitted its answers to the aforementioned appeals. On July 3, 2018 the President of Sao Paulo Court of Appeals issued a decision denying the remittance of all appeals to our Superior Courts. Against such decision, both the State (on August 23, 2018) and the Public Prosecutor (on October 3, 2018) filed an appeal. By virtue of such appeal, the case records were remitted to the Superior Court of Justice on February 27, 2019. We are currently waiting the assignment of the case to one of the Justices of the Superior Court of Justice (a panel of five Justices will be responsible for hearing the case).

Intellectual property
Intellectual property claims include challenges to the validity and enforceability of Takeda's patents on various products or processes as well as assertions of non-infringement of those patents. A loss in any of these cases could result in loss of patent protection for the product at issue. The consequences of any such loss could be a significant decrease in sales of that product and could materially affect future results of operations for Takeda.

Prevacid
In January 2018, Takeda received notice from Zydus Pharmaceuticals (USA) Inc. ("Zydus") that it has amended its application for a generic version of SoluTab. In response, Takeda filed a patent infringement lawsuit against Zydus and in response, Zydus filed a counterclaim asserting that Takeda' s challenge of Zydus' abbreviated new drug application ("ANDA") product violates antitrust laws. Takeda believes the counterclaim is without merit.
In June 2009, Apotex Pharmaceuticals Inc. ("Apotex") filed a lawsuit in Toronto, Canada, against Takeda and Abbott Laboratories ("Abbott") seeking alleged damages for delayed market entry of its generic lansoprazole capsules due to a prior patent infringement lawsuit against Apotex. Previously, Abbott and Takeda filed a patent infringement lawsuit against Apotex in response to Apotex's regulatory submission to the Canadian Minister of Health seeking permission to market generic lansoprazole capsules before the expiration of various Canadian patents relating to this drug. In January 2019, the parties settled the lawsuit.

Pantoprazole
On January 15, 2016, Mylan Inc. ("Mylan") filed a suit at the Federal Court against Takeda claiming damages as a result of the dismissal of Takeda´s previous PM(NOC) proceeding against Mylan. Mylan claimed damages due to being held-off the market with its generic pantoprazole magnesium product during the time period of June 27, 2013 until June 15, 2015. The parties settled the lawsuit in May 2018.

Amitiza
In March 2017, Sucampo Pharmaceuticals, Inc. ("Sucampo") (Takeda's licensor) received a paragraph IV certification directed to Amitiza from Amneal Pharmaceuticals, and in August 2017 received a paragraph IV certification directed to Amitiza from Teva Pharmaceutical Industries Ltd. ("Teva"). These parties contend that the patents listed in FDA's Orange Book for Amitiza are invalid and/or not infringed by their ANDA product. In response, Sucampo and Takeda filed a patent infringement lawsuit against the parties. Patent litigation against other ANDA filers for Amitiza were previously settled, and patent litigation against Amneal Pharmaceuticals and Teva was settled in June 2018.

Trintellix
Takeda has received notices from sixteen generic pharmaceutical companies that they have submitted ANDAs with paragraph IV certifications seeking to sell generic versions of Trintellix. To date, at least four generic companies are challenging the patents covering the compound, vortioxetine, which expire in 2026.
Takeda filed patent infringement lawsuits against the ANDA filers in federal court in Delaware.

Entyvio
F. Hoffmann-La Roche, Ltd. ("Roche") has filed a patent infringement lawsuit against Takeda in Germany alleging that Entyvio infringes a Roche patent issued in Germany. Takeda is vigorously defending the lawsuit. Additionally, Takeda has filed a lawsuit in the U.K. seeking nullification of Roche's patent in the U.K. Takeda also filed a lawsuit against Genentech in state court in Delaware seeking a declaration that Takeda has a license to the Roche patent under the terms of a prior agreement between Takeda and Genentech.

Mydayis
On October 12, 2017, Shire was notified that Teva Pharmaceuticals USA, Inc. had submitted an ANDA to the FDA seeking permission to market a generic version of Mydayis. Within the requisite 45-day period, Shire filed a lawsuit in the U.S. District Court for the District of Delaware against Teva Pharmaceuticals USA, Inc., Actavis Laboratories, Inc. and Teva Pharmaceutical Industries Limited (collectively the "Teva entities"). A Markman hearing took place on January 23, 2019. A trial is scheduled to begin on December 9, 2019.
On March 8, 2018, Shire was notified that Impax Laboratories, Inc. ("Impax") had submitted an ANDA to the FDA seeking permission to market a generic version of Mydayis. Within the requisite 45-day period, Shire filed a lawsuit in the U.S. District Court for the District of Delaware against Impax. A Markman hearing took place on January 23, 2019. A trial is scheduled to begin on December 9, 2019.
On April 19, 2018, Shire was notified that SpecGX LLC ("SpecGX") had submitted an ANDA to the FDA seeking permission to market a generic version of Mydayis. Within the requisite 45-day period, Shire filed a lawsuit in the U.S. District Court for the District of Delaware against SpecGx. Shire and SpecGx settled the lawsuit on January 28, 2019.
Petitions to institute inter partes reviews ("IPRs") against U.S. Patent numbers 8,846,100 and 9,173,857 were filed by KVK Tech in January 2018 and the petitions were granted in July 2018. Both of these patents are listed in the Orange Book as covering Mydayis and are among the patents-in-suit in the infringement action brought against the Teva entities and Impax as noted above. A decision on the merits is expected on or before July 10, 2019.

Adynovate
On December 5, 2016, Bayer Healthcare LLC (“Bayer”) filed a lawsuit in the US District Court for the District of Delaware against Baxalta Incorporated and Baxalta US Inc. (collectively "Baxalta"), which are direct or indirect wholly owned subsidiaries of Shire, and Nektar Therapeutics (“Nektar”) filed alleging infringement of U.S. Patent No. 9,364,520 in connection with the sales of Adynovate [antihemophilic factor (recombinant), PEGylated]. The case was tried before a jury beginning on January 28, 2019. The jury found in favor of Bayer determining that the patent is infringed. The jury further awarded damages in the amount of $155.2 million. Takeda is considering its further options. Takeda established a provision against this case in purchase accounting (refer to Note 31).
On September 15, 2017, Baxalta and Nektar filed a lawsuit in the US District Court for the District of Delaware against Bayer alleging infringement of US Patent Nos. 7,199,223; 7,863,421; 8,143,378; 8,247,536; 8,519,102; 8,618,259; 8,889,831: This case was consolidated on December 7, 2018 with Baxalta’s and Nektar’s lawsuit filed on August 31, 2018 alleging infringement of 7,026,440; 7,872,072; 8,273,833; 8,809,453; and 9,187,569 in connection with the BAY-94 (subsequently approved and marketed as Jivi® [antihemophilic factor (recombinant PEGylated-aucl]. On July 2, 2018, an amended complaint was filed adding US Patent No. 9,999,657. Markman hearings are scheduled to take place on June 21, 2019 and August 20, 2019. A trial is scheduled to begin on April 27, 2020.

Other
In addition to the individual patent litigation cases described above, Takeda is party to a number of cases where Takeda has received notices that companies have submitted ANDAs with paragraph IV certifications to sell generic versions of other Takeda products. These include Alogliptin products. Takeda has filed patent infringement lawsuits against parties involved in these situations.

Sales, Marketing, and Regulation
Takeda has other litigations related to its products and its activities, the most significant of which are describe below.

Antitrust
Actos
There have been purported class action lawsuits filed in federal court in New York by several end payors and wholesalers against Takeda alleging anticompetitive conduct to delay generic competition for Actos. In September 2015, the court granted defendants’ motions to dismiss the antitrust claims asserted by the end payors. The end payors appealed this decision to the Federal 2nd Circuit Court of Appeals. The wholesalers’ lawsuit had been stayed pending the appellate court’s decision in the end payors’ lawsuit. In February 2017, the appellate court reversed in part the dismissal of the end- payors’ case and allowed one of plaintiffs’ antitrust theories to proceed in the trial court. Specifically, the court ruled that plaintiffs sufficiently alleged that Takeda’s characterizations of two patents in the FDA Orange Book were false, and that this resulted in delaying Teva’s launch of generic Actos. Takeda disagrees with these allegations and believes the Orange Book listings were correct. The court, however, affirmed the trial court’s dismissal of other antitrust theories. The end payors’ case, along with the wholesalers’ case, is proceeding in the trial court, where Takeda has filed a motion to dismiss the remaining legal theory.

Vancocin

On April 6, 2012, ViroPharma Incorporated ("ViroPharma") received a notification that the United States Federal Trade Commission ("FTC") was conducting an investigation into whether ViroPharma had engaged in unfair methods of competition with respect to Vancocin, which Shire acquired in January 2014. Following its divestiture of Vancocin in August 2014, Shire retained certain liabilities including any potential liabilities related to the Vancocin citizen petition.

On August 3, 2012, and September 8, 2014, ViroPharma and Shire respectively received Civil Investigative Demands from the FTC requesting additional information related to this matter. Shire has fully cooperated with the FTC's investigation.

On February 7, 2017, the FTC filed a complaint against Shire alleging that ViroPharma engaged in conduct in violation of U.S. antitrust laws arising from a citizen petition ViroPharma filed in 2006 related to FDA's policy for evaluating bioequivalence for generic versions of Vancocin. The complaint seeks equitable relief, including an injunction and disgorgement. Shire filed a motion to dismiss on April 10, 2017. On March 20, 2018, the court granted Shire's motion. On April 11, 2018, the FTC filed a Notice of Appeal. On February 25, 2019, the Court of Appeals for the Third Circuit affirmed the dismissal of the FTC's complaint.

At this time, Shire is unable to predict the outcome or duration of this case.

Investigation of Patient Assistance Programs

In November 2016, the U.S. Department of Justice (through the U.S. Attorneys' Office in Boston) issued a subpoena to ARIAD, which was acquired by Takeda during the year ended March 31, 2017, seeking information from January 2010 to the present relating to ARIAD's donations to 501(c) (3) co-payment foundations, financial assistance programs, and free drug programs available to Medicare beneficiaries and the relationship between these copayment foundations and specialty pharmacies, hubs or case management programs. ARIAD is cooperating in the investigation.

[Notes on Consolidated Statement of Changes in Equity]

1. Class and total number of shares issued as of March 31, 2019

Common Stock 1,565,006 thousand shares

2. Dividends

(1) Amount of dividends paid

Resolution	Class of Shares	Total dividends	Dividends per share	Basis date	Effective date
Ordinary General Meeting of Shareholders (June 28, 2018)	Common Stock	71,507 million JPY	90.00 JPY	March 31, 2018	June 29, 2018
Meeting of Board of Directors (October 31, 2018)	Common Stock	71,509 million JPY	90.00 JPY	September 30, 2018	December 3, 2018
Total		143,016 million JPY			

(2) Dividends declared for which the basis date falls in the fiscal year ended March 31, 2019 and the effective date falls in the following fiscal year
Matters with respect to dividends on shares of common stock will be proposed at the Ordinary General Meeting of Shareholders to be held on June 27, 2019 as follows:

(i) Total dividends	140,836 million JPY
(ii) Dividends per share	90.00 JPY
(iii) Basis date	March 31, 2019
(iv) Effective date	June 28, 2019

Dividends will be paid from retained earnings.

3. Class and number of shares underlying stock acquisition rights as of March 31, 2018 (excluding rights whose exercise period has yet to begin)

Common stock	2,704,000 shares

[Per Share Information]

1. Equity attributable to owners of the Company per share	3,318.53 JPY
2. Basic earnings per share	113.50 JPY

[Notes on Fair Value of Financial Instruments]

1. Overview of financial instruments

Takeda promotes risk management to reduce the financial risks arising from business operations. The principal risks to which Takeda is exposed include customer credit risk, liquidity risk and market risks caused by changes in the market environment such as fluctuations in the price of foreign currency, interest rates and market prices. Each of these risks are managed in accordance with Takeda's policies.

(1) Credit risk management

Takeda is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions, and other financial instruments. Trade and other receivables are exposed to customer credit risk. Takeda monitors the status of overdue balances, reviews outstanding balances for each customer and regularly examines the credibility of major customers in accordance with Takeda's policies for credit management to facilitate the early evaluation and the reduction of potential credit risks. If necessary, Takeda obtains rights to collateral or guarantees on the receivables.

Cash reserves of the subsidiaries are concentrated mostly with the Company and regional treasury centers located in the United States and Europe through the group cash pooling system. These cash reserves are primarily managed exclusively by investments in highly rated short-term bank deposits and bonds of highly rated issuers within the investment limits determined by reviewing the investment ratings and terms under Takeda's policies for fund management, resulting in limited credit risk. Cash reserves, other than those subject to the group cash pooling system, are managed by each consolidated subsidiary in accordance with the Company's fund management policies.

For derivatives, Takeda enters into trading contracts only with highly rated financial agencies in order to minimize counterparty risk.

The maximum exposure to credit risk, without taking into account of any collateral held at the end of the reporting period, is represented by the carrying amount of the financial instruments which is exposed to credit risk on the consolidated statement of financial position.

Takeda has provided loss allowances on trade receivables and other receivables not past due based on an analysis of debtors' credit ratings and credit histories. Takeda establishes loss allowances that represent an estimate of expected losses at the end of the reporting period. All trade receivable and other receivables are considered on an individual basis to determine the loss allowances.

(2) Liquidity risk management

The Company manages liquidity risk and establishes an adequate management framework for liquidity risk to secure stable short-, mid-, and long-term funds and sufficient liquidity for operations. Takeda manages liquidity risk by continuously monitoring forecasted cash flows, actual cash flows and the balance of equity instruments. In addition, Takeda has commitment lines with some counterparty financial institutions to manage liquidity risk.

(3) Foreign currency risk management

Takeda's exposure to the risk of changes in foreign exchange rates primarily relates to its operations (when revenue or expense is denominated in a foreign currency) and the Company's net investments in foreign subsidiaries. The Company manages foreign currency risks in a centralized manner for both cash flow hedges and net investment hedges. To manage the foreign currency risk due to foreign denominated transactions, cash flow hedge strategies using derivative transactions are used to mitigate risk of trade receivables and payables in various foreign currencies.

Specifically, Takeda uses forward exchange contracts, currency swaps, and currency options to hedge individually significant foreign currency transactions. Takeda designated loans and bonds denominated in the US dollar as hedges of net investments in foreign operations. The debts denominated in US dollar and in Euro issued to complete the Shire acquisition was also designated under a net investment hedge strategy.

(4) Interest rate risk management

Takeda's exposure to the risk of changes in benchmark interest rates relates to the outstanding borrowings with floating interest rates. Takeda uses interest rate swaps that fix the amount of future interest payments to manage interest rate risks through cash flow hedge strategies.

(5) Price fluctuation risk management

For equity instruments, the Company manages the risk of price fluctuations in the instruments by regularly reviewing share prices and financial positions of the issuers.

2. Fair value of financial instruments

The carrying amount and fair value of financial instruments at the reporting date are set forth in the table below.

(Million JPY)

	Carrying amount	Fair value
Financial Assets		
Financial assets measured at fair value through profit or		
Derivatives	4,590	4,590
Convertible notes	10,369	10,369
Debt instsruments	1,608	1,608
Derivative transactions to which hedge accounting is applied	3,725	3,725
Financial assets measured at amortized cost		
Trade and other receivables, other financial assets	768,400	768,400
Cash and cash equivalents	702,093	702,093
Financial assets measured at fair value through other comprehensive income:		
Equity instruments	168,732	168,732
	Carrying amount	Fair value
Financial Liabilities		
Financial liabilities measured at fair value through profit or		
Derivatives	7,120	7,120
Contingent considerations arising from business combinations	71,062	71,062
Derivative transactions to which hedge accounting is applied	1,625	1,625
Financial liabilities measured at amortized cost	6,281,664	6,415,602

Fair value measurements

(1) Financial assets and liabilities measured at fair value through profit or loss

The fair value of derivatives to which hedge accounting was not applied is measured at quoted prices or quotes obtained from financial institutions, whose significant inputs to the valuation model used are based on observable market data.

The fair value of convertible notes is measured using techniques such as the option pricing model.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions taken into consideration are the probability of meeting each performance target and the discount factor.

Joint Venture Net Written Option is valued at fair value, and subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on the discounted cash flows. Cash flow scenario probability weighting and assumed market participant discount rate are the key assumptions take into account for the fair value.

(2) Financial assets measured at amortized cost

The carrying amount of financial assets measured at amortized cost approximate their fair values as these assets are settled within a short period.

(3) Equity instruments

The fair value of listed equity instruments is measured at quoted prices or quotes obtained from financial institutions.

The fair value of unlisted equity instruments is measured using techniques such as the net asset book value method and the multiples approach. Under the multiples approach, listed companies similar to the target companies are selected, and the fair value is calculated using the stock index for those similar companies.

(4) Derivative transactions to which hedge accounting is applied

The fair value of derivative transactions to which hedge accounting is applied is measured in the same manner as "(i) Financial assets and liabilities measured at fair value through profit or loss".

(5) Financial liabilities measured at amortized cost

The fair value of bonds is measured at quotes obtained from financial institutions, and the fair value of loans and finance leases are measured at the present value of future cash flows discounted using the applicable effective interest rate, with consideration of the credit risk by each liability group classified in a specified period.

Other current items are settled in a short period, and the coupon rates of other non-current items reflect market interest rates. Therefore, the carrying amounts of these liabilities approximate their fair values.

[Notes on Business Combinations]

Acquisition of TiGenix NV ("TiGenix")

On April 30, 2018, Takeda made an all cash voluntary public takeover bid for the entire issued ordinary shares (“Ordinary Shares”), warrants (“Warrants”) and American Depositary Shares ("ADSs” and together with the Ordinary Shares and the Warrants, the “Securities”) of TiGenix not already owned by Takeda. On June 8, 2018, the Company acquired the Securities tendered in the first acceptance period for 470.2 million EUR. In response to the takeover bid with the Securities already owned by Takeda, Takeda acquired 90.8% of the voting rights.

TiGenix is a biopharmaceutical company developing novel stem cell therapies for serious medical conditions. This acquisition will expand Takeda's late stage gastroenterology (GI) pipeline with the U.S. rights to Cx601 (darvadstrocel), a suspension of allogeneic expanded adipose-derived stem cells (eASC) under investigation for the treatment of complex perianal fistulas in patients with non-active/mildly active luminal Crohn’s disease (CD). Following the 2nd Takeover bid and a squeeze-out ended in July 2018, TiGenix became a wholly owned subsidiary of Takeda.

The purchase consideration was comprised of the following:

(Million JPY)

	Amount
Cash	67,319
The ordinary shares of TiGenix already owned by Takeda immediately prior to the acquisition date	2,684
Total	70,003

The following represents provisional fair value of assets acquired, liabilities assumed:

(Million JPY)

	Amount
Intangible assets	63,421
Other assets	5,541
Deferred tax liabilities	(8,043)
Other liabilities	(5,678)
Basis adjustments	(3,381)
Goodwill	18,143
Total	70,003

Goodwill comprises excess earning power expected from the future business development. Goodwill is not deductible for tax purposes.

The fair value primarily consisting of intangible assets, deferred tax liabilities and goodwill assumed as of the acquisition date have been recorded provisionally based on the information available as of March 31, 2019. These amounts are subject to change as the Company is in the process of reviewing further details of the basis for the fair value measurement. For the year ended March 31, 2019, goodwill at the acquisition date decreased by 1,831 million JPY as a result of the adjustment to the provisional fair value, while other assets and deferred tax liabilities decreased by 253 million JPY and 2,084 million JPY, respectively.

Takeda entered into a forward exchange contract to hedge foreign currency risks and applied the hedge accounting to the contract. Basis adjustment represents a fair value of the hedging instrument of 3,381 million JPY that was added to the amount of goodwill at the acquisition date.

No gains or losses were recognized as a result of remeasurement of fair value of the ordinary shares of TiGenix already owned by Takeda immediately prior to the acquisition date.

Acquisition-related costs of 767 million JPY which included agent fee and due diligence costs arising from the acquisition were recorded in "Selling, general and administrative expenses".

Acquisition of Shire PLC ("Shire")

On January 8, 2019, Takeda completed the acquisition of 100% of the outstanding shares of Shire in a cash and equity transaction valued at approximately 6,213,335 million JPY. Takeda paid $30.33 in cash for each Shire ordinary share and issued either 0.839 of a new share in (a "New Takeda Share") or 1.678 ADSs in Takeda (one ADS equals 0.5 New Takeda Share). Takeda incurred 23,750 million JPY of acquisition related costs, these costs were expensed as incurred and recorded in selling, general and administrative expenses. Takeda has entered into several borrowing agreements to fund the cash portion of the acquisition price.

Shire was a leading global biotechnology company focused on serving people with rare diseases. This acquisition creates a global R&D driven biopharmaceutical with an attractive geographic footprint as well as strengthens Takeda’s core therapeutic areas, bringing together complementary positions in gastroenterology (GI) and neuroscience. Some of the Shire's marketed products include GAMMAGARD, HYQVIA and TAKHZYRO for Immunology, ADVATE/ADYNOVATE, VONVENDI and FEIBA for Hematology, VYVANSE and ADDERALL XR for Neuroscience, LIALDA/MEZAVANT and PENTASA for Internal Medicine, ELAPRASE and REPLAGAL for Genetic Diseases, Shire’s research and development (R&D) focused on rare diseases.

The total consideration transferred was comprised of the following:

(Million JPY)

	Amount
Cash	3,029,431
Takeda equity (770,303,013 shares)	3,131,282
Cash for cash settled awards	52,622
Total	6,213,335

The fair value of the Takeda shares issued as part of the consideration paid was determined based on the trading price of Takeda shares at the opening of the Tokyo Stock Exchange on the date of acquisition.

The following represents the preliminary estimate of the fair value of assets acquired and liabilities

(Million JPY)

	Amount
Cash and cash equivalents	227,223
Trade and other receivables	326,154
Inventories	825,985
Property, plant & equipment	684,487
Intangible assets	3,899,298
Other assets	562,116
Trade and other payables	(61,382)
Provisions	(342,202)
Bonds and loans	(1,603,199)
Deferred tax liabilities	(809,667)
Other liabilities	(545,740)
Basis adjustments	(37,107)
Goodwill	3,087,369
Total	6,213,335

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined Takeda/Shire group. Goodwill recognized as a result of the acquisition is not deductible for tax purposes.

Provisions include the recognition of a contingent liability of 25,249 million JPY associated with amounts payable related to legal proceedings. Takeda has estimated the amounts related to the contingent liability will be expected to be paid within one year. The other liabilities also include contingent consideration related to Shire's historical acquisitions. The acquired contingent consideration is payable mainly upon the achievement of certain milestones and fair value of the potential payments Takeda could be required to make is 52,046 million JPY.

The estimated fair values primarily consisting of intangible assets, deferred tax liabilities and goodwill noted above are preliminary and are subject to change upon finalization of the purchase accounting assessment and may have a material impact on Takeda's results of operations and financial position. As Takeda finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments will be recorded during the measurement period during fiscal year 2019. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Takeda's results of operations.

Takeda held foreign currency dominated deposits and entered into foreign currency options to hedge foreign currency risks, and Takeda applied the hedge accounting to the instruments. Basis adjustment represents accumulated change in fair value of the hedging instruments recorded in other comprehensive income of 37,107 million JPY that was added to the amount of goodwill at the acquisition date.

In November 2018, in order to finance funds necessary for the Shire acquisition, Takeda issued unsecured US dollar dominated senior notes and unsecured Euro dominated senior notes and financed 1,580,400 million JPY. In addition, on January 11, 2019, Takeda drew down 1,715,526 million JPY by exercising the Term Loan Credit Agreement executed on June 8, 2018, Senior Short Term Loan Facility Agreement executed on October 26, 2018, and Loan Agreement with the Japan Bank for International Cooperation executed on December 3, 2018.

On January 8, 2019, the Company issued 770,303,013 ordinary shares to allocated to the ex-shareholders of Shire as a part of the purchase consideration. Issue price was 4,065 JPY per share (The aggregate issue price was 3,131,282 million JPY) and capital incorporation was 2,032.50 JPY per share (The aggregate capital incorporation was 1,565,641 million JPY).

[Significant Subsequent Events]

On May 9, 2019, Takeda announced the sale of the Xiidra™ (lifitegrast ophthalmic solution), which was obtained as part of the Shire acquisition, to buyer Novartis. The product is currently marketed in the United States and Canada. Under the terms of the agreement, Takeda will receive total consideration of up to $5.3 billion (approximately 590.0 billion JPY), including $3.4 billion in cash at closing and up to $1.9 billion in contingent payments. The contingent payments become payable to Takeda at specified milestones based on sales of Xiidra or a comparable generic product.

The product was held for sale at the date of the Shire acquisition, as Takeda intended to dispose of the product. The disposal group including the Xiidra™ was recorded at the acquisition date based on the estimated consideration to be received in the transaction, including the fair value of the contingent consideration. The deal is expected to be closed in the second quarter ended September 30, 2019.

On May 9, 2019, Takeda announced the sale of its TachoSil™ (Fibrin Sealant Patch) to buyer Ethicon for €400 million (approximately 50.0 billion JPY). In addition, Takeda entered in a long-term supply agreement with the buyer. The transaction includes the sale of product rights and related workforce. The deal is expected to be closed in the second quarter ended September 30, 2019.

UNCONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(For the year ended March 31, 2019)

(Million JPY)

	Total shareholders' equity									Valuation and translation adjustments			Stock Acquisition rights	Total net assets
		Capital surplus			Retained earnings			Treasury stock	Total shareholders' equity	Unrealized gains or losses on available-for-sale securities	Deferred gains or losses on derivatives under hedge accounting	Total valuation and translation adjustments		
	Common stock	Additional paid-in capital	Other capital surplus	Total capital surplus	Legal reserve	Other retained earnings (*)	Total retained earnings							
Balance at the beginning of the fiscal year	77,914	64,008	1	64,009	15,885	1,433,237	1,449,122	(-) 74,343	1,516,702	44,056	(-) 112	43,944	1,332	1,561,978
Cumulative effects of changes in accounting policies						3,935	3,935		3,935					3,935
Opening balance after cumulative effects of changes in accounting policies	77,914	64,008	1	64,009	15,885	1,437,172	1,453,057	(-) 74,343	1,520,637	44,056	(-) 112	43,944	1,332	1,565,913
Changes of items during the fiscal year														
Issuance of new stock	1,565,671	1,565,671		1,565,671					3,131,342					3,131,342
Dividends from surplus						(-) 143,016	(-) 143,016		(-) 143,016					(-) 143,016
Reversal of reserve for special depreciation									–					–
Provision for reserve for reduction of noncurrent assets									–					–
Reversal of reserve for reduction of noncurrent assets									–					–
Net income						88,231	88,231		88,231					88,231
Purchase of treasury stock								(-) 1,172	(-) 1,172					(-) 1,172
Disposal of treasury stock			(-) 0	(-) 0				18,401	18,401					18,401
Net change in items other than shareholders' equity during the fiscal year									–	(-) 17,242	4,719	(-) 12,523	(-) 5	(-) 12,528
Total changes of items during the fiscal year	1,565,671	1,565,671	(-) 0	1,565,671	–	(-) 54,785	(-) 54,785	17,229	3,093,786	(-) 17,242	4,719	(-) 12,523	(-) 5	3,081,258
Balance at the end of the fiscal year	1,643,585	1,629,679	1	1,629,680	15,885	1,382,387	1,398,272	(-) 57,114	4,614,423	26,814	4,607	31,421	1,327	4,647,171

*Breakdown of other retained earnings

(Million JPY)

	Reserve for retirement benefits	Reserve for dividends	Reserve for research and development	Reserve for capital improvements	Reserve for promotion of exports	Reserve for special depreciation	Reserve for reduction of noncurrent assets	General reserve	Unappropriated retained earnings	Total
Balance at the beginning of the fiscal year	5,000	11,000	2,400	1,054	434	24	32,662	814,500	566,163	1,433,237
Cumulative effects of changes in accounting policies									3,935	3,935
Opening balance after cumulative effects of changes in accounting policies	5,000	11,000	2,400	1,054	434	24	32,662	814,500	570,098	1,437,172
Changes of items during the fiscal year										
Issuance of new stock										—
Dividends from surplus									(-) 143,016	(-) 143,016
Reversal of reserve for special depreciation						(-) 24			24	—
Provision for reserve for reduction of noncurrent assets							1		(-) 1	—
Reversal of reserve for reduction of noncurrent assets							(-) 3,543		3,543	—
Net income									88,231	88,231
Purchase of treasury stock										—
Disposal of treasury stock										—
Net change in items other than shareholders' equity during the fiscal year										—
Total changes of items during the fiscal year	—	—	—	—	—	(-) 24	(-) 3,542	—	(-) 51,219	(-) 54,785
Balance at the end of the fiscal year	5,000	11,000	2,400	1,054	434	—	29,120	814,500	518,879	1,382,387

Notes on the Unconsolidated Accounts

[Significant Accounting Policies]

1. Valuation of Important Assets

(1) Valuation of Securities

Shares of subsidiaries and affiliates:	Valued at cost using the moving-average method
Available-for-sale securities	
With market values:	Valued at market prices on the balance sheet date (Unrealized gains and losses are included in net assets, and cost of securities sold is calculated using the moving-average method.)
Without market values:	Valued at cost using the moving-average method

(2) Valuation of Derivatives: Valued at fair value

(3) Valuation of Inventories

Merchandise and products:	Cost determined by gross average method (Balance sheet values are calculated by markdown based on decreases in profitability)
Work in process:	Cost determined by gross average method (Balance sheet values are calculated by markdown based on decreases in profitability)
Raw materials and Supplies:	Cost determined by gross average method (Balance sheet values are calculated by markdown based on decreases in profitability)

2. Important Noncurrent Asset Depreciation Method

(1) Tangible noncurrent assets (excluding lease assets)

The Company uses the declining-balance method

However, for buildings (excluding building improvements) acquired on or after April 1, 1998, the straight-line method is applied.

Estimated useful lives are mainly as follows:

Buildings and structures:	15-50 years
Machinery and equipment:	4-15 years

(2) Intangible noncurrent assets (excluding lease assets)

The Company uses the straight line depreciation method for intangible noncurrent assets. The depreciation period is based on the period of availability.

(3) Lease assets

The Company uses the straight line depreciation method based on the lease period for lease assets related to finance leases with no transfer of ownership rights.

3. Reserves

(1) With respect to allowance for doubtful receivables, in order to account for potential losses from uncollectible notes and accounts receivable, the Company recognizes reserve for uncollectible receivables based on historical loss ratios. Specific claims are evaluated in the light of the likelihood of recovery and provision is made to the allowance for doubtful receivables in the amount deemed uncollectible.

(2) Reserve for employees' bonuses is stated at the projected amount of bonuses required to be paid to eligible employees at the balance sheet date based on the applicable payment period in order to cover payment of bonuses to employees.

(3) Reserve for bonuses for directors and corporate auditors is stated as the projected amount to be paid in order to cover payment of bonuses to directors and corporate auditors.

(4) Reserve for employees' retirement benefits is based on the present value of the projected retirement benefit obligation as of the balance sheet date estimated at the beginning of each fiscal year, less the estimated fair value funded under the corporate pension plans in order to cover payment of retirement benefits to employees. In calculating retirement benefit obligations, the benefit formula basis is used as the method of attributing expected benefit to periods up to this fiscal year end.
Prior service cost is amortized using the straight-line method over a fixed number of years (five years) within the average remaining years of service when obligations arise.
Unrecognized net actuarial gains and losses are expensed from the period of occurrence in proportional amounts, on a straight-line basis over the fixed number of years (five years) within the average remaining years of service in each period when obligations arise.

(5) 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 balance sheet date.

(6) Reserve for share-based payments is stated at the projected amount of share-based obligations as of the balance sheet date mainly in order to grant the Company's share to directors and employees in accordance with the share-based payment prescription.

(7) Reserve for restructuring costs is reasonably estimated based on costs arising from the R&D transformation.

4. Other Significant Accounting Policies for the Unconsolidated Financial Statements

(1) Hedge Accounting

a. Methods of hedge accounting
The Company uses deferred hedging. Appropriation processing is adopted for forward exchange transactions that meet the requirements for that method and special processing is adopted for interest rate swaps that meet the requirements for special processing.

b. Hedging instruments, hedged items and hedging policies
The Company uses interest rate swaps to hedge a portion of cash flow related to future financial income or loss that is linked to short-term variable interest rates. In addition, the company uses forward foreign exchange transactions etc. to hedge a portion of foreign currency denominated transactions that can be individually recognized and which are financially material. Foreign currency risk of the investments in foreign operations is managed through the use of foreign-currency-denominated bonds and borrowings. These hedge transactions are conducted in accordance with established policies regarding the scope of usage and standards for selection of financial institutions.

c. Method of assessing effectiveness of hedges
Preliminary testing is conducted using statistical methods such as regression analysis, and post-transaction testing is conducted using ratio analysis. The company omits the verification if material terms of the transaction are the same and also the hedging effect is extremely high.

(2) Stated Amount
All amounts shown are rounded to the nearest million JPY, i.e., a half of a million or more is rounded up to a full one million and less than a half of a million is disregarded.

(3) Consumption taxes
Consumption taxes are excluded from the items in the statement of operations.

(4) Consolidated taxation system
The Company has adopted the consolidated taxation system.

[Changes in Accounting Policies]

The Company adopted "Application Guidelines of Accounting Standards for Tax Effect Accounting (ABSJ Statement No.28 February 16, 2018) from the year ended March 31, 2019 and rivisited the accounting treatment for the taxable temprary differences on investments in subsidiaries. This change in accounting policies has been applied retrospectively. As a result, unappropriated retained earnings as of March 31, 2018 increased by 3,935 million JPY.

[Changes in Presentation]

The Company adopted "Ordinance for Partial Revisions of the Corporate Calculation Regulations" (Cabinet Office Ordinance No. 5, March 26, 2018) due to “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ABSJ Statement No.28 February 16, 2018) from the year ended March 31, 2019 and changed the classification of deferred tax assets to investments and other assets, and deferred tax liabilities to noncurrent liabilities.

As a result, deferred tax assets which had been classified to current assets as of March 31, 2018 (balance as of March 31, 2018: 65,871 million JPY) were included in deferred tax assets of 64,835 million JPY presented under investments and other assets as of March 31, 2019.

[Notes on Unconsolidated Balance Sheet]

1. Accumulated depreciation on assets:

Tangible noncurrent assets	377,187	million JPY

2. Contingent liabilities

(Guarantees)

The Company has given guarantees to the following persons/subsidiaries mainly for obligations to cover the repayment of bonds, rental fees based on the real-estate contracts, purchase payments of intangible assets, and liabilities for the issuance of bonds by Shire's subsidiaries which are taken over from Shire plc due to the acquisition:

Employees of Takeda Pharmaceutical Company Limited	99	million JPY
Shire Acquisitions Investments Ireland Designated Activity Compar	1,339,433	million JPY
	(USD) 12,107	million
Baxalta Incorporated	215,286	million JPY
	(USD) 1,946	million
Pharma International Insurance Designated Activity Company	50,872	million JPY
	(USD) 460	million
Millennium Pharmaceuticals, Inc.	32,313	million JPY
	(USD) 292	million
Takeda UK Limited	334	million JPY
	(GBP) 2	million
Takeda Pharma, S.A. (Argentine)	89	million JPY
	(ARS) 35	million
Takeda S.A.S Columbia	55	million JPY
	(USD) 500	thousand

(Litigation)

For details of major litigation matters, please refer to [Notes on Consolidated Statement of Financial Position] 3. Contingent liabilities, (2) Litigation

Product Liability and Related Claims

Actos

Proton Pump Inhibitor ("PPI") Related Claims

3. Receivables from and payables to subsidiaries and affiliates

Short-term receivables:	169,180	million JPY
Long-term receivables:	2,129	million JPY
Short-term payables:	376,340	million JPY
Long-term payables:	4	million JPY

[Notes on Unconsolidated Statement of Operations]

1. Transactions with subsidiaries and affiliates

Operating transactions:		
Sales	121,936	million JPY
Purchases	47,850	million JPY
Other	64,234	million JPY
Non-operating transactions:		
Non-operating income	21,538	million JPY
Non-operating expenses	81	million JPY

2. Research and development costs: 119,776 million JPY

3. Extraordinary income

(Gain on sales of tangible assets)

The gain was mainly from the sale of underutilized company housings.

4. Extraordinary loss

(Restructuring costs)

The loss is from reorganization costs to build an efficient operating model.

[Notes on Unconsolidated Statement of Changes in Net Assets]

1. Class and total number of shares of treasury stock as of March 31, 2019
   Common Stock 10,141 thousand shares

[Transaction with Related Party]

Association	Company Name	Association	Relationship with Related Party	Transaction Content	Transaction Amount	Account Item	Balance at Fiscal Year-End
Consolidated subsidiary	Shire Acquisitions Investments Ireland Designated Activity Company	Indirect 100.0%	Investment	Guaranteed obligation (Note) 1	¥1,339,433 million	-	-
Consolidated subsidiary	Baxalta Incorporated	Indirect 100.0%	Investment	Guaranteed obligation (Note) 1	¥215,286 million	-	-
Consolidated subsidiary	Shire Ireland Finance Trading Limited	Indirect 100.0%	Fund transaction	Intercompany loans transaction with a subsidiary (Note) 2	¥109,690 million	Loans receivable	¥102,344 million
				Interest income	¥818 million	Interest receivable	¥818 million
Consolidated subsidiary	Takeda Pharmaceuticals International AG	Direct 100.0%	Sales of pharmaceuticals	Intercompany borrowings transaction with a subsidiary (Note) 2	¥205,969 million	Short-term loans payable	¥124,160 million
Consolidated subsidiary	Takeda Pharmaceutical Real Estate Co., Ltd.	Direct 100.0%	Real-estate rental	Intercompany deposits transaction with a subsidiary (Note) 3	¥29,972 million	Deposits Received	¥115,103 million
Consolidated subsidiary	Axcelead Drug Discovery Partners, Inc.	Direct 100.0%	Outsource of research services	Rental fee for land and buildings (Note) 4	¥3,902 million	-	-

(Note)

1. Guaranteed obligation is guarantee for redemption of bonds. The commission for the gurantee is determined based on market transaction.
2. Interest rate of intercompany loans is rationally determined upon after due deliberation in consideration with market value and in accordance with the agreement through mutual consultation.
3. Intercompany deposits transaction is based on CMS (Cash Management System) and transaction amounts is the avarage of the balance of deposits received during the period.
4. Rental fee for land and buildings is determined by allocation of maintenance costs of land and buildings in accordance with usage of the subsidiary.

[Per Share Information]

1. Net assets per share 2,987.94 JPY
2. Net income per share 91.76 JPY

[Accounting for Deferred Income Taxes]

1. Major components of deferred tax assets and deferred tax liabilities:

	(Million JPY)
(Deferred tax assets)	
Reserve for employees' bonuses	6,063
Research and development costs	12,957
Inventories	7,235
Hedge	2,497
Accrued expenses	9,020
Deferred income	6,202
Reserve for employees' retirement benefits	1,538
Reserve for restructuring costs	3,110
Excess depreciation of tangible noncurrent assets	7,235
Patent rights	8,542
Sales rights	6,997
Securities	714,486
Net operating loss carryforwards	239,466
Other	16,629
Deferred tax assets - subtotal	1,041,977
Valuation allowance in related with Net operating loss carryforwards Note(1)	(-) 204,909
Valuation allowance in related with deductable temporary difference Note(2)	(-) 732,069
Valuation allowance - subtotal	(-) 936,978
Total deferred tax assets	104,999
(Deferred tax liabilities)	
Prepaid pension costs	(-) 11,753
Unrealized gain on available-for-sale securities	(-) 11,155
Reserve for reduction of noncurrent assets	(-) 12,827
Other	(-) 4,429
Total deferred tax liabilities	(-) 40,164
Net deferred tax assets	64,835

(Note)

1. In order to organize capital in subsidiaries, the subsidiaries in Europe were restructured during this period. As a result of the restructuring, the losses from liquidation subsidiaries were booked as taxable loss which resulted in a substantial amount of Net operating loss carry forwards. Among 239,466 million JPY of Net operating loss carry forwards, 34,557 million JPY was considered as recoverable based on the estimation of future taxable profit.
2. In association with subsidiaries liquidation, valuation allowance was recognized in related with deductable temporary difference, which arose from recognition of dividend in kind of sub-subsidiaries at fair value on tax basis.

2. The effective income tax rate of the Company after application of deferred tax accounting differs from the statutory tax rate for the following reasons:

	(%)
Statutory tax rate	30.6
(Adjustments)	
Expenses not deductible for tax purposes	1.8
Dividend income and other items permanently nontaxable	(-) 1,630.3
Variation in valuation allowance	1,459.2
Unitary tax on overseas subsidiaries	79.6
Variation in unrecognized deferred tax liability	7.3
Other	0.4
Effective tax rate after application of deferred tax accounting	(-) 51.4