

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2007

May 15, 2007

Listed Company Name: TAISHO PHARMACEUTICAL CO., LTD.

Stock Listing: Tokyo

Security Code: 4535

Headquarters: Tokyo

(URL <http://www.taisho.co.jp/>)

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Executive Officer, General Manager of Public Relations Section

Scheduled date for annual shareholders' meeting: June 28, 2007

Scheduled date of dividend payments: From June 29, 2007

Scheduled date for filing Securities Report: June 28, 2007

1. Financial Results for Fiscal 2006 (April 1, 2006 to March 31, 2007)

(1) Consolidated Operating Results

Note: Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Fiscal 2006	242,071	-10.8	22,357	-51.8	24,926	-49.9	15,420	-57.0
Fiscal 2005	271,407	-2.9	46,395	-15.2	49,748	-14.3	35,884	1.1

	Net income per share	Net income per share, diluted	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal 2006	50.54	—	2.8	3.8	9.2
Fiscal 2005	116.18	—	6.6	7.8	17.1

Note: Equity income from affiliates:

Fiscal 2006 ¥-2,414 million

Fiscal 2005 ¥-637 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million Yen	Million Yen	%	Yen
Fiscal 2006	631,929	547,486	86.3	1,832.24
Fiscal 2005	664,431	567,364	85.4	1,840.63

Note: Shareholders' equity:

Fiscal 2006 ¥545,621 million

Fiscal 2005 — million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal 2006	29,638	-22,812	-31,084	68,381
Fiscal 2005	38,487	-17,364	-6,888	92,195

2. Cash Dividends

Record date	Cash dividend per share			Total cash dividends	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	Interim	Year-end	Full year			
	Yen	Yen	Yen	Million Yen	%	%
Fiscal 2005	-	30.00	30.00	9,246	25.8	1.7
Fiscal 2006	-	27.00	27.00	8,045	53.4	1.5
Fiscal 2007 (Forecast)	12.00	15.00	27.00	-	45.9	-

3. Forecast of Consolidated Operating Results for Fiscal 2007 (April 1, 2007 to March 31, 2008)

Note: Percentages indicate changes over the same period in the previous fiscal year.

Fiscal 2007	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Interim	119,000	-2.4	12,500	-15.1	14,500	-11.7	9,000	-27.0	30.22
Full-year	240,500	-0.6	23,000	2.9	28,500	14.3	17,500	13.5	58.77

4. Others

- (1) Change to significant subsidiaries during the period (those changes accompanying change in scope of consolidation): No
- (2) Change to accounting policy, procedure, and method of presentation for preparing consolidated financial statements (those to be described in the section of the *Change of Significant Accounting Policies on the Preparation of Consolidated Financial Statements*)
 - i. Change due to amendment of accounting standard: Yes
 - ii. Change due to other reasons: No
- (3) Outstanding shares (common shares)
 - i. Shares outstanding at period-end (including treasury stock)

FY2006	320,465,510 shares
FY2005	320,465,510 shares
 - ii. Treasury stock

FY2006	22,676,504 shares
FY2005	12,260,749 shares

* All amounts described in this report are rounded down to the nearest million yen.

Reference: Summary of Non-consolidated Results

Financial Highlight (April 1, 2006 through March 31, 2007)

(1) Non-consolidated Operating Results

Note: Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Fiscal 2006	194,356	-12.9	21,507	-52.0	27,527	-43.8	16,749	-53.5
Fiscal 2005	223,034	-4.2	44,764	-15.0	49,018	-13.4	36,057	0.8

	Net income per share	Net income per share, diluted
	Yen	Yen
Fiscal 2006	54.86	-
Fiscal 2005	116.74	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million Yen	Million Yen	%	Yen
Fiscal 2006	614,943	551,107	89.6	1,849.42
Fiscal 2005	649,138	572,015	88.1	1,855.72

Note: Shareholders' equity:

Fiscal 2006 ¥551,107 million

Fiscal 2005 ¥572,015 million

Forecasts of Non-consolidated Operating Results for Fiscal 2007 (April 1, 2007 to March 31, 2008)

Note: Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Fiscal 2007									
Interim	96,500	-2.0	12,000	-16.5	14,500	-13.8	9,000	-15.9	30.20
Full-year	194,000	-0.2	21,500	-0.0	27,500	-0.1	18,000	7.5	60.40

*Disclaimer regarding appropriate use of forecasts and related points of note

The forecast statements shown in this document are based on information that was available at the time of preparation and a certain assumption that the Company assess as rational. Actual performance and other factors may differ materially from these forecasts due to various factors.

Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of yen)

	Fiscal 2005 March 31, 2006		Fiscal 2006 March 31, 2007		Increase/ (Decrease)
	Amount	Comp.	Amount	Comp.	Amount
Assets		%		%	
Current assets:					
Cash and deposits	155,205		131,263		(23,941)
Notes and accounts receivable-trade	76,718		72,242		(4,475)
Marketable securities	3,492		2,077		(1,415)
Inventories	23,612		22,915		(697)
Deferred tax assets	8,160		7,495		(664)
Others	4,528		4,867		338
Sub-total	271,717		240,862		(30,855)
Allowance for doubtful accounts	(561)		(445)		115
Total current assets	271,156	40.8	240,416	38.0	(30,739)
Fixed assets					
Tangible fixed assets:					
Buildings and structures	50,638		47,641		(2,996)
Machinery and equipment	10,095		9,213		(881)
Land	27,233		27,389		156
Construction in progress	5,853		9,019		3,165
Others	5,221		4,530		(690)
Total tangible fixed assets	99,041	14.9	97,796	15.5	(1,245)
Intangible fixed assets:					
Adjustment account for consolidation	9		-		(9)
Goodwill	162		133		(28)
Trademarks	6,546		4,206		(2,339)
Software	3,842		2,965		(877)
Others	198		205		7
Total intangible fixed assets	10,758	1.6	7,511	1.2	(3,247)
Investments and other assets:					
Investments in securities	261,121		260,046		(1,075)
Affiliates' stock	15,492		20,069		4576
Long-term prepaid expenses	2,615		1,697		(917)
Deferred tax assets	723		924		201
Others	3,759		3,690		(69)
Sub-total	283,713		286,429		2,715
Allowance for doubtful receivables-long term	(239)		(224)		14
Total investments and other assets	283,474	42.7	286,204	45.3	2,730
Total fixed assets	393,274	59.2	391,512	62.0	(1,762)
Total assets	664,431	100.0	631,929	100.0	(32,502)

(Millions of yen)

	Fiscal 2005 March 31, 2006		Fiscal 2006 March 31, 2007		Increase/ (Decrease)
	Amount	Comp.	Amount	Comp.	Amount
Liabilities		%		%	
Current liabilities:					
Notes and accounts payable-trade	21,798		20,380		(1,417)
Short-term loans	260		225		(35)
Accounts payable	14,062		13,698		(363)
Accrued corporate tax	7,237		6,151		(1,085)
Accrued expenses	7,875		7,463		(411)
Adjustment allowance for returns	893		889		(3)
Allowance for bonuses	3,917		3,963		46
Reserves for directors' bonuses	-		73		73
Others	1,680		1,063		(617)
Total current liabilities	57,724	8.7	53,909	8.5	(3,814)
Long-term liabilities:					
Reserves for retirement benefits	18,763		16,428		(2,335)
Reserves for directors' retirement payments	1,589		1,646		56
Deferred taxes liabilities	9,473		6,436		(3,036)
Others	7,338		6,021		(1,316)
Total long-term liabilities	37,165	5.6	30,533	4.9	(6,632)
Total liabilities	94,890	14.3	84,443	13.4	(10,447)
Minority interest	2,176	0.3	-		-
Shareholders' equity					
Common stock	29,804	4.5	-		-
Additional paid-in capital	14,935	2.3	-		-
Retained earnings	515,006	77.5	-		-
Unrealized gain on securities	34,065	5.1	-		-
Foreign currency adjustment accounts	(3,193)	(0.5)	-		-
Treasury stock	(23,253)	(3.5)	-		-
Total shareholders' equity	567,364	85.4	-		-
Total liabilities, minority interest and shareholders' equity	664,431	100.0	-		-

(Millions of yen)

	Fiscal 2005 March 31, 2006		Fiscal 2006 March 31, 2007		Increase/ (Decrease)
	Amount	Comp.	Amount	Comp.	Amount
Net assets		%		%	
Shareholders' equity:					
Common stock	-		29,804	4.7	-
Additional paid-in capital	-		14,935	2.4	-
Retained earnings	-		521,167	82.5	-
Treasury stock	-		(45,497)	(7.2)	-
Total shareholders' equity	-		520,409	82.4	-
Valuation, translation, adjustments and others:					-
Unrealized gain on securities	-		27,207	4.3	-
Deferred gain and loss from hedging	-		(16)	(0.0)	-
Foreign currency adjustment accounts	-		(1,978)	(0.3)	-
Total valuation, translation, adjustments and others	-		25,212	4.0	-
Minority interest:					
Minority interest	-		1,864	0.2	-
Total net assets	-		547,486	86.6	-
Total liabilities and net assets	-		631,929	100.0	-

Consolidated Statements of Income

(Millions of yen)

	Fiscal 2005 (April 1, 2005 to March 31, 2006)		Fiscal 2006 (April 1, 2006 to March 31, 2007)		Increase/ (Decrease)
	Amount	Comp. (%)	Amount	Comp. (%)	Amount
Net sales	271,407	100.0	242,071	100.0	(29,336)
Cost of sales	86,408	31.8	82,224	34.0	(4,184)
Gross profit on sales	184,999	68.2	159,847	66.0	(25,152)
Reversal of provision for sales returns	615		893		278
Provision for sales returns	893		889		(4)
Gross profit	184,720	68.1	159,850	66.0	(24,869)
Selling, general & administrative expenses	138,325	51.0	137,493	56.8	(831)
Operating income	46,395	17.1	22,357	9.2	(24,038)
Non-operating income					
Interest income	3,833		4,254		421
Dividend income	548		761		212
Rental income on real estate	108		105		(2)
Others	688		496		(192)
Total non-operating income	5,178	1.9	5,617	2.3	439
Non-operating expenses					
Interest expenses	4		8		3
Investment loss in affiliates using the equity accounting method	637		2,414		1,776
Others	1,182		626		(556)
Total non-operating expenses	1,825	0.7	3,049	1.2	1,223
Ordinary income	49,748	18.3	24,926	10.3	(24,822)
Extraordinary gains					
Profit on sales of investment securities	89		-		(89)
Profit on sales of fixed assets	3		4,156		4,153
Profit on sales of shares of related company	8,496		-		(8,496)
Gain on transfer to defined contribution pension plan	759		-		(759)
Gain on reversal of allowance for doubtful accounts	-		66		66
Others	-		0		0
Total extraordinary gains	9,348	3.5	4,223	1.8	(5,124)

(Millions of yen)

	Fiscal 2005 (April 1, 2005 to March 31, 2006)		Fiscal 2006 (April 1, 2006 to March 31, 2007)		Increase/ (Decrease)
	Amount	Comp. (%)	Amount	Comp. (%)	Amount
Extraordinary losses					
Evaluation loss on investment securities	0		3		2
Loss on disposal of fixed assets	574		148		(425)
Loss on sales of investment securities	1		-		(1)
Asset impairment loss	208		-		(208)
Others	-		0		0
Total extraordinary losses	785	0.3	152	0.1	(632)
Income before income taxes and minority interests	58,311	21.5	28,996	12.0	(29,315)
Corporate and inhabitants' taxes	18,625	6.9	11,857	4.9	(6,767)
Corporate tax adjustment	3,892	1.4	1,938	0.8	(1,953)
Minority interest gain (loss) of consolidated subsidiaries	(89)	(0.0)	(221)	(0.1)	(131)
Net income	35,884	13.2	15,420	6.4	(20,463)

Consolidated Statements of Changes in Net Assets

FY2006 full year (April 1, 2006 to March 31, 2007)

(Millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	29,804	14,935	515,006	(23,253)	536,493
Changes during the period					
Purchase of treasury stock				(21,826)	(21,826)
Dividends paid			(9,246)		(9,246)
Bonuses to directors and corporate auditors			(73)		(73)
Net income			15,420		15,420
Change in scope of consolidation			58		58
Increase of treasury stock by an increase of equity method application company				(417)	(417)
Changes in other than shareholders' equity during the period					
Total changes of the period	-	-	6,160	(22,243)	(16,083)
Balance as of March 31, 2007	29,804	14,935	521,167	(45,497)	520,409

	Valuation, translation, adjustments and others				Minority interest	Total net assets
	Unrealized gain on securities	Deferred gain and loss from hedging	Foreign currency adjustment accounts	Total valuation, translation, adjustments and others		
Balance as of March 31, 2006	34,065	-	(3,193)	30,871	2,176	569,541
Changes during the period						
Purchase of treasury stock						(21,826)
Dividends paid						(9,246)
Bonuses to directors and corporate auditors						(73)
Net income						15,420
Change in scope of consolidation						58
Increase of treasury stock by an increase of equity method application company						(417)
Changes in other than shareholders' equity during the period	(6,857)	(16)	1,215	(5,659)	(312)	(5,971)
Total changes of the period	(6,857)	(16)	1,215	(5,659)	(312)	(22,055)
Balance as of March 31, 2007	27,207	(16)	(1,978)	25,212	1,864	547,486

Consolidated Statements of Retained Earnings

(Millions of yen)

	Fiscal 2005 (April 1, 2005 to March 31, 2006)	
	Amount	
(Additional paid-in capital)		
Additional paid-in capital, beginning balance		14,935
Additional paid-in capital, ending balance		14,935
(Retained earnings)		
Consolidated retained earnings, beginning balance		506,797
Increase in retained earnings		
Net income for the period		35,884
Decrease in retained earnings		
Dividend	7,707	
Bonuses to directors	73	
Treasury stock retired	19,894	27,674
Consolidated retained earnings for the term, ending balance		515,006

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal 2005 (April 1, 2005 to March 31, 2006)	Fiscal 2006 (April 1, 2006 to March 31, 2007)	Increase/ (Decrease)
	Amount	Amount	Amount
Cash flows from operating activities:			
Income before income taxes and minority interests	58,311	28,996	(29,315)
Depreciation and amortization	12,809	13,137	328
Asset impairment loss	208	-	(208)
Interest and dividend income	(4,382)	(5,016)	(633)
Interest expenses	4	8	3
Profit on sales of investment securities	(8,591)	-	8,591
Loss on sales of investment securities	1	-	(1)
Evaluation loss on investment securities	0	-	(0)
Gain from sales of fixed assets	(3)	(4,156)	(4,153)
Disposal loss on fixed assets	574	148	(425)
Amortization of adjustment account for consolidation	18	111	93
Equity in net losses of affiliated companies	637	2,414	1,776
Increase (decrease) in allowance for doubtful accounts	(68)	(133)	(65)
Increase (decrease) in reserves for retirement benefits	(15,744)	(2,337)	13,407
Increase (decrease) in reserves for directors' retirement payments	62	56	(6)
Increase (decrease) in allowance for bonuses	577	46	(531)
Increase (decrease) in allowance for directors' bonus	-	73	73
(Increase) Decrease in notes and accounts receivable	2,289	4,547	2,257
(Increase) Decrease in inventories	(658)	711	1,370
Increase (decrease) in notes and accounts payable	1,385	(1,470)	(2,855)
Increase (decrease) in long-term accounts payable	5,075	(1,330)	(6,405)
Others	2,544	1,769	(774)
Subtotal	55,053	37,577	(17,475)
Interest and dividends income received	4,316	5,016	699
Interest paid	(4)	(8)	(3)
Income taxes paid	(20,877)	(12,947)	7,929
Net cash provided by operating activities	38,487	29,638	(8,849)

(Millions of yen)

	Fiscal 2005 (April 1, 2005 to March 31, 2006)	Fiscal 2006 (April 1, 2006 to March 31, 2007)	Increase/ (Decrease)
	Amount	Amount	Amount
Cash flows from investing activities:			
(Increase) Decrease in time deposits	6,767	177	(6,590)
Proceeds from sales/redemption of marketable securities	12,545	3,244	(9,301)
Payments for purchases of tangible fixed assets	(12,121)	(10,595)	1,526
Proceeds from sales of tangible fixed assets	693	4,896	4,203
Payments for purchases of intangible fixed assets	(1,285)	(830)	454
Proceeds from sales of intangible fixed assets	5	8	2
Payments for purchases of investment securities	(61,698)	(24,223)	37,474
Payments for purchases of affiliates' stock	-	(2,613)	(2,613)
Proceeds from sales/redemption of investment securities	38,009	7,384	(30,625)
Payments for acquisition of long-term prepaid expenses	(330)	(445)	(114)
(Increase) decrease in other assets	49	183	134
Net cash provided by investing activities	(17,364)	(22,812)	(5,447)
Cash flows from financing activities:			
Proceeds from short-term borrowings	345	245	(100)
Repayment of short-term borrowings	(290)	(280)	10
Payments from minority shareholders	945	-	(945)
Payments for dividends	(7,687)	(9,222)	(1,534)
Payments for acquiring treasury stocks	(200)	(21,826)	(21,626)
Others	(0)	(0)	(0)
Net cash used in financing activities	(6,888)	(31,084)	(24,195)
Effect of exchange rate changes on cash and cash equivalents	403	444	40
Net increase (decrease) in cash and cash equivalents	14,638	(23,814)	(38,452)
Cash and cash equivalents at the beginning of period	77,557	92,195	14,638
Cash and cash equivalents at the end of period	92,195	68,381	(23,814)

1. Operating Results

(1) Analysis of Operating Results

Overview of Fiscal 2006

The Self-Medication Operation Group continued to face a challenging business environment characterized by ongoing downturns in both the nutrient drink market, due to abnormal weather and other factors, and in the therapeutic drug market.

The Prescription Pharmaceutical Operation Group also continued to face a challenging operating environment, due mainly to the spread of governmental measures to reform medical expenditures, including reducing the NHI tariff (the reimbursement schedule for listed drugs) and promoting the greater use of generics.

Under these circumstances, the Taisho Group implemented extensive marketing activities focused on boosting store penetration and strengthened visits and promotional activities by academic-oriented sales personnel. Despite these activities, and partly due to the impact of a cool summer and a warm winter, net sales decreased ¥29,336 million, or 10.8%, to ¥242,071 million in fiscal 2006.

Sales by segment were as follows.

(Billions of yen)

Segment/Category	Amount	Increase (Decrease)	
		Amount	%
Self-Medication Operation Group	149.4	(25.3)	(14.5)
Over-the-counter drugs	137.7	(26.1)	(16.0)
Foods for specified health use and others	8.6	0.5	6.4
Other	3.1	(0.2)	9.7
Prescription Pharmaceutical Operation Group	92.5	(3.9)	(4.1)
Ethical drugs	79.7	(2.0)	(2.5)
Other	11.4	(0.2)	(1.8)
Royalty income	1.4	(1.6)	(54.6)

Sales in the Self-Medication Operation Group

< Over-the-counter drugs, etc.>

Sales of the Lipovitan series of nutrient drinks were ¥73.3 billion, down 19.7%. Although new products such as Lipovitan D Maxio contributed to sales, overall sales were lower than the previous year due mainly to a sluggish drinks market resulting from unsettled weather and inventory adjustments by retailers. Sales of the Pabron series of

cold remedies declined 12.6% to ¥22.8 billion, chiefly because the warm winter prevented the spread of colds. Sales of the RiUP series of hair regrowth treatments for androgenic alopecia slumped 26.8% to ¥8.7 billion due to failed efforts to attract new users. Other brands, however, posted strong sales performances, with contributions from Colac II in the Colac series of laxatives and the new plum-flavor VICKS Medicated Drops in the VICKS series that mainly comprises quasi-drug throat lozenges.

<Foods for Specified Health Use, etc.>

Sales in the Livita series of Foods for Specified Health Use fell 6.0% to ¥2.2 billion. The launch of new products could not cover the drop in sales caused by intense competition and other negative factors. Overseas, sales of nutrient drinks rose 14.9% to ¥4.9 billion.

<Others>

This category includes sales of ¥1.2 billion from consolidated subsidiaries responsible for Taisho's hotel business and related operations.

Sales in the Prescription Pharmaceutical Operation Group

<Ethical drugs>

Sales of the oral macrolide antibacterial Clarith, one of Taisho's mainstay products, decreased only 0.7% to ¥27.2 billion, mainly due to contributions from a dry syrup for children based on an improved formula, against the backdrop of drug price revisions and other adverse factors. Sales of other mainstay products, including Palux, a drug for improving peripheral circulation, PENTCILLIN, a penicillin antibacterial agent for injection purposes, OZEX, a new quinolone antibacterial agent and PASIL, a new quinolone antibacterial drug for injection purposes, declined year on year. Among other products, Tazocin, an antibacterial drug for injection purposes, performed strongly.

<Others>

Sales in this category edged down 1.8% to ¥11.4 billion.

<Royalty income>

Elsewhere, royalty income, mainly from U.S. company Abbott Laboratories, declined 54.6% to ¥1.4 billion.

On the cost front, a review of advertising, personnel and other costs drove overall selling, general and administrative (SG&A) expenses down ¥0.8 billion year on year.

On the earnings front, ordinary income declined ¥24,822 million, or 49.9%, to ¥24,926 million. The decrease was attributable to a substantial drop in gross profit, due to lower sales, a higher cost of sales ratio and other factors. Net income was down ¥20,463 million, or 57.0%, to ¥15,420 million.

Forecasts for Fiscal 2007

The Self-Medication Operation Group

For fiscal 2007, Taisho forecasts net sales of ¥149.4 billion for the Self-Medication Operation Group, mostly on a par with fiscal 2006.

Market conditions remain challenging, with concerns that the over-the-counter (OTC) drug market will continue to contract. In response, Taisho will implement extensive marketing activities focused on boosting store penetration giving priority to ensuring product value, launch new products and strengthen product-cultivation systems. Taisho is targeting net sales of OTC drugs of ¥136.7 billion, down 0.7% year on year.

Sales of the Lipovitan series of nutrient drinks are projected to decline 4.8% to ¥69.8 billion, reflecting the lingering impact of inventory reductions by retailers in the first half of the fiscal year. On the other hand, sales of the Pabron series and the RiUP series are projected to rise 3.9% to ¥23.7 billion and 17.3% to ¥10.3 billion, respectively.

Sales of Foods for Specified Health Use, etc. are expected to increase 7.4% to ¥9.3 billion.

Contributions are anticipated from the Livita series, due to the expansion of core products targeting metabolic syndrome, and the scheduled launch of several new products.

Sales of nutrient drinks overseas are projected to rise in the Asian region.

Prescription Pharmaceutical Operation Group

For fiscal 2007, Taisho expects net sales of the Prescription Pharmaceutical Operation

Group to fall 1.6% to ¥91.1 billion.

Sales of ethical drugs are forecast to edge down 0.9% to ¥79.0 billion, reflecting such negative factors as buying restraint ahead of a cut in the NHI tariff expected at fiscal year-end being mostly offset by marketing efforts and strengthened visits and promotional activities by academic-oriented sales personnel. Sales targets of Taisho's mainstay products are as follows: Clarith down 2.2% at ¥26.7 billion; Palux down 3.8% at ¥10.8 billion; PENTCILLIN unchanged year on year at ¥6.1 billion; and OZEX down 10.0% at ¥2.9 billion.

Sales in the Others category are projected to be ¥11.1 billion.

Royalty income, mainly from U.S. company Abbott Laboratories, is projected to be ¥1.0 billion.

On the earnings front, as well as the above sales projections, Taisho will review expenses and anticipates improved income from equity-method investments. As a result, full-year earnings are forecast as follows.

Fiscal year ending March 31, 2008		
	Full-year (Billions of yen)	Change (%)
Net sales	240.5	-0.6
Operating income	23.0	2.9
Ordinary income	28.5	14.3
Net income	17.5	13.5

(2) Analysis of Financial Position

As of March 31, 2007, total assets were ¥631.9 billion, a decrease of ¥32.5 billion compared with March 31, 2006. Current assets decreased ¥30.7 billion, mainly due to a decrease of ¥23.9 billion in cash and deposits. Tangible fixed assets declined ¥1.2 billion, and investments and other assets rose ¥2.7 billion, mainly due to the purchase of affiliates' stock.

Current liabilities decreased ¥3.8 billion, mainly because of a decline in notes and accounts payable-trade. Long-term liabilities decreased ¥6.6 billion, mainly because of

a decline in reserves for retirement benefits. Net assets amounted to ¥547.4 billion, mainly due to an increase of ¥22.2 billion in treasury stock, which is deducted from net assets.

Consolidated Cash Flows

Cash and cash equivalents stood at ¥68.3 billion as of March 31, 2007, representing a decline of ¥23.8 billion from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities was ¥29.6 billion, down ¥8.8 billion from the previous fiscal year. This was attributable largely to income before income taxes and minority interests of ¥28.9 billion, a decrease of ¥29.3 billion. Income taxes paid declined ¥7.9 billion to ¥12.9 billion, and depreciation and amortization amounted to ¥13.1 billion.

Cash flows from investing activities

Net cash used in investing activities was ¥22.8 billion, an increase of ¥5.4 billion compared with the previous fiscal year. Cash outflows included ¥24.2 billion in payments for purchases of investment securities and ¥10.5 billion in payments for purchases of tangible fixed assets. Cash inflows included ¥7.3 billion in proceeds from sales/redemption of investment securities and ¥4.8 billion in proceeds from sales of tangible fixed assets. Furthermore, compared with the previous fiscal year, there was a ¥37.4 billion decrease in payments for purchases of investment securities and a ¥30.6 billion decrease in proceeds from sales/redemption of investment securities.

Cash flows from financing activities

Net cash used in financing activities was ¥31.0 billion, up ¥24.1 billion from the previous year. This largely resulted from an increase of ¥21.6 billion in payments for acquiring treasury stock to ¥21.8 billion, and payments for dividends of ¥9.2 billion, up ¥1.5 billion year on year.

Cash Flow Indicators				
Equity ratio (%)	Year ended 2004/3	Year ended 2005/3	Year ended 2006/3	Year ended 2007/3
Equity ratio on a fair value basis (%)	83.2	84.3	85.4	86.3
Cash flow	104.6	114.5	109.9	101.8
Interest-bearing debt to cash flow ratio (%)	0.5	0.5	0.7	0.8
Interest coverage ratio	11,505.8	10,794.8	9,621.8	3,704.8

Notes:

Equity ratio = Equity / Total assets

Equity ratio on a fair value basis = Market capitalization / Total assets

Interest-bearing debt to cash flow ratio = Interest-bearing debt / Cash flow

Interest coverage ratio = Cash flow / Interest paid

* The above indicators are calculated based on consolidated financial figures.

* Market capitalization is calculated using the closing stock price at the end of the fiscal year multiplied by the number of shares outstanding at the end of the fiscal year (excluding treasury stock).

* Cash flow represents net cash provided by operating activities.

* Interest-bearing debt represents all liabilities posted on the consolidated balance sheets subject to interest payments. Interest paid is the amount of interest paid as shown on the consolidated statements of cash flows.

(3) Policy for Deciding Dividends of Retained Earnings

To maintain stable dividends over the long term at a high level while strengthening the company, Taisho works to increase its retained earnings. In line with Taisho's policy to strengthen the Company's competitiveness and expand and develop businesses, these retained earnings are appropriated for investments that include R&D, capital investment, licensing-in of products, equity-based business alliances and new business development. Taisho plans to introduce an interim dividend system next fiscal year. Furthermore, the Company plans to acquire treasury stock in a flexible manner with the aims of improving capital efficiency and achieving a dynamic financial policy, while comprehensively assessing fund requirements.

During the fiscal year ended March 31, 2007, the Company acquired 10,215 thousand shares of treasury stock.

From last fiscal year, Taisho's dividend policy has been linked to non-consolidated operating results for each business term. The goal is a dividend payout ratio of 30% of net income, excluding extraordinary gains.

For the fiscal year under review, both sales and earnings were substantially lower than initial forecasts. However, Taisho will not change the publicly announced dividend, taking into consideration near-term funding plans and the level of retained earnings. This represents a dividend payout ratio of 49.2%.

From next fiscal year, while maintaining the policy of consistently paying high dividends and increasing retained earnings, the Company plans to maintain a full-year dividend of at least ¥27 per share as long as there are no exceptional circumstances, even in the unlikely event that business performance worsens and the dividend payout ratio exceeds 30%.

The planned full-year dividend of ¥27 per share for next fiscal year would comprise an interim dividend of ¥12 per share and a year-end dividend of ¥15 per share.

(4) BUSINESS AND OTHER RISKS

Of the potential risks encountered by Taisho Pharmaceutical during the course of developing its business activities, those deemed to have the greatest likelihood of occurring are highlighted as follows. Forward-looking statements mentioned in this discussion of risks reflect management's beliefs and judgment as of March 31, 2007.

Legal risks and risks related to healthcare policy

Taisho Pharmaceutical's operations are subject to laws and regulations governing pharmaceutical affairs. A number of different approval and permission systems exist at each stage of pharmaceutical operations, including development, manufacturing, import and distribution. Consequently, there is a risk that Taisho Pharmaceutical's products could fail to conform to regulations at one of these stages, or that a previously granted approval could be revoked. Depending on trends in healthcare policy, health insurance systems and other changes, Taisho Pharmaceutical may also face the risk of a decline in pharmaceutical prices, among other risks.

Risks involving pharmaceutical quality, side effects and other issues

Taisho Pharmaceutical does its utmost to guarantee the reliability and quality of its

products. Nevertheless, unanticipated side effects, accidents and other factors could force Taisho Pharmaceutical to recall or halt the sales of the products affected or incur claims for damages.

Risks involving pharmaceutical development and commercialization

The development of pharmaceuticals is a lengthy process and requires a substantial amount of capital investment. There is uncertainty concerning the possibility of successfully launching products and businesses.

Risks involving the proper protection of intellectual property rights

If Taisho Pharmaceutical cannot properly protect its intellectual property rights, there is the risk that a third party might use Taisho Pharmaceutical's technology and other intellectual property and undermine the Company's competitiveness in the market. Similarly, there is also the risk that Taisho Pharmaceutical might encroach on the intellectual property rights of third parties.

Risks related to expiration of patents

Although Taisho Pharmaceutical strives to extend product life cycles, sales could be negatively impacted, for example, by the emergence of generic drugs or the switch to over-the-counter drugs produced following the expiration of patents.

Risks from lawsuits

Taisho Pharmaceutical faces the possibility of lawsuits during the course of its business activities related to product liability, environmental issues and other matters.

Risks from fluctuations in foreign exchange rates

Fluctuations in foreign currency exchange rates could affect royalties denominated in foreign currencies received from outside Japan, commercial transactions and other factors, thus impacting Taisho Pharmaceutical's operating results.

Other risks

Any deterioration in sociopolitical stability overseas could cause Taisho Pharmaceutical suffer damage, such as the destruction of overseas business sites, or downsizing or withdrawal from its businesses.

In addition, the Company is faced with various other risks, including risks related to the

external procurement of raw materials and risks associated with dependency on licenses for products developed by other companies. The above-described risks do not constitute all the risks inherent in Taisho's business activities.

2. Management Policies

(1) Taisho's Basic Management Philosophy

Taisho's mission is to contribute to society by creating and offering superior pharmaceuticals and health-related products as well as healthcare-related information and services in socially responsible ways that enrich people's lives by improving health and beauty. In line with this mission, Taisho is building a stronger business foundation so that it can steadily grow and develop even in the face of international competition.

(2) Medium- and Long-Term Management Strategies

In line with its medium-term business plan which targets fiscal 2012, the 100th anniversary of the founding of Taisho, the Company is working as follows to expand its Self-Medication Operation Group, which handles OTC drugs and health-related products, and its Prescription Pharmaceutical Operation Group, which handles ethical drugs and related businesses, and to expand its business operations.

Taisho aims to maximize corporate value by generating synergies between these two operation groups, while facilitating their growth in a well-balanced manner.

(3) Issues to be Addressed

The market environment surrounding the Self-Medication Operation Group, Taisho's mainstay business, is changing greatly in tandem with the continued aging of the Japanese population. Distribution is also forecast to change as sales systems for OTC drugs change due to the revision of the Pharmaceutical Affairs Law around 2009. In response, Taisho will focus on developing products that meet customer needs while improving sales systems. The Company will also focus on expanding the market for OTC drugs, through such means as developing switch-OTC drugs that leverage Taisho's expertise in developing ethical drugs, launching new branded drugs and by acquiring new indications. In Foods for Specified Health Use, etc., Taisho will launch new products together with developing new channels. The Company will also work to cultivate and strengthen brands so that new products are well received and strongly supported by customers. In line with this policy, Taisho will form alliances and take other actions that generate synergies between R&D, marketing and sales systems.

The operating environment of the Prescription Pharmaceutical Operation Group is becoming increasingly challenging due to ongoing measures to curtail medical expenses. In this field, Taisho will focus R&D on highly original new branded drugs that can be successful internationally, together with enhancing and strengthening the drugs pipeline by actively licensing-in promising drug candidates. In line with this policy, in the fiscal year under review Taisho licensed CT-064, a drug for osteoporosis, from Chugai Pharmaceutical Co., Ltd., and TT-063, an anti-inflammatory analgesic drug for osteoarthritis and other conditions, from Tokuhon Corporation.

Taisho Toyama Pharmaceutical Co., Ltd., a sales subsidiary for ethical drugs that Taisho jointly established with Toyama Chemical Co., Ltd., is making headway in bringing together medical representatives and other personnel transferred from both parent companies, and is working to further strengthen its sales framework and improve sales efficiency.

In overseas business activities, Taisho will establish the Company as an international leader in the nutrient drinks business. As well as working to solidify the business base for nutrient drinks in Asia, Taisho will focus on opening up the European and US markets.