

INTELLECTUAL PROPERTY:

EFFECTIVELY PROTECTING AND UTILIZING INTELLECTUAL PROPERTY CREATED BY R&D

MAKING INTELLECTUAL PROPERTY A CRITICAL PART OF GLOBAL BUSINESS STRATEGY

Takeda recognized the importance of patents early on, and in 1950 became the first Japanese pharmaceutical company to establish a dedicated organization to handle patents. It has steadily expanded with Takeda's growth over the years. Today, the Company's Intellectual Property Department continues to address the rapid changes taking place in the business environment. Takeda is implementing a global intellectual property strategy, which is aligned with its management vision for the Company's growth over the coming decades.

IMPORTANCE OF PATENTS FOR PHARMACEUTICAL COMPANIES

In stark contrast with some consumer goods, which may be protected by hundreds or sometimes even thousands of intellectual property rights, pharmaceutical products are often protected only by sever-

al intellectual property rights, despite the lengthy R&D period (10–15 years on average) and enormous capital investment (¥20–¥50 billion). The value of intellectual property rights for a single pharmaceutical product is therefore considerably greater than of those in other industries. It is hardly an overstatement to say that a pharmaceutical product itself represents an intellectual property right.

Accordingly, the primary concerns of intellectual property strategy at a pharmaceutical company are how best to effectively protect and utilize each discovery and development, from new drug discovery targets to final products, in the R&D process, and how best to maintain the market superiority of the Company's products.

A VITAL PART OF CORPORATE STRATEGY

To back its corporate business strategy with intellectual property rights, a company must depart from the merely conventional han-

dling of patents. A comprehensive intellectual property strategy that promotes business success is essential. Based on consideration of costs, the intellectual property strategy must be closely synchronized with the company-wide corporate business strategy as well as each individual business strategy, from the stage of initial research on new drug discovery targets to the life-cycle management of products already on the market.

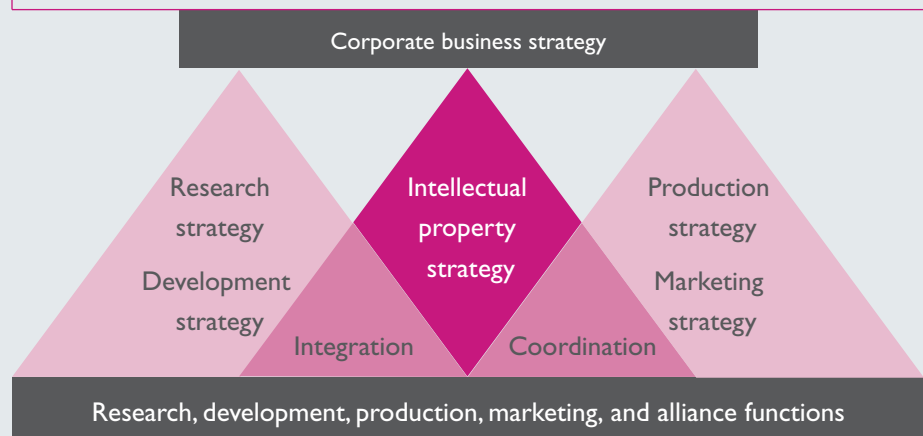
Takeda has taken this recognition one step further by devising an intellectual property strategy that seamlessly integrates research, development, production, marketing, and alliances—and is making it a key component of the Company's business strategy itself.

TAKEDA'S TRIPOLAR INTELLECTUAL PROPERTY SYSTEM

Takeda is expanding its global pharmaceutical business with the aim of becoming an R&D-oriented “world-class pharmaceutical company” of Japanese origin. To effectively



INTELLECTUAL PROPERTY STRATEGY AT TAKEDA



support these efforts, Takeda has placed the Intellectual Property Department under the direct management of the president and established a tripolar system covering Japan, the United States, and Europe.

Takeda has established a U.S. Intellectual Property Center in Chicago and a European Intellectual Property Center in London and employs patent attorneys locally. By linking these operational bases in Japan, the United States, and Europe, Takeda is able to implement a globally orchestrated intellectual property strategy.

Takeda is currently establishing an IT network linking its three regional operational bases. Based on the early acquisition and rapid evaluation and analysis of information, Takeda can anticipate and prevent, or at least minimize, risks, and can enhance the Company's ability to handle any lawsuits. Anticipating harmonization of patent practices in the three regions, Takeda is developing plans to manage a

world patent network, when world patents become available. In this context, the Company is applying for strategic patents and doing its utmost to win quick approval of patent rights, as well as strengthening the life-cycle management of its products.

The number of patent rights owned by the Company reached 3,336 at the end of fiscal 2003, with 87% of them outside Japan.

INCREASED ROYALTY INCOME

Takeda has pursued a strategy of aggressive use of intellectual property rights since 1995. This effort, in combination with increasing sales of international strategic products, has brought the Company consistent annual growth in royalty income. This income reached ¥50.5 billion in fiscal 2003, with approximately 97% coming from overseas. The balance after deducting patent royalties paid out has expanded more than fivefold since fiscal 1995.

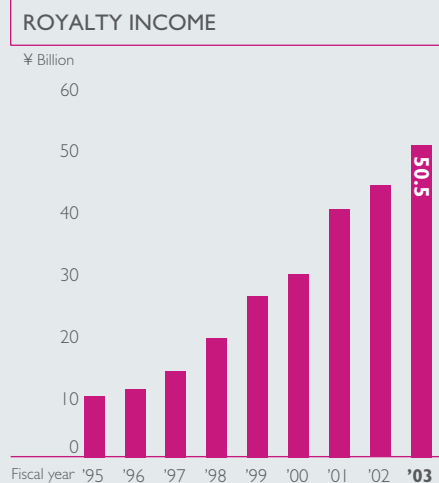
In order to constantly generate and

its kind in the Japanese pharmaceutical industry. By giving researchers greater incentives, Takeda—which already has a history of emphasizing intellectual property rights—is encouraging researchers to rise to the challenge of innovative research and turn out even more groundbreaking inventions.

Takeda's performance-based compensation system is based on the Company's unique approach to intellectual property. The Company rewards genuinely unique inventions with reasonable compensation based on worldwide sales. Takeda also gives separate rewards to those who contributed to the processes of an invention. The Company even awards reasonable compensation to researchers whose invention outcomes are licensed to third parties. With these measures, Takeda is integrating its performance-based compensation system with its intellectual property and R&D strategies, and also aligning it with its production and business strategies.

The anti-diabetic drug *Actos* (generic name: pioglitazone hydrochloride), the hypertension treatment *Blopress* (generic name: candesartan cilexetil), and the vitamin B₁ preparation *Shin Alinamin A* were selected as products subject to this type of compensation in fiscal 2003.

Takeda's performance-based compensation system already largely reflects the spirit of the recent amendment of Article 35 (on employee inventions) of Japan's Patent Law (effective beginning fiscal 2005), and the Company is now in the process of making the needed practical revisions to its rules governing employees' inventions.



continue to increase royalty income, Takeda considers and implements a variety of means of utilizing its intellectual property rights in addition to strengthening protection of its products and granting licenses to third parties.

PERFORMANCE-BASED COMPENSATION FOR RESEARCHERS

In 1998, Takeda adopted a performance-based compensation system for employees who make new inventions, the first of