

TO OUR SHAREHOLDERS:

A WORLD-CLASS PHARMACEUTICAL COMPANY: OUR VISION FOR TAKEDA

A NEW START AS THE TAKEDA PHARMACEUTICAL COMPANY

In fiscal 2003 we laid the groundwork for an aggressive effort to become an R&D-driven, world-class pharmaceutical company.

To support this initiative, we established a global management system for our marketing, production, development, research, alliance, and intellectual property management functions, along with other strategic changes. One of those moves was the creation of a new senior management structure consisting of a chief executive officer (CEO) and a chief operating officer (COO) in June 2003 to accelerate decision-making, enhance operational agility, and increase overall transparency.

Under this new structure, the chairman of the board acts as the CEO and is ultimately responsible for the performance of Takeda, including oversight of senior executives and strategic decision-making, while the president serves as the COO and is responsible for the

and practical reform to secure necessary functions.

At the annual shareholders' meeting on June 29, 2004, we changed our English name from Takeda Chemical Industries, Ltd., to one that more accurately reflects the focus of our business—Takeda Pharmaceutical Company Limited. This change was made to ensure that all of our stakeholders around the world understand Takeda's vision for becoming a truly world-class pharmaceutical company with operations that span the globe.

As we move forward we are establishing a business management structure befitting a world-class pharmaceutical company with Japanese heritage. This requires that we carefully monitor the rapidly evolving business environment in the pharmaceutical industry. We are actively watching a range of trends—including large-scale mergers in Japan and overseas, sharply increasing R&D expenses, and the worldwide promotion of measures aimed at controlling medical expenditures.

endometriosis treatment, leuprolide acetate (marketed in Japan as *Leuplin*), remained steady. Increased revenues from ethical drugs, especially these four international strategic products, brought net sales up 3.9 percent year-on-year to ¥1,086.4 billion. And income numbers set record highs:

- **Operating income grew 19.6% to ¥371.6 billion**
- **Ordinary income increased 10.1% to ¥446.1 billion**
- **Net income was up 5.0% at ¥285.3 billion**

As a result, Takeda has now reported 13, 12, and 10 consecutive fiscal years of growth in its net sales, operating and ordinary income, and net income figures, respectively.

Cash dividends per share for fiscal 2003 rose ¥12 to ¥77 per share, marking the 11th consecutive year of higher dividends.

Takeda adheres to a policy of distributing profits based on consolidated performance each year. Taking into consideration



Company's performance.

With respect to internal control, the Auditing Department, which directly reports to the President, and other related divisions and departments are conducting periodical audits of the Company itself and both domestic and overseas affiliated companies for addressing issues such as compliance, the internal control system, and the risk management. Takeda is establishing the optimal structure of corporate governance through continued

FISCAL 2003 PERFORMANCE: TAKEDA SETS NEW RECORDS

Amid the increasingly challenging environment facing the pharmaceuticals industry worldwide, net sales of the insulin sensitizer, *Actos*, and the hypertension treatment, candesartan cilexetil (marketed in Japan as *Blopress*), increased in Japan and overseas in fiscal 2003 (ended March 31, 2004). In addition, sales of the peptic ulcer treatment, lansoprazole (marketed in Japan as *Takepron*), and the prostate cancer and

the medium to long-term demand for capital required for business investments aimed at increasing corporate value, as well as future financial projections, Takeda is increasing distributions toward a target consolidated payout ratio of 30 percent.

MANAGEMENT CHALLENGES IN FISCAL 2004

With the launch of the Takeda Pharmaceutical Company in fiscal 2004, Takeda is now focused on the following challenges:

- Strengthening the R&D pipeline
- Winning greater market share through expanding core products, especially the four international strategic products
- Building a business management structure befitting our vision for Takeda

STRENGTHENING THE R&D PIPELINE

In response to the management challenges Takeda faces as it transforms into a truly world-class pharmaceutical company, the Company has identified “new sources of growth” as the most important component of our 2001-2005 Medium-term Management Plan, and we have numerous initiatives underway to strengthen our R&D pipeline. The entire Takeda team will continue to work tirelessly to create new products to succeed the four international strategic products that have been our main source of revenue in recent years. We expect to report positive results from these efforts in the near term. At the start of fiscal 2004, we determined that “strengthening the R&D pipeline” was our most critical challenge. Accordingly,

KUNIO TAKEDA
Chairman and
Chief Executive Officer



FOR TAKEDA, THIS IS WHAT IT MEANS TO BECOME A WORLD-CLASS PHARMACEUTICAL COMPANY:

- A MULTINATIONAL COMPANY, DRIVEN BY RESEARCH AND DEVELOPMENT, WHICH LEADS THE WORLD THROUGH ITS UNIQUE STRENGTHS.
- A COMPANY WITH HIGHLY INTEGRATED GLOBAL OPERATIONS.
- A COMPANY THAT MEETS THE NEEDS OF PEOPLE AROUND THE WORLD THROUGH SUPERIOR PRODUCTS AND SERVICES.
- A COMPANY THAT GROWS TOGETHER WITH ITS SHAREHOLDERS AND OTHER STAKEHOLDERS.
- AN ENERGETIC COMPANY THAT ATTRACTS AND RETAINS HIGHLY QUALIFIED PERSONNEL FROM ALL OVER THE WORLD.



YASUCHIKA HASEGAWA
President and
Chief Operating Officer

we are focused on the following three programs:

- In-house research and development
- In-licensing/alliances
- Promotion of life-cycle management (LCM)

In-house research is the most important key to our success as an R&D-driven pharmaceutical company. We are committed to strengthening our capability for discovering target compounds for new products. We do this through utilization of our genomic database and other resources, while focusing on the selected core therapeutic areas. Takeda's researchers have a passionate resolve to "do everything in our power to create new drugs" and to steadily implement the action plan for each project, which will fuel drug discovery.

We have already put measures in place to shorten the development period and increase the efficiency of investment in the development of new drugs. With the creativity, ingenuity and effort of every member of our staff—and their unflagging pursuit of solutions—we are confident of our future success. As a cornerstone of our transformation, we established the Takeda Global Research & Development Center, Inc. (TGRD) in January 2004, to accelerate decision-making in our development operations and improve the efficiency of systems and administrative processes. Takeda is also making the most of in-licensing/alliances and life-cycle management in addition to accelerating in-house R&D.

Our priority is launching new products in the United States, the world's largest pharmaceuticals market, and we are pursuing the acquisition of products that can be brought to market quickly. We established the Licensing Department that

reports directly to the president in November 2003 to add speed to our decision-making regarding in-licensing and alliances.

In the field of LCM, we are striving to maximize the added value of our core products and the compounds we now have under development. This involves integrated evaluation of the compounds from the viewpoints of novelty, market needs, investment risk, and expected profits based on strong partnerships between each of our marketing, production, development, research, alliance, and patent divisions.

WINNING GREATER MARKET SHARE THROUGH EXPANDING CORE PRODUCTS

OVERSEAS MARKET STRATEGY

In the U.S., it is no longer reasonable to expect the pharmaceuticals market to maintain continued double-digit growth. This is due to the pricing pressure being exerted by private health insurance

subsidiary of Takeda, and TAP Pharmaceutical Products Inc. (TAP), a company jointly owned by Takeda and Abbott Laboratories, are focused on increasing sales of Takeda's international strategic products. At the same time, Takeda will fortify our business initiatives in the United States.

In 2003, TPNA reported steadily increasing net sales of *Actos*, up 21.2 percent year-on-year to U.S.\$1,364 million, although growth in the number of oral anti-diabetic drug (OAD) prescriptions slowed. Additional efforts to promote the excellent product profile and stable growth in the OAD market suggest that further growth can be expected in 2004.

TAP reported 2003 sales of *Prevacid* (lansoprazole) up 1.0 percent year-on-year to U.S.\$3,190 million. Since the launch of over-the-counter competitors, the ethical proton pump inhibitor (PPI) market is experiencing a temporary contraction, but because of the availability of new

dosage forms and intensified direct to consumer (DTC) advertising, steady sales are expected to continue in 2004.

Net sales of *Lupron* (leuprolide acetate) in 2003 were down 10.1 percent to U.S.\$788 million, but we plan to recover market share in 2004 by highlighting the superiority of this brand and drug formulation.

MARKET STRATEGY FOR JAPAN

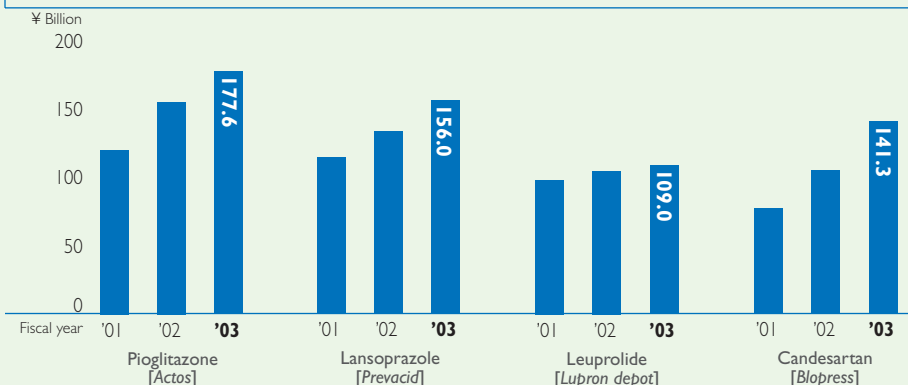
The market in Japan is dramatically changing, with the revision of National Health Insurance drug prices, aggressive expansion of foreign-capitalized companies, and mergers between Japanese companies creating an increasingly competitive environment. Despite these conditions, Takeda was able to further strengthen its market-leading position by increasing its market share for in-house drugs in the Japanese ethical market in fiscal 2003 from 5.0 percent to 5.4 percent, with *Blopress* becoming the first Takeda product to achieve sales of ¥100 billion



companies and the federal and state governments, and to market penetration by generic products. Additionally, market growth is slowing in some of Takeda's core therapeutic areas, such as treatments for peptic ulcers and prostate cancer/endometriosis, while competition with other companies' products is increasingly intense.

Within this challenging market environment, Takeda Pharmaceuticals North America, Inc. (TPNA), a wholly owned U.S.

NET SALES OF INTERNATIONAL STRATEGIC PRODUCTS



Notes: 1. Names in brackets refer to brand names.
2. Figures are consolidated net sales.



(at the National Health Insurance drug price).

We believe that our organizational strategy, which is driven by the Pharmaceutical Marketing Division, played a significant role, along with the potential of certain products and the quality of individual medical representatives (MRs).

Our strategy allows for individual success factors to be shared by all MRs and applied in their daily promotional activities. We believe that this Takeda's knowledge management can function and improve promotional efficiency not only in Japan, but also overseas.

By further refining our strengths, accurately understanding the needs of the medical profession, and adapting to the necessary changes—such as by developing more small-scale sales offices and eliminating the team leader system—we will maintain our hold on the top market share.

In addition to achieving further growth in sales of *Blopress*, the anti-diabetic drug *Basen* (voglibose), *Leuplin*, and *Takepron*, we are striving for quick penetration and expansion of new products like the osteoporosis treatment, *Benet* (risedronate), and the anti-diabetic drug, *Glufast* (mitiglinide).

BUILDING A BUSINESS MANAGEMENT STRUCTURE BEFITTING OUR VISION

To be successful in today's challenging Japanese and overseas markets against larger Western competitors, we will engage in careful study and planning, and then take decisive action to adopt more efficient management practices. Toward this end, we will capitalize on Takeda's unique creativity and management strengths as we work to build a structure that enables the Japanese headquarters to achieve effective management of its domestic and overseas subsidiaries across all organizational functions.

Fiscal 2004 is the new beginning of Takeda's transformation into a world-class pharmaceutical company.

Specifically, we are now building a global management system for each of our corporate activities: production, research, development, alliances, and intellectual property management. This new global system will centralize the management of our tripolar regional operational bases in Japan, the United States and Europe at divisions and departments located at our Japanese headquarters.

In marketing, for example, we will consider market environment needs and resources to develop optimum operational strategies for each market, building on the basic global marketing strategy established at our Japanese headquarters.

At the headquarters, we will centralize group management by building a system in which each division directly manages a designated function of each domestic and international group company.

True to the commitment of the Takeda team to take on the toughest issues head-on, the entire company is transitioning to a cost structure that will enable us to weather the economic challenges of the future. We are benchmarking all of our costs and services against standard market prices and developing plans for organizational reform and improved business processes, including efforts such as more efficient cost management of our operational practices.

TAKEDA'S MANAGEMENT MISSION AND MANAGEMENT VISION

To promote unified decision-making and management activities at the group level in

a business environment characterized by rapid globalization of management, we understand the need for a clear mission, vision, and standards for a strong foundation for growth. Out of this conviction came our "Corporate Philosophy" in April 2002. This philosophy is a condensed version of our stance on management and business activities, and includes our Management Mission, Management Vision and Corporate Values.

- **Management Mission: Explains the *raison d'être* of the Takeda Group, clarifies our mission**
- **Management Vision: Reflects our long-term goals, built upon our Management Mission and our Corporate Values**
- **Corporate Values: Constitute the basic attitudes that guide our decision-making and day-to-day activities**

The unchanging essence of the Takeda brand—the source of our "Corporate Philosophy" and the very reason Takeda exists—is the "philosophy of creating medicine." At the heart of Takeda is the devoted effort to "provide better drugs and groundbreaking new products to people all over the world." We are committed to passing on this Takeda philosophy — "Takeda-ism"—as the symbol of the Takeda Group to future generations.

Takeda is a company that creates medicine by engaging in business activities with integrity: fairness, honesty, and perseverance. We have staked our success on our ability to win people's trust in our sincerity as a company —not only in Japan, but all over the world.

For the next two years, we will continue our efforts to achieve the goals

set out in the 2001-2005 Medium-term Management Plan by changing our business structures and corporate culture. Finally, we will strive to meet the expectations of our stakeholders by implementing reforms and strengthening our business strategies to become a truly world-class pharmaceutical company.

All employees at Takeda Pharmaceutical Company are striving to maximize growth and further improve shareholder value, and we look forward to your continued support for our endeavors in fiscal 2004.



KUNIO TAKEDA
Chairman and
Chief Executive Officer



YASUCHIKA HASEGAWA
President and
Chief Operating Officer