Summary of Financial Statements for the Six Months Period Ended September 30, 2018 (IFRS, Consolidated)

October 31, 2018

Takeda Pharmaceutical Company Limited Stock exchange listings: Tokyo, Nagoya, Fukuoka, Sapporo

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Scheduled date of securities report submission: November 8, 2018
Scheduled date of dividend payment commencement: December 3, 2018
Supplementary materials for the financial statements: Yes
Presentation to explain for the financial statements: Yes

(Million JPY, rounded to the nearest million)

1. Consolidated Financial Results for the Six Months Period Ended September 30, 2018 (April 1 to September 30, 2018)

(1) Consolidated Operating Results (year to date)

(Percentage figures represent changes over the same period of the previous year)

	Revenue		Operating profit		Profit before tax		Net profit for the period	
	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)
Six months period ended September 30, 2018	880,611	(0.1)	171,956	(26.6)	160,780	(31.0)	126,489	(26.7)
Six months period ended September 30, 2017	881,416	3.6	234,349	44.6	232,988	50.3	172,670	37.5

	Net profit attributable to owners of the Company		Total comprehensive income for the period		Basic earnings per share	Diluted earnings per share
	(Million JPY)	(%)	(Million JPY)	(%)	(JPY)	(JPY)
Six months period ended September 30, 2018	126,668	(26.7)	207,395	(23.2)	161.76	160.93
Six months period ended September 30, 2017	172,816	39.0	270,142	—	221.43	219.98

(2) Consolidated Financial Position

	Total assets (Million JPY)	Total equity (Million JPY)	Equity attributable to owners of the Company (Million JPY)	Ratio of equity attributable to owners of the Company to total assets (%)	Equity attributable to owners of the Company per share (JPY)
As of September 30, 2018	4,274,839	2,172,161	2,168,358	50.7	2,764.08
As of March 31, 2018	4,106,463	2,017,409	1,997,424	48.6	2,556.51

2. Dividends

	Annual dividends per share (JPY)				
	1st quarter end	2nd quarter end	3rd quarter end	Year-end	Total
Fiscal 2017	—	90.00	—	90.00	180.00
Fiscal 2018	—	90.00			
Fiscal 2018 (Projection)			—	90.00	180.00

(Note) Modifications in the dividend projection from the latest announcement: None

3. Forecasts for Consolidated Operating Results for Fiscal 2018 (April 1, 2018 to March 31, 2019)

(Percentage figures represent changes from previous fiscal year)

	Revenue		Core Earnings		Operating profit		Profit before income taxes		Net profit attributable to owners of the Company		Basic earnings per share
	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)	(JPY)
Fiscal 2018 (*1)	1,750,000	(1.2)	330,000	2.3	268,900	11.2	245,200	12.9	189,500	1.4	241.82

(*1) The costs incurred in the first half of fiscal 2018 related to the proposed acquisition of Shire plc by Takeda are included.

(Note) Modifications in forecasts of consolidated operating results from the latest announcement: Yes

(Reference)

	Revenue		Core Earnings		Operating profit		Profit before income taxes		Net profit attributable to owners of the Company		Basic earnings per share
	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)	(Million JPY)	(%)	(JPY)
Fiscal 2018 (*2)	1,750,000	(1.2)	330,000	2.3	280,000	15.8	265,000	22.0	206,000	10.2	262.85

(*2) The costs incurred in the first half of fiscal 2018 related to the proposed acquisition of Shire plc by Takeda are excluded.

These forecasts do not include the full fiscal year 2018 estimated financial impact related to the proposed acquisition of Shire plc by Takeda. A forecast that does include the estimated financial impact of the deal will be announced by Takeda once a reasonable assumption has been confirmed.

Additional Information

(1) Changes in significant subsidiaries during the period : No
(changes in specified subsidiaries resulting in the change in consolidation scope)

(2) Changes in accounting policies and changes in accounting estimates
1) Changes in accounting policies required by IFRS : Yes
2) Changes in accounting policies other than 1) : No
3) Changes in accounting estimates : No
(Note) For details, refer to "2. Condensed Interim Consolidated Financial Statements and Major Notes (5) Notes to Condensed Interim Consolidated Financial Statements (Significant Accounting Policies)" in page 17.

(3) Number of shares outstanding (common stock)
1) Number of shares outstanding (including treasury stock) at term end:

September 30, 2018	794,701,895 shares
March 31, 2018	794,688,295 shares

2) Number of shares of treasury stock at term end:

September 30, 2018	10,224,406 shares
March 31, 2018	13,379,133 shares

3) Average number of outstanding shares (for the six months period ended September 30):

September 30, 2018	783,061,602 shares
September 30, 2017	780,467,839 shares

* This summary of quarterly financial statements is exempt from quarterly review procedures

* Note to ensure appropriate use of forecasts, and other noteworthy items

- Takeda has adopted International Financial Reporting Standards (IFRS), and the disclosure information in this document is based on IFRS.
- All forecasts in this document are based on information currently available to management, and do not represent a promise or guarantee to achieve these forecasts. Various uncertain factors could cause actual results to differ, such as changes in the business environment and fluctuations in foreign exchange rates. Should any significant event occur which requires the forecast to be revised, Takeda will disclose it in a timely manner.
- For details of the financial forecast, please refer to "1. Financial Highlights for the Six Months Period Ended September 30, 2018 (2) Outlook for Fiscal 2018" on page 7.
- Supplementary materials for the financial statements (Data Book, presentation materials for the earnings release conference to be held on October 31, 2018) and the video of the conference will be promptly posted on Takeda's website.
(Takeda Website):
http://www.takeda.com/investors/reports/

Attachment Index

1. Financial Highlights for the Six Months Period Ended September 30, 2018

(1) Business Performance

(i) Consolidated Financial Results (April 1 to September 30, 2018)

Billion JPY

	Amount	Change versus the same period of the previous year	
Revenue	880.6	-0.8	-0.1%
Core Earnings	212.0	+24.9	+13.3%
Operating Profit	172.0	-62.4	-26.6%
Profit Before Tax	160.8	-72.2	-31.0%
Net Profit for the Period (Attributable to Owners of the Company)	126.7	-46.1	-26.7%
EPS(JPY)	161.76	-59.67	-26.9%

[Revenue]
Revenue of 880.6 billion JPY for the period ending September 30, 2018 remained consistent compared to the same period of the previous year, whereas growth driven by the continued expansion of Takeda's Growth Drivers (Gastroenterology, Oncology, Neuroscience, and Emerging Markets) was offset by the adverse impact of divestitures (-26.6 billion JPY) and unfavorable foreign exchange rates, mainly due to the strengthening of the yen against emerging market currencies.

Underlying Revenue, which excludes the impact of divestitures and foreign exchange rates, grew by +4.2% compared to the same period of the previous year, driven by a strong increase (+9.8%) in Takeda's Growth Drivers.

Takeda’s Growth Drivers

- In the therapeutic area of Gastroenterology, revenue growth was +17.3% (Underlying +18.7%). This was driven by Takeda's top-selling product ENTYVIO (for ulcerative colitis and Crohn’s disease) with sales of 128.4 billion JPY, a year-over-year increase of 31.4 billion JPY (+32.4%, Underlying +33.1%). ENTYVIO continues to achieve steady expansion of patient share in the bio-naïve segment. The product is currently approved in more than 60 countries, including in Japan where Takeda obtained a New Drug Application Approval in July 2018 for the treatment of patients with moderately to severely active ulcerative colitis. Sales of TAKECAB (for acid-related diseases) were 27.2 billion JPY, an increase of 4.9 billion JPY (+22.1%, Underlying +22.1%) versus the same period of the previous year. Prescriptions in the Japanese market have been expanding, mainly driven by TAKECAB's efficacy in reflux esophagitis and the prevention of recurrence of gastric ulcers during low-dose aspirin administration. In addition, in June 2018, Takeda acquired TiGenix NV through a conditional public takeover bid, and through this deal Takeda obtained the global development and commercialization rights to ALOFISEL (for the treatment of complex perianal fistulas in Crohn’s disease). The impact of ALOFISEL sales for the current period was not material.
- In the therapeutic area of Oncology, revenue growth was +5.5% (Underlying +6.8%). Sales of NINLARO (for multiple myeloma) were 29.4 billion JPY, an increase of 7.7 billion JPY (+35.3%, Underlying +38.0%) versus the same period of the previous year, due to strong growth in several regions, particularly in the U.S. NINLARO is a once-weekly oral proteasome inhibitor with a profile of efficacy, safety and convenience. In July 2018, Takeda announced that the phase 3 trial of NINLARO as maintenance therapy demonstrated statistically significant improvement in progression-free survival in patients with multiple myeloma post-transplant. Sales of VELCADE (for multiple myeloma), which lost market exclusivity in the

U.S. last year, decreased by 7.2 billion JPY (-10.0%, Underlying -8.5%) mainly due to lost market exclusivity in the U.S. last year. Sales of ICLUSIG (for leukemia) and ALUNBRIG (for lung cancer), obtained through the acquisition of ARIAD Pharmaceuticals, Inc. in February 2017, are steadily growing by 3.3 billion JPY (+30.4%, Underlying +32.6%) and 1.4 billion JPY (+175.6%, Underlying +179.1%) respectively, contributing 38% of the total +6.8% Oncology Underlying revenue growth. In September 2018, European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) has adopted a positive opinion, recommending ALUNBRIG for the treatment of ALK+ non-small cell lung cancer in patients previously treated with crizotinib. At the World Conference on Lung Cancer (WCLC) held in July 2018, Takeda announced results from the Phase 3 trial, demonstrating that ALUNBRIG reduced the risk of disease progression or death, known as progression-free survival (PFS) by more than fifty percent compared to crizotinib in adults with anaplastic lymphoma kinase-positive (ALK+) locally advanced or metastatic non-small cell lung cancer (NSCLC) who had not received a prior ALK inhibitor.

- In the therapeutic area of Neuroscience, revenue growth was +14.5% (Underlying +15.6%). Sales of TRINTELLIX (for major depressive disorder, generic name: vortioxetine) were 27.1 billion JPY, an increase of 3.7 billion JPY (+15.8%, Underlying +17.5%) versus the same period of the previous year. The revenue increase was primarily driven by progress in Takeda's patient engagement initiatives. In May 2018, data showing improvement in processing speed, an important aspect of cognitive function, was included in the U.S. prescribing information of TRINTELLIX. In September 2018, Takeda submitted a New Drug Application (NDA) to the Ministry of Health, Labor and Welfare in Japan for vortioxetine. Also in Neuroscience, in March 2018, Takeda obtained a New Drug Application Approval in Japan for AZILECT (for Parkinson's disease), and launched the product in June 2018.
- In Emerging Markets, revenue was 126.7 billion JPY, a decrease of 9.1 billion JPY (-6.7%, Underlying +2.4%) versus the same period of the previous year. Underlying revenue growth was +2.4%, boosted by the expansion of Oncology products such as ADCETRIS (for malignant lymphoma), and Gastroenterology products including ENTYVIO (for ulcerative colitis and Crohn's disease). This growth was more than offset by the impact of divestitures (3.5 billion JPY) in Brazil and China as well as the negative impact of the strengthening of the yen (8.5 billion JPY). Underlying revenue growth was solid in the important Emerging Markets countries of Brazil and China, increasing by +26.3% and +33.4%, respectively.

(Note) For more details of revenue by product, please refer to the "Data Book" and "Earnings Presentation" which are the supplementary materials for the financial statements. Effective from FY2018, sales of certain products in Japan are now disclosed on a net basis, deducting items such as discounts and rebates, in alignment with the global managerial approach applied to individual product sales. Including in this document, the change in disclosure of individual product sales has been revised retrospectively, with prior year figures reclassified on a net basis to enable year-on-year comparisons. This reclassification has no impact on Takeda's financial statements and does not represent a correction of the numbers in prior years.

Takeda's web-site
https://www.takeda.com/investors/reports/

- Breakdown of Consolidated Revenue:

Billion JPY

	Amount	Change versus the same period of the previous year		Underlying Revenue (Note)		
				Amount	Underlying Growth	
Prescription Drug	848.1	+9.7	+1.2%	834.4	+45.1	+5.7%
U.S.	321.1	+19.3	+6.4%	308.4	+26.1	+9.2%
Japan	241.8	-10.2	-4.1%	241.5	+9.5	+4.1%
Europe and Canada	158.6	+9.7	+6.5%	159.4	+6.5	+4.3%
Emerging Markets	126.7	-9.1	-6.7%	125.1	+3.0	+2.4%
Consumer Healthcare and Other	32.5	-10.5	-24.4%	32.5	-10.5	-24.4%
Consolidation total	880.6	-0.8	-0.1%	866.9	+34.6	+4.2%

(Note) Underlying Revenue excludes the impact of foreign exchange movements and divestitures.

Impact of Divestitures

- Total revenue for the period ending September 30, 2018 was negatively impacted by -26.6 billion JPY due to divestitures. The largest item was the -16.8 billion JPY impact from the sale of 7 long-listed products in Japan to Teva Takeda Yakuhin Ltd., a subsidiary of Teva Takeda Pharma Ltd., in May 2017. The impact of other divestitures totaled -9.8 billion JPY.

[Operating Profit]

Consolidated Operating Profit was 172.0 billion JPY, a decrease of 62.4 billion JPY (-26.6%) compared to the same period of the previous year.

- Cost of Sales was 231.3 billion JPY, a decrease of 11.4 billion JPY (-4.7%) and the Cost of Sales Ratio was 26.3% (-1.3pp) compared to the same period of the previous year. This decrease was mainly driven by a more favorable sales products mix. Cost of Sales, excluding the impact of divestitures and foreign exchange, decreased by 2.7% leading to a decrease in the Cost of Sales Ratio by 1.9pp.
- Selling, General and Administrative (SG&A) Expenses were 293.8 billion JPY, a decrease of 3.5 billion JPY (-1.2%) compared to the same period of the previous year. The impact of the Global Opex Initiative and lower LTIP expenses were partially offset by acquisition related costs of 7.9 billion JPY for the proposed acquisition of Shire plc. SG&A expenses, excluding acquisition related costs, the impact of divestitures and foreign exchange, decreased by 2.8%.
- R&D expenses decreased by 3.7 billion JPY (-2.4%) compared to the same period of the previous year primarily due to the favorable impact of the strengthening of yen. R&D expenses, excluding the impact of divestitures and foreign exchange rates, decreased by 1.5%.
- Amortization and Impairment Losses on Intangible Assets Associated with Products was 48.3 billion JPY, a decrease of 8.6 billion JPY (-15.1%) compared to the same period of the previous year. The decrease was primarily due to the net impact of the following factors: (1) the intangible asset attributable to the VELCADE US patent was fully depreciated within fiscal year 2017 which resulted in a lower amortization cost (-23.7 billion JPY) for the current period as compared to the same period of previous year; (2) during the same period of previous year, we recorded a 9.8 billion JPY impairment reversal related to COLCRYS based on a revised more favorable sales forecast. We did not record such a reversal in the current period.
- Other Operating Income was 32.3 billion JPY, a decrease of 104.6 billion JPY (-76.4%) compared to the same period of the previous year. This decrease was mainly due to a 106.3 billion JPY gain on the sale of Wako Pure Chemical Industries, Ltd. recorded in the same period of the previous year.
- Other Operating Expense was 16.1 billion JPY, a decrease of 15.9 billion JPY (-49.6%) compared to the same period of the previous year. This decrease was primarily attributed to a 6.7 billion JPY valuation loss

from pre-launch inventory recorded in the same period of the previous year, as well as a -7.7 billion JPY reversal of valuation losses from pre-launch inventories recorded in the current period as a result of a New Drug Application Approval. Restructuring expenses of 3.2 billion JPY for the proposed acquisition of Shire plc were recorded in the current period.

[Net Profit for the Period (Attributable to Owners of the Company)]
Consolidated Net Profit for the Period was 126.7 billion JPY, a decrease of 46.1 billion JPY (-26.7%) compared to the same period of the previous year, mainly due to a decrease in Operating Profit and an increase in Net Financial Expenses partially offset with lower Income Tax Expenses .

- Net Financial Income / (Expense) was a (15.2) billion JPY for the current period, an increase of (13.3) billion JPY compared to the same period of the previous year. This increase was mainly due to a 9.9 billion JPY gain on the sale of certain securities in the same period of the previous year that did not reoccur for the current period. Sales of securities are no longer recorded as financial income due to the adoption of a new IFRS standard. Furthermore, a (8.8) billion JPY financial cost related to the proposed Shire acquisition were recorded in the current period.
- Income Tax Expenses decreased by 26.0 billion JPY (-43.1%) compared to the same period of the previous year. This decrease was mainly due to a decline in Profit Before Tax, as well as the partial release of an uncertain tax provision recognized in the current period. These factors were partially offset by decreased tax credits in the current period compared to the same period of the previous year.
- Basic Earnings Per Share were 161.76 JPY, a decrease of 59.67 JPY (-26.9%) compared to the same period of the previous year.

(ii) Underlying Growth (April 1 to September 30, 2018)

Takeda uses the concept of "Underlying Growth" for internal planning and performance evaluation purposes.

Underlying Growth compares two periods (quarters or years) of financial results under a common basis and is used by management to assess the business. These financial results are calculated on a constant currency basis and excluding the impacts of divestitures and other amounts that are unusual, non-recurring items or unrelated to our ongoing operations. Although this is not a measure defined by IFRS, Takeda believes Underlying Growth is useful to investors as it provides a consistent measure of our performance.

Takeda uses "Underlying Revenue (Note1) Growth", "Underlying Core Earnings (Note2) Growth", and "Underlying Core EPS (Note3) Growth" as key financial metrics.

	Change versus the same period of the previous year	
	%	*Billion JPY*
Underlying Revenue (Note1)	+4.2%	+34.6
Underlying Core Earnings (Note2)	+31.8%	+51.2
Underlying Core EPS (Note3)	+32.7%	+52.70 JPY

(Note1) Underlying Revenue represents revenue on a constant currency basis and excluding non-recurring items and the impact of divestitures occurred during the reporting periods presented.

In this period, the underlying revenue excludes the impact of the sale of 7 long-listed products in Japan to Teva Takeda Yakuhin Ltd. which is a subsidiary of Teva Takeda Pharma Ltd. and the impact of the divestitures of Multilab Indústria e Comércio de Produtos Farmacêuticos Ltda. and Guangdong Techpool Bio-Pharma Co., Ltd.

(Note2) Core Earnings represents net profit adjusted to exclude income tax expenses, our share of profit or loss of investments accounted for using the equity method, finance expenses and income, other operating expenses and income, amortization and impairment losses on intangible assets associated with products and other items that management believes are unrelated to our core operations, such as purchase accounting effects and transaction related costs.

In this period, the other significant items that are excluded in calculating Core Earnings include the acquisition related costs for the proposed acquisition of Shire plc.

Underlying Core Earnings represents Core Earnings based on a constant currency basis and further adjusted to exclude the impacts of divestitures occurred during the reporting periods presented.

In this period, divestitures include the impact of the sale of 7 long-listed products in Japan to Teva Takeda Yakuhin Ltd., a subsidiary of Teva Takeda Pharma Ltd. and the impact of the divestitures of Multilab Indústria e Comércio de Produtos Farmacêuticos Ltda. and Guangdong Techpool Bio-Pharma Co., Ltd.

(Note3) Underlying Core EPS represents net income based on a constant currency basis, adjusted to exclude the impact of divestitures, items excluded in the calculation of Core Earnings and other non-operating items (e.g. amongst other items, fair value adjustments and the imputed financial charge related to contingent consideration) that are unusual, non-recurring in nature or unrelated to its ongoing operations and the tax effect of each of the adjustments, divided by the outstanding shares (excluding treasury shares) as of the end of the comparative period.

In this period, the other non-operating significant items that are excluded in calculating Underlying Core EPS include the financial costs related to the proposed Shire acquisition in addition to fair value adjustments and the imputed financial charge related to contingent consideration.

- Underlying Revenue growth was +4.2% compared to the same period of the previous year, driven by the strong performance of Takeda's Growth Drivers such as ENTYVIO (for ulcerative colitis and Crohn's disease), NINLARO (for multiple myeloma), ICLUSIG (for leukemia), TRINTELLIX (for major depressive disorder) and TAKECAB (for acid-related diseases). The Underlying Revenue of Takeda's Growth Drivers grew by +9.8%.

- Underlying Core Earnings growth was +31.8%, reflecting strong Underlying Revenue growth and the positive impact of the Global Opex Initiative. Underlying Cost of Sales as a percentage of sales improved by +1.9pp reflecting a more favorable sales mix. Underlying Operating Expenses as a percentage of sales improved by +3.3pp reflecting the impact of the Global Opex Initiative. The combination of the above factors led to an improvement in the Core Earnings Margin by 5.1pp to 24.5%.

- Underlying Core EPS growth was +32.7% compared to the same period of the previous year reflecting strong Underlying Core Earnings growth of +31.8%.

(2) Outlook for Fiscal 2018

The full year forecast for consolidated reported results for fiscal 2018 has been revised from the previous forecast (announced on May 14, 2018), as follows:

Full year reported forecast for Fiscal 2018 *Billion JPY*

	Previous forecast (May 14, 2018)	Revised forecast (October 31, 2018)	vs. Fiscal 2017	
Revenue	1,737.0	1,750.0	-20.5	-1.2%
Core Earnings	309.5	330.0	+7.5	+2.3%
Operating profit	201.0	268.9	+27.1	+11.2%
Profit before tax	183.0	245.2	+28.0	+12.9%
Net profit for the year (attributable to owners of the Company)	139.0	189.5	+2.6	+1.4%
EPS(JPY)	177.91	241.82	+2.47	+1.0%

The revised forecast in the table above includes the costs incurred in the first half of fiscal 2018 related to the proposed acquisition of Shire plc by Takeda (Profit before tax impact: 19.8 billion JPY, Net profit for the year impact: 16.5 billion JPY); however, it does not include any Shire-related costs anticipated to be incurred in the second half of the fiscal year. Furthermore, the forecast does not include any projected earnings from Shire should the closing of the acquisition occur within fiscal 2018.

Takeda estimates a portion of the Shire-related costs to be incurred in fiscal 2018 to be between 40.0 billion JPY and 60.0 billion JPY. This does not include integration costs, debt interest and other financial expenses, as the amount of these expenses will change depending on the timing of deal closing.

(Reference)

A revised financial forecast that *excludes* the costs incurred in the first half of fiscal 2018 related to the proposed acquisition of Shire plc by Takeda is shown below. The previous forecast of May 14, 2018 also does not include any Shire-related expenses. As both forecasts do not include any Shire-related expenses, the below shows Takeda's ongoing business momentum on a like-for-like basis.

Billion JPY

	Previous forecast (May 14, 2018)	Revised forecast (October 31, 2018)	vs. Previous forecast	
Revenue	1,737.0	1,750.0	+13.0	+0.7%
Core Earnings	309.5	330.0	+20.5	+6.6%
Operating profit	201.0	280.0	+79.0	+39.3%
Profit before tax	183.0	265.0	+82.0	+44.8%
Net profit for the year (attributable to owners of the Company)	139.0	206.0	+67.0	+48.2%
EPS(JPY)	177.91	262.85	+84.94	+47.7%

A full year forecast that does include the estimated financial impact of the proposed acquisition of Shire will be announced by Takeda once a reasonable assumption has been confirmed.

In the revised forecast that excludes Shire-related costs, the Revenue projection has been increased by 13.0 billion JPY (+0.7%) to 1,750.0 billion JPY. The positive revenue impact from a revised outlook on launch timing of additional competitors to multiple myeloma product VELCADE in the U.S. combined with Growth Driver momentum is expected to offset factors including no longer booking revenue from divested former subsidiary Guangdong Techpool Bio-Pharma Co.. Ltd. and negative foreign currency effect.

The Operating Profit forecast has been increased by 79.0 billion JPY (+39.3%) to 280.0 billion JPY. Although we expect R&D expenses to increase, the Operating Profit margin is expected to improve for reasons such as Takeda's global cost reduction initiatives and Growth Driver momentum. Considering the strong business performance in the first half of the fiscal year, Takeda is also raising its Core Earnings forecast by 20.5 billion JPY (+6.6%) to 330.0 billion JPY.

Net profit for the year (attributable to owners of the Company) and EPS forecasts are being increased by 48.2% and 47.7%, respectively.

Management Guidance – Underlying growth

	Previous Guidance (growth %) (May 14, 2018)	Revised Guidance (growth %) (October 31, 2018)
Underlying Revenue	Low single digit	Low single digit
Underlying Core Earnings	High single digit	High teen
Underlying Core EPS	Low teens	Mid twenties

Considering the strong business performance in the first half of fiscal 2018, Takeda has upwardly revised its guidance for Underlying Core Earnings and Underlying Core EPS. The Underlying Core Earnings margin is now expected to expand versus prior year at the higher end of the 100 to 200 basis points range.

[Major assumptions used in preparing the outlook]

- ✓ FX rate assumptions: US$1 = 110 JPY, 1 Euro = 130 JPY, 1 RUB = 1.8 JPY, 1 BRL = 30.0 JPY
- ✓ R&D expense: 320.0 billion JPY
- ✓ Amortization of intangible assets associated with products: 96.0 billion JPY
- ✓ Impairment losses on intangible assets associated with products: 12.0 billion JPY
- ✓ Gain on sale of real estate: 80.0 billion JPY
- ✓ Long listed products transfer gain: 4.5 billion JPY
- ✓ Restructuring expenses: 28.0 billion JPY

[Forward looking statement]

All forecasts in this document are based on information currently available to management, and do not represent a promise or guarantee to achieve these forecasts. Various uncertain factors could cause actual results to differ, such as changes in the business environment and fluctuations in foreign exchange rates. Should any significant event occur which requires the forecast to be revised, the Company will disclose it in a timely manner.

Profit Forecast for Takeda for the year ending March 31, 2019

Takeda is currently in an offer period (as defined in the City Code on Takeovers and Mergers (the "**Code**")) with respect to Shire plc. Accordingly pursuant to Rule 28 of the Code, by publishing an "ordinary course" profit forecast in this document Takeda is required to include a statement by its Directors that such profit forecast is valid. In addition, Takeda must include in this document a confirmation by its Directors that the profit forecast has been properly compiled on the basis of the assumptions stated and that the basis of accounting used is consistent with Takeda's accounting policies.

Certain of the statements on page 7, 8, and 9 of this document in the section titled "(2) Outlook for Fiscal 2018" (repeated in the summary of the document under the section titled "3. Forecasts for Consolidated Operating Results for Fiscal 2018 (April 1, 2018 to March 31, 2019)) constitute "profit forecasts" for the purposes of the Code in relation to the year ending March 31, 2019 (the "**Takeda Profit Forecast**").

Please see page 6 for the definition of Core Earnings, Core EPS, Underlying Revenue, Underlying Core Earnings and Underlying Core EPS and an explanation of how Takeda calculates Underlying Growth.

Basis of preparation

The Takeda Profit Forecast has been prepared on a basis consistent with the accounting policies for Takeda, which are in accordance with International Financial Reporting Standards (IFRS) and those which Takeda anticipates will be applicable for the full year ending March 31, 2019.

Takeda has prepared the Takeda Profit Forecast based on the financial results for the year ended March 31, 2018, the financial results for the second quarter ended September 30, 2018 and internal management forecasts for the year ending March 31, 2019.

Assumptions

In accordance with Rule 28.4(a) of the Code, the principal assumptions upon which the Takeda Profit Forecast is based are set out below. In accordance with Rule 28.4(c) of the Code, there is a clear distinction made between assumptions which the Takeda Directors can influence and those which they cannot influence.

Assumptions within Takeda's control

- There will be no material acquisitions or disposals in the year ended March 31, 2019.

- The Takeda Profit Forecasts exclude any potential financial impact associated with the proposed acquisition of Shire plc.
- There will be no material changes to contractual terms with suppliers or customers.
- There will be no material change in the number of Takeda ordinary shares in issue.
- There will be no material change in the present management or control of Takeda or its existing operational strategy.
- Takeda's accounting policies will be consistently applied in the financial year to March 31, 2019.

Assumptions outside Takeda's control

- There will be no material change to the prevailing global macroeconomic and political conditions during the year ended March 31, 2019.
- The inflation, interest and tax rates in Takeda's principal markets will remain materially unchanged from the prevailing rates.
- There will be no material fluctuations in key currency exchange rates (please refer to detailed exchange rate assumptions on page 9).
- There will be no material change in legislation or regulatory requirements impacting on Takeda's operations or its accounting policies, including no material changes in the pricing and reimbursement environment.
- There will be no material changes in customer demand or the competitive environment in the markets in which Takeda operates.
- There will be no major declines in Takeda's overall R&D effectiveness, including in relation to new products and line extensions of existing products
- There will be no major safety or efficacy issues relating to Takeda's products.
- There will be no material litigation or disputes, the impact of which would adversely impact operational or financial performance or cause reputational damage.
- There will be no material cyber-attacks, breaches of IT security or data protection as a result of unauthorised users trying to gain access to or disrupt Takeda's IT systems.
- There will be no business disruptions that materially affect Takeda or its key customers or suppliers.
- There will be no material change in Takeda's labour costs, including medical and pension and other post-retirement benefits driven by external parties or regulations.
- There will be no major political unrest in international markets, imposition of trade restrictions, terrorist attacks, wars, malicious human acts, fraud, natural disasters, pandemics and other similar events which impact on Takeda's operational or financial performance.
- There will be no other material adverse or beneficial events outside of Takeda's control that will have a significant impact on Takeda's operational or financial performance.

Directors' confirmation

In accordance with the requirements of Rule 28.1(c) of the Code, the Takeda Directors have considered the Takeda Profit Forecast and confirm that it is valid as at the date of this document and has been properly compiled on the basis of the assumptions set out above and that the basis of the accounting used is consistent with Takeda's accounting policies.

(3) Interim Dividend for Fiscal 2018

Takeda is focused on driving shareholder returns, and the dividend is a key component of those returns.

For the six-month period ended September 30, 2018, Takeda will pay an interim dividend of 90 JPY per share. Further, a 90 JPY per share dividend is planned for the fiscal year-end. Accordingly, the total annual dividend paid to shareholders in the current fiscal year is planned to be 180 JPY per share, the same amount as the previous fiscal year.

IMPORTANT NOTICE

This document is not intended to, and does not constitute, represent or form part of any offer, invitation or solicitation of any offer to purchase, otherwise acquire, subscribe for, exchange, sell or otherwise dispose of, any securities or the solicitation of any vote or approval in any jurisdiction. No shares are being offered to the public by means of this document. This document is being given (together with any further information which may be provided to the recipient) on the condition that it is for use by the recipient for information purposes only (and not for the evaluation of any investment, acquisition, disposal or any other transaction). Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

Unless specified otherwise, no statement in this document (including any statement of estimated synergies) is intended as a profit forecast or estimate for any period and no statement in this document should be interpreted to mean that earnings or earnings per share for Takeda for the current or future financial years would necessarily match or exceed the historical published earnings per share for Takeda.

The companies in which Takeda directly and indirectly owns investments are separate entities. In this document, “Takeda” is sometimes used for convenience where references are made to Takeda and its subsidiaries in general. Likewise, the words “we”, “us” and “our” are also used to refer to subsidiaries in general or to those who work for them. These expressions are also used where no useful purpose is served by identifying the particular company or companies.

Forward-Looking Statements

This document may contain forward-looking statements, beliefs or opinions regarding Takeda’s future business, future position and results of operations, including estimates, forecasts, targets and plans for Takeda. In particular, this document contains forecasts and management estimates related to the financial and operational performance of Takeda, including statements regarding forecasts for FY2018 revenue, Core Earnings, Operating profit, Profit before income taxes, Net profit attributable to owners of the Company, Basic earnings per share, R&D expenses, Amortisation and impairment and other income/expense. Without limitation, forward looking statements often include the words such as “targets”, “plans”, “believes”, “hopes”, “continues”, “expects”, “aims”, “intends”, “will”, “may”, “should”, “would”, “could” “anticipates”, “estimates”, “projects” or words or terms of similar substance or the negative thereof. Any forward-looking statements in this document are based on the current assumptions and beliefs of Takeda in light of the information currently available to it. Such forward-looking statements do not represent any guarantee by Takeda or its management of future performance and involve known and unknown risks, uncertainties and other factors, including but not limited to: the economic circumstances surrounding Takeda’s business, including general economic conditions in Japan, the United States and worldwide; competitive pressures and developments; applicable laws and regulations; the success of or failure of product development programs; decisions of regulatory authorities and the timing there of; changes in exchange rates; claims or concerns regarding the safety or efficacy of marketed products or products candidates; and post-merger integration with acquired companies, any of which may cause Takeda’s actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking statements. Neither Takeda nor its management gives any assurances that the expectations expressed in these forward-looking statements will turn out to be correct, and actual results, performance or achievements could materially differ from expectations. Persons receiving this document should not place undue reliance on forward looking statements. Takeda undertakes no obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make. Past performance is not an indicator of future results and the results of Takeda in this document may not be indicative of, and are not an estimate, forecast or projection of Takeda’s future results.

Medical information

This document contains information about products that may not be available and in all countries, or may be available under different trademarks, for different indications, in different dosages, or in different strengths. Nothing contained herein should be considered a solicitation, promotion or advertisement for any prescription drugs including the ones under development.

2. Condensed Interim Consolidated Financial Statements and Major Notes

(1) Condensed Interim Consolidated Statement of Income

JPY (millions)

	Six months period ended September 30, 2017	Six months period ended September 30, 2018
Revenue	881,416	880,611
Cost of sales	(242,741)	(231,341)
Selling, general and administrative expenses	(297,263)	(293,783)
Research and development expenses	(155,096)	(151,432)
Amortization and impairment losses on intangible assets associated with products	(56,885)	(48,288)
Other operating income	136,935	32,331
Other operating expenses	(32,017)	(16,142)
Operating profit	234,349	171,956
Finance income	14,116	4,411
Finance expenses	(15,983)	(19,618)
Share of profit (loss) of investments accounted for using the equity method	506	4,031
Profit before tax	232,988	160,780
Income tax expenses	(60,318)	(34,291)
Net profit for the period	172,670	126,489
Attributable to:		
Owners of the Company	172,816	126,668
Non-controlling interests	(147)	(179)
Net profit for the period	172,670	126,489
Earnings per share (JPY)		
Basic earnings per share	221.43	161.76
Diluted earnings per share	219.98	160.93

(2) Condensed Interim Consolidated Statement of Income and Other Comprehensive Income

JPY (millions)

	Six months period ended September 30, 2017	Six months period ended September 30, 2018
Net profit for the period	172,670	126,489
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Changes in fair value of financial assets measured at fair value through other comprehensive income	―	13,008
Re-measurement (loss) gain on defined benefit plans	687	(163)
	687	12,845
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	86,421	66,680
Net changes on revaluation of available-for-sale financial assets	8,113	―
Cash flow hedges	1,523	1,704
Hedging cost	691	(152)
Share of other comprehensive income(loss) of investments accounted for using the equity method	36	(171)
	96,785	68,061
Other comprehensive income (loss) for the period, net of tax	97,472	80,906
Total comprehensive income (loss) for the period	270,142	207,395
Attributable to:		
Owners of the Company	269,943	207,742
Non-controlling interests	199	(347)
Total comprehensive income for the period	270,142	207,395

(3) Condensed Interim Consolidated Statement of Financial Position

JPY (millions)

	As of March 31, 2018	As of September 30, 2018
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	536,801	533,088
Goodwill	1,029,248	1,085,706
Intangible assets	1,014,264	1,067,172
Investments accounted for using the equity method	107,949	115,174
Other financial assets	196,436	221,210
Other non-current assets	77,977	90,522
Deferred tax assets	64,980	54,024
Total non-current assets	3,027,655	3,166,896
CURRENT ASSETS		
Inventories	212,944	233,304
Trade and other receivables	420,247	461,436
Other financial assets	80,646	20,281
Income taxes recoverable	8,545	7,483
Other current assets	57,912	68,130
Cash and cash equivalents	294,522	317,080
Assets held for sale	3,992	229
Total current assets	1,078,808	1,107,943
Total assets	4,106,463	4,274,839

JPY (millions)

	As of March 31, 2017	As of September 30, 2018
LIABILITIES AND EQUITY		
LIABILITIES		
NON-CURRENT LIABILITIES		
Bonds and loans	985,644	879,621
Other financial liabilities	91,223	79,619
Net defined benefit liabilities	87,611	88,822
Provisions	28,042	23,912
Other non-current liabilities	68,300	65,517
Deferred tax liabilities	90,725	120,995
Total non-current liabilities	1,351,545	1,258,486
CURRENT LIABILITIES		
Bonds and loans	18	120,913
Trade and other payables	240,259	225,752
Other financial liabilities	29,613	41,310
Income taxes payable	67,694	61,296
Provisions	132,781	144,367
Other current liabilities	263,930	250,554
Liabilities held for sale	3,214	—
Total current liabilities	737,509	844,192
Total liabilities	2,089,054	2,102,678
EQUITY		
Share capital	77,914	77,942
Share premium	90,740	81,777
Treasury shares	(74,373)	(57,167)
Retained earnings	1,557,307	1,648,094
Other components of equity	350,631	417,712
Other comprehensive income related to assets held for sale	(4,795)	—
Equity attributable to owners of the Company	1,997,424	2,168,358
Non-controlling interests	19,985	3,803
Total equity	2,017,409	2,172,161
Total liabilities and equity	4,106,463	4,274,839

(4) Condensed Interim Consolidated Statement of Changes in Equity

Six months period ended September 30, 2017 (From April 1 to September 30, 2017)

JPY (millions)

	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, 2017	65,203	74,972	(48,734)	1,511,817	221,550	–	67,980
Net profit for the period				172,816			
Other comprehensive income					86,093		8,132
Comprehensive income for the period	–	–	–	172,816	86,093	–	8,132
Issuances of new shares	754	754					
Acquisitions of treasury shares			(18,744)				
Disposals of treasury shares		0	0				
Dividends				(70,956)			
Changes in ownership							
Transfers from other components of equity				687			
Share-based compensation		8,572					
Exercise of share-based awards		(14,758)	15,907				
Transfers to non-financial assets							
Total transactions with owners	754	(5,431)	(2,836)	(70,269)	–	–	–
As of September 30, 2017	65,957	69,541	(51,571)	1,614,365	307,643	–	76,112

	Equity attributable to owners of the Company							
	Other components of equity							
	Cash flow hedges	Hedging cost	Re-measurement gain or loss on defined benefit plans	Total	Other comprehensive income related to assets held for sale	Total	Non-controlling interests	Total equity
As of April 1, 2017	1,472	–	–	291,002	–	1,894,261	54,704	1,948,965
Net profit for the period				–		172,816	(147)	172,670
Other comprehensive income	1,523	691	687	97,126		97,126	346	97,472
Comprehensive income for the period	1,523	691	687	97,126	–	269,943	199	270,142
Issuances of new shares				–		1,509		1,509
Acquisitions of treasury shares				–		(18,744)		(18,744)
Disposals of treasury shares				–		1		1
Dividends				–		(70,956)	(2,189)	(73,145)
Changes in ownership				–		–	(32,751)	(32,751)
Transfers from other components of equity			(687)	(687)		–		–
Share-based compensation				–		8,572		8,572
Exercise of share-based awards				–		1,149		1,149
Transfers to non-financial assets				–		–		–
Total transactions with owners	–	–	(687)	(687)	–	(78,469)	(34,939)	(113,409)
As of September 30, 2017	2,995	691	–	387,441	–	2,085,734	19,963	2,105,697

Six months period ended September 30, 2018 (From April 1 to September 30, 2018)

JPY (millions)

	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				126,668			
Other comprehensive income					61,937	12,954	
Comprehensive income for the period	–	–	–	126,668	61,937	12,954	–
Issuances of new shares	28	28					
Acquisitions of treasury shares			(1,158)				
Disposals of treasury shares		(0)	3				
Dividends				(71,188)			
Changes in ownership				(2,126)	230		
Transfers from other components of equity				22,032		(22,196)	
Share-based compensation		9,384					
Exercise of share-based awards		(18,375)	18,361				
Transfers to non-financial assets							
Total transactions with owners	28	(8,963)	17,206	(51,282)	230	(22,196)	–
As of September 30, 2018	77,942	81,777	(57,167)	1,648,094	334,764	75,430	–

	Equity attributable to owners of the Company							
	Other components of equity							
	Cash flow hedges	Hedging cost	Re-measurement gain or loss on defined benefit plans	Total	Other comprehensive income related to assets held for sale	Total	Non-controlling interests	Total equity
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				–		126,668	(179)	126,489
Other comprehensive income	1,704	(152)	(164)	76,279	4,795	81,074	(168)	80,906
Comprehensive income for the period	1,704	(152)	(164)	76,279	4,795	207,742	(347)	207,395
Issuances of new shares				–		56		56
Acquisitions of treasury shares				–		(1,158)		(1,158)
Disposals of treasury shares				–		3		3
Dividends				–		(71,188)	(168)	(71,356)
Changes in ownership				230		(1,896)	(15,657)	(17,553)
Transfers from other components of equity			164	(22,032)		–		–
Share-based compensation				–		9,384		9,384
Exercise of share-based awards				–		(14)		(14)
Transfers to non-financial assets	2,347			2,347		2,347		2,347
Total transactions with owners	2,347	–	164	(19,455)	–	(62,466)	(15,825)	(78,291)
As of September 30, 2018	6,064	1,454	–	417,712	–	2,168,358	3,803	2,172,161

(5) Notes to Condensed Interim Consolidated Financial Statements

(Going Concern Assumption)

Six months period ended September 30, 2018 (April 1 to September 30, 2018)
Not applicable.

(Significant Accounting Policies)

Significant accounting policies adopted for these condensed interim consolidated financial statements are the same as those adopted for the consolidated financial statements of the previous fiscal year except for the policies required by IFRS 9 'Financial instruments' ("IFRS 9") and IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15").
Takeda calculated income tax expenses for the six months period ended September 30, 2018, based on the estimated average annual effective tax rate.

IFRS 9 'Financial instruments'

IFRS 9 was adopted by Takeda as of April 1, 2018. IFRS 9 replaces the majority of the 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 of the adoption of IFRS 9 for Takeda was the re-measurement of certain available-for-sale financial instruments to fair value as of 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 (FVTOCI). 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 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 which 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 impairments upon adoption of the new standard.
The adoption of IFRS 9 has not had 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 relationships no longer qualify for hedge accounting. All hedging relationships designated under IAS39 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 retrospectively with respect to classification and measurement (including impairment) without restating previous years. 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 increased 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 components of equity. Under IFRS 9, this basis spread is separately accounted for and presented as "Hedging Cost" under other components of equity. Takeda retrospectively applied the accounting treatment of hedging cost and adjusted the comparative information. As of September 30, 2017 and March 31, 2018, the amounts retrospectively recorded as "Hedging Cost" and deducted from "Cash Flow Hedges" were 691 million JPY and 1,606 million JPY, respectively.

Classifications 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 classifications and carrying amounts of the financial liabilities.

JPY (millions)

	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
	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.

JPY (millions)

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

Measurement of Financial Instruments

Debt Instruments:

• 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. 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 provision matrix to calculate ECL. These provisions represent the difference between the carrying amount of the trade receivables and the lease receivables in the consolidated statements of financial position and the estimated net collectible amount.

• FVTOCI: Assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets 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 FVTOCI. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to net profit or loss.

• Fair value through net profit or loss (FVTPL): Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on debt instruments that is subsequently measured at FVTPL is recognized in net profit or loss.

Equity Instruments:

• Equity instruments are measured at FVTPL. However, 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. As at the reporting date, Takeda designated all its equity instruments as financial assets at FVTOCI.

Derivatives and Hedge Accounting:

• Derivatives are measured at FVTPL unless the derivative contracts are designated as hedging instruments. Gains or losses on derivatives are recognized in net profit or loss. When the derivative contracts are designated as hedging instruments in cash flow hedging relationships, the effective portion of changes in fair value of derivatives is accumulated in other comprehensive income. The currency basis spread is accounted for and presented as "Hedging Cost" under other components of equity separately from "Cash Flow Hedges".

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

These impacts of adoption of the new standard were immaterial. Takeda elected the modified retrospective method upon adoption of IFRS 15. This method requires the recognition of the cumulative effect of initially applying IFRS 15 in equity at the date of initial application of IFRS 15 (April 1, 2018) and Takeda did not restate the result of prior years. 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 six months period ended September 30, 2018, the impact from adoption of IFRS 15 on the condensed interim consolidated financial statements, compared to IAS18, was immaterial.

As the results of the adoption of IFRS 15, Takeda updated and revised the related accounting policy as follows:
Revenue on sales of Takeda products and services is recognized when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods and services to the customer, generally at the point in time of shipment to or receipt of the products by the customer, or when the services are performed. The amount of revenue to be recognized is based on the consideration Takeda expects to receive in exchange for its goods and services. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation.

The consideration Takeda receives in exchange for its goods or services may be fixed or variable. Variable consideration is only recognized when it is highly probable that a significant reversal will not occur. The most common elements of variable consideration are listed below:

• Rebates and discounts granted to government agencies, wholesalers, retail pharmacies, managed healthcare organizations and other customers are estimated and recorded as a deduction from revenue at the time the related revenues are recorded. They are calculated on the basis of historical experience and the specific terms in the individual agreements.

• Cash discounts are offered to customers and are provisioned and recorded as revenue deductions at the time the related sales are recorded.

• Sales return provisions are recognized and recorded as revenue deductions when there is historical experience of Takeda agreeing to customer returns and Takeda can reasonably estimate expected future returns. In doing so, the estimated rate of return is applied, determined based on historical experience of customer returns and considering any other relevant factors. The rate is multiplied by the amounts invoiced in order to estimate expected future returns.

Takeda also generates revenue in the form of royalty payments, upfront payments, and milestone payments from the out-licensing of intellectual property (IP). Royalty revenue earned through a license is recognized when the underlying sales have occurred. Revenue from upfront payment is generally recognized when Takeda provides a right to use IP. Revenue from milestone payments is recognized at the point in time when it is highly probable that the respective milestone event criteria is met, and a significant reversal in the amount of revenue recognized will not occur. Revenue from other services such as research and development of compounds that are out-licensed is recognized over the service period.

(Significant Changes in Equity Attributable to Owners of the Company)

Six months period ended September 30, 2018 (April 1 to September 30, 2018)
Not applicable.

(Business Combinations)

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

JPY (millions)

	Amount
Intangible assets	63,421
Other assets	5,541
Deferred tax liabilities	(10,128)
Other liabilities	(5,678)
Basis adjustments	(3,381)
Goodwill	20,228
Total	70,003

The purchase consideration was comprised of the following:

JPY (millions)

	Amount
Cash	67,319
The ordinary shares of TiGenix already owned by Takeda immediately prior to the acquisition date	2,684
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 September 30, 2018. 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 three months period ended September 30, 2018, goodwill at the acquisition date increased by 253 million JPY as a result of the adjustment to the provisional fair value, while other assets decreased by 253 million JPY.

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".

The revenue and the net profit of TiGenix for the post-acquisition period, which were recognized in the condensed interim consolidated statements of income for the period ended September 30, 2018, were immaterial.

The impact on Takeda’s revenue and net profit of TiGenix for the period ended September 30, 2018 assuming the acquisition date had been as of the beginning of the reporting period was immaterial.

(Significant Subsequent Events)

On May 8, 2018, the Company reached agreement with Shire plc (“Shire”) on the terms of a recommended offer pursuant to which the Company will acquire the entire issued and to be issued ordinary shares of Shire (the “Acquisition”).

The Company has entered into a 364-Day Bridge Credit Agreement of 30.85 billion USD (the “Bridge Credit Agreement”) to finance funds necessary for the Acquisition on May 8, 2018. The commitments under the Bridge Credit Agreement are contemplated to be reduced or refinanced. On June 8, 2018, the Company has entered into a Term Loan Credit Agreement for an aggregate principal amount of up to 7.5 billion USD to finance a portion funds necessary for the Acquisition, and upon the execution thereof, the commitments under the Bridge Credit Agreement was reduced by up to 7.5 billion USD.

Further, on October 26, 2018, the Company has entered into a Senior Short Term Loan Facility Agreement for an aggregate principal amount of up to 500 billion JPY (the “SSTL”) in order to finance a portion of the funds necessary for the Acquisition, and reduced the commitments under the Bridge Credit Agreement by 4.5 billion USD. The Company has also entered into a Subordinated Syndicated Loan Agreement for an aggregate principal amount of up to 500 billion Japanese Yen which will be used to refinance the debt to be borrowed pursuant to the SSTL.