

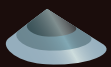


SUMMARY OF FINANCIAL RESULTS FOR FISCAL 2004: INVESTMENTS FOR TAKEDA'S FUTURE

In fiscal 2004 (ended March 31, 2005), our net sales reached ¥1,123.0 billion, up 3.4% year on year. Our pharmaceuticals business reported net sales up 3.8% to ¥970.5 billion, accounting for 86.4% of total net sales (86.1% in the previous fiscal year). The remaining 13.6% of net sales (13.9% in the previous fiscal year) came from our non-pharmaceuticals businesses, which grew 0.9% year on year, coming in at ¥152.5 billion.

The increased cost of developing new drugs is one of the factors prompting increasing numbers of global pharmaceutical companies to pursue scale merit through mergers and acquisitions, and this trend has resulted in even more intense competition in the industry. Even so, sales of Takeda's mainstay products grew, driving up revenues. Mainstay products that enjoyed higher sales in Japan included the hypertension treatment *Blopress*, the peptic ulcer treatment *Takepron*, the insulin sensitizer *Actos*, and the treatment for prostate cancer and endometriosis *Leuplin*. Mainstay products that contributed to higher net sales overseas were *Actos* in the North American market, and three products in Europe: lansoprazole (marketed in Japan as *Takepron*); *Actos*; and leuprolide acetate (marketed in Japan as *Leuplin*).

Operating income for fiscal 2004 was ¥385.3 billion, a moderate increase of 3.7% year on year. The main factor behind this relatively modest growth was greater investment in research and development, for which costs were up 9.1% year on year to ¥141.5 billion. The main factors pushing up R&D costs were our acquisition of the U.S. bioventure, Syrrx, Inc., and future-oriented investments for the in-licensing and marketing of new products. Ordinary income was ¥442.1 billion, slipping 0.9% year on year. This drop was due primarily to a decline in profit at TAP Pharmaceutical Products Inc. (TAP), an equity-method affiliate in the United States of which Takeda holds a 50% share (the remaining 50% is held by Abbott Laboratories). TAP's performance was impacted by a weakening of the markets for its main therapeutic areas, fiercer competition, and the appreciation of the Japanese yen against the U.S. dollar. As a result, net income during the term under review also dropped slightly, to ¥277.4 billion, down 2.7% year on year.



TO OUR SHAREHOLDERS

Ensuring high ethical standards and a sense of mission to be shared by all the employees—leading to our goal of becoming a world-class pharmaceutical company.

We are unsatisfied with the lack of growth in ordinary and net income during the term, but it is important to view these results from the proper perspective, considering our need for medium- and long-term growth. Our slightly lower income levels were primarily due to strategic investments to strengthen our R&D pipeline, and we are convinced that our strong commitment now will deliver positive results in the future.

We regard dividends as the return to shareholders, and it is the Company's basic policy to provide a return on profit, calculated according to the consolidated financial results for each fiscal year. Cash dividends per share applicable to fiscal 2004 were ¥88, amounting to a consolidated payout ratio of 28.1%. Our target is to increase the consolidated payout ratio for fiscal 2005 to 30%.

OUTLOOK FOR FISCAL 2005—ADDRESSING MANAGEMENT ISSUES TO ACHIEVE HIGHER TARGETS

During fiscal 2005, we plan to increase our net sales to ¥1,155.0 billion, ordinary income to ¥445.0 billion, and net income to ¥295.0 billion, representing growth over fiscal 2004 of 2.9%, 0.7% and 6.3%, respectively. We anticipate that our net sales will continue to increase, driven by our mainstay products. However, strategic increases in research and development costs, as well as selling, general and administrative expenses, will most likely act as a cap on ordinary income. We anticipate that net income for fiscal 2005 will be ¥17.6 billion more than for fiscal 2004, partly due to a gain from transfer of the substitutional portion of the pension fund for employee retirement benefits, profits from a partial transfer of Wyeth K.K. shares, and an extraordinary profit from the transfer of shares in life-environment business-related companies, namely consolidated subsidiaries and equity-method affiliates.

The 2005 fiscal year is the last year of our 2001-2005 Medium-term Management Plan, the year that we will round out and finish the plan. The four basic objectives of this Management Plan are:

- (1) To achieve ¥1 trillion in net sales of in-house ethical drugs;
- (2) To achieve complete independence for our non-pharmaceuticals businesses;

- (3) To develop new sources of growth necessary for becoming a world-class pharmaceutical company;
- (4) To establish a business management structure suitable for such a world-class pharmaceutical company.

Achievement of the first two of these objectives is basically in sight, and now is the time to get on track to sustainable growth and prepare for the leap up to the status of a world-class pharmaceutical company. We will do this by resolving outstanding issues and developing structures that ensure a smooth transition to our upcoming 2006–2010 Medium-term Management Plan. We will work toward these goals by tackling the following four priority challenges during fiscal 2005:

- Strengthening of the R&D pipeline
- Fostering the growth potential of our major products, and expanding market share
- Developing a global business management structure
- Establishing a strong and solid business structure free from the impacts of changes in the business environment

■ Strengthening of the R&D pipeline

Takeda's resolute efforts to strengthen its R&D pipeline consist of three pillar strategies: strengthening in-house research and development; actively promoting in-licensing and alliances; and adding new indications and formulations for existing products.

These efforts focus on the following four core therapeutic areas: lifestyle-related diseases; cancer, urological diseases and gynecological disorders; central nervous system and bone and joint diseases; and life-cycle management of drugs for digestive system diseases.

New products anticipated in the United States

At the present time, four mainstay products are driving Takeda's growth. These are lansoprazole, *Actos*, leuprolide acetate, and candesartan cilexetil (marketed in Japan as *Blopress*). As these products will be subjected to increasing competition from generic products in the United States one by one starting in 2009, it is our urgent task to prepare for the launch of new products to offset the negative impacts from such a situation. As part

of this effort, Takeda Pharmaceuticals North America, Inc. (TPNA) is now fervently preparing for the launch of the insomnia treatment *Rozerem* (generic name: ramelteon), which was granted approval in July this year.

Strengthening the R&D pipeline for core therapeutic areas

Takeda has positioned lifestyle-related diseases such as diabetes and hypertension as its most important therapeutic area, now that populations are aging in developed countries. This explains our strong efforts and commitment to developing drugs to treat such diseases. We are also pursuing a variety of projects in the area of cancer and urological diseases, especially for the treatment of cancers such as prostate cancer, and urological disorders. In the area of central nervous system diseases, we are promoting the development of ramelteon in Europe and Japan, in addition to the United States. In the area of life-cycle management of drugs for digestive system diseases—the therapeutic area that generates the largest portion of Takeda's current profit—we are working hard to develop products to succeed lansoprazole. In addition, as for lubiprostone, a treatment for chronic idiopathic constipation and constipation-predominant irritable bowel syndrome (c-IBS), our partner, Sucampo Pharmaceuticals, Inc., applied for approval for the treatment of chronic idiopathic constipation in March 2005.

Specifically for in-house R&D, we aim to strengthen our pipeline by investing management resources selectively into our specialty fields and priority projects, and also by shortening the development period by pursuing further efficiency in development activities.

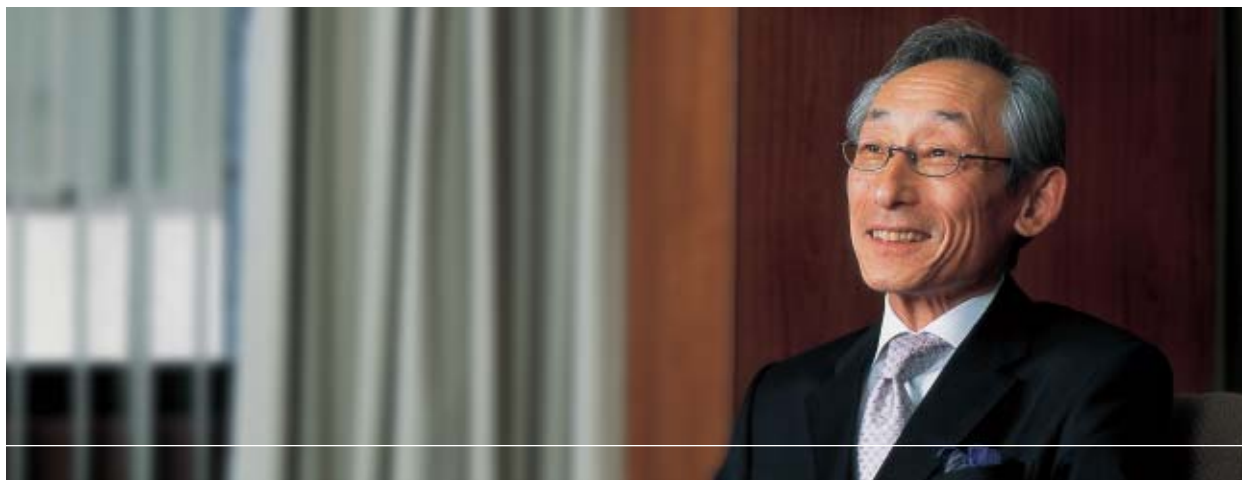
Other strategies we are employing to strengthen our R&D pipeline include ensuring appropriate life-cycle management of the products that are already on the market, and maximizing the added value of all of our products. In this regard, in Japan we have applied for approval of new indications and formulations of *Takepron* and *Leuplin*, and are now conducting large-scale post-marketing clinical studies in Europe to accumulate and add the evidence-based data of *Actos* and *Blopress*. We will continue to pursue efforts such as these, generating results to maximize the sales potential of each product around the world.

In-licensing and alliances

Takeda is aggressively conducting in-licensing and alliances activities to expand its pharmaceutical R&D pipeline, along with in-house R&D. For example, in addition to lubiprostone, we are in-licensing the chemoprotective drug agent dimesna from a venture company in the United States. In Japan, examples include the co-marketing of two products: *Glufast Tablets*, a short-acting insulin secretagogue discovered and developed by Kissei Pharmaceutical Co., Ltd., and *Enbrel*, Wyeth K.K.'s treatment for rheumatoid arthritis. The two companies began these co-marketing efforts with Takeda in May 2004 and March 2005, respectively. Overseas, examples include our joint development of 3M's medication for the treatment of human papillomavirus (HPV) infections, and Toray Industries' medication for the treatment of frequent urination and urinary incontinence.

The Takeda Group's first research base in the United States

Another significant step we took to strengthen our R&D pipeline was our March 2005 acquisition of the U.S. bioventure, Syrrx, Inc. This company, which has become the Takeda Group's first research base in the United States, has undergone a name change to Takeda San Diego, Inc. It is creating lead compounds and optimizing its development processes, by utilizing renowned high-throughput X-ray crystallography technology for analyzing protein structure, which is among the best in the world. Takeda San Diego also has an excellent R&D pipeline as proven by several promising compounds at the clinical stage in the area of treatment for cancer and diabetes. The company's advanced technologies are now being applied to Takeda's own in-house research programs, and we are confident that this acquisition will further enhance our R&D pipeline and raise the efficiency of our research processes. Further, by encouraging healthy internal competition between researchers in San Diego and those at our research bases in Japan, we are creating a stimulating environment for our researchers, and maximizing the synergetic effect of both bases working together.



■ **Fostering the growth potential of our major products, and expanding market share**

The Japanese market

To succeed in our second priority challenge of maintaining the growth potential of our mainstay products and expanding market share, Takeda must maintain its top position in the Japanese market—the home to the Group—and enhance its presence in the markets of other countries.

The goal for fiscal 2005 is to increase our share of the ethical drug market in Japan to 6%, and raise the share of the Takeda Group as a whole to 8% (including the sales of the products of affiliated companies). We intend to achieve these goals by strengthening our marketing capacity, in terms of both quality and quantity.

With foreign-owned companies making inroads, and mergers resulting in the launch of new companies of almost the same size as our company, the market in Japan is becoming more competitive than ever. However, we possess comprehensive strengths such as our well-qualified medical representatives who enjoy a strong reputation among medical professionals, our precisely targeted marketing strategies, and the abundant data on the efficacy and safety of our products that we have accumulated on a global scale. We will capitalize on these strengths to our fullest potential to further expand market share, without being satisfied with our current top position.

The overseas market

We intend to take aggressive steps overseas. In the United States, we will maintain and expand the sales of our existing mainstay products, while introducing new products. In Europe, where we have enjoyed double-digit growth in recent years, we will also expand our market share through greater sales of *Blopress* and *Actos*, taking advantage of new indications and formulations.

With the current progress in project development, Takeda Pharmaceuticals North America, Inc. (TPNA) will be able to launch one new product each year for the next three consecutive years, which will bring us to a new phase of growth as the company begins marketing multiple products, and leveraging the marketing expertise it has developed through its experience with *Actos*. The insomnia treatment *Rozerem* is the first new product for TPNA in six years, and we expect its rapid penetration since there are many patients with chronic insomnia in the United States. We intend to quickly build a position of first-line therapy for insomnia for *Rozerem* through strategic and decisive marketing investments, including hiring an additional 500 medical representatives at TPNA, with additional sales forces provided by a contract sales organization (CSO).

The market environment for the mainstay products marketed by TAP Pharmaceutical Products Inc. (TAP) has become more difficult, and this has caused some decline in its financial results. In the midst of such an environment, however, we will offer every support to TAP in its



vigorous efforts to get back on a growth track within fiscal 2005 with the launch of their first product in a decade—*Febuxostat*, intended for the management of hyperuricemia in chronic gout. We will also support their projected application for approval of a medication for uterine fibroid and endometriosis treatment scheduled for the same fiscal year. In the meantime, TAP will pursue these goals while maintaining its sales levels for *Lupron Depot* and *Prevacid* (lansoprazole).

■ Developing a global business management structure

Takeda is now developing a unified business management structure that will simply and efficiently integrate the objectives of the head office in Japan with those of our key global bases, focusing on the areas of marketing, production, research, and development.

Marketing: We will implement marketing activities appropriate to the specific environment in each country by developing business models and management structures matching that market. In line with this policy, we revised our organizational scheme so that TPNA will report directly to Takeda's president. This creates a more effective and efficient management structure.

Production: Takeda Pharma Ireland Limited, Takeda's first overseas bulk pharmaceutical manufacturing site, will begin production in fiscal 2005, under direct management of the head office in Japan.

Research: Takeda San Diego, Inc., our first overseas research base, has joined the Takeda Group. To enhance the advantages offered by this addition, we will raise the global management capacity of the head office in Japan and develop a structure that will optimize the synergies of the two locations.

Development: We will further strengthen our tripolar (Japan, U.S., Europe) system and raise its efficiency through effective management of the Takeda Global Research & Development Center Inc. (TGR&D), the Takeda Europe Research & Development Centre Ltd. (EUR&D), and the Japan Development Center.

■ Establishing a strong and solid business structure free from the impacts of changes in the business environment

Takeda will concentrate its business on its core functions, offer more advanced training programs to enhance the capacity of its human resources, and move forward with reforms to build a lean organizational structure and business management system staffed by the appropriate number of highly qualified personnel.

We will also improve cost management to reflect market cost standards and promote efficient investments and expenditures, with a view to establishing a business structure that ensures continued growth and avoids negative impacts from changes in the business environment.

TAKEDA'S MANAGEMENT MISSION— THE KEY TO OUR SUCCESS

Takeda aims to become a world-class pharmaceutical company in Japan. We plan to establish a significant global presence spanning North America, Europe and Asia while maintaining our strong presence in the Japanese market, and ensure continued high profitability and constant growth dynamism by actively investing in research and development, alliances and marketing.

Takeda is in fact smaller than some other major pharmaceutical companies in Europe and North America, but our business strategies are not intended only to pursue the expansion of our size. By concentrating our investments in research and development in the core therapeutic areas described above, we will expand and strengthen our R&D pipeline. This targeted approach will keep us on track for future growth.

A global corporation must maintain a balance between its “centrifugal force” and “centripetal force.” The centrifugal or “outward” force in this context represents the way we will be establishing and expanding a solid business foundation in overseas markets, and ensuring that stakeholders everywhere accept and support Takeda as they do local companies. The centripetal or “inward” force represents how our employees around the world must always regard themselves as part of the Takeda Group, and how all the members of the Group see themselves as part of a single, unified entity. This balanced approach is in fact an essential element in the Takeda philosophy we call “Takeda-ism.” It is the “genetic” heritage of Takeda that we have continuously cultivated since the Company was first established more than 220 years ago.

At the heart of Takeda-ism is a simple word: “integrity.” It refers to our compliance with the highest ethical standards, fairness and honesty in conducting every activity, and perseverance even when facing difficulties or challenges. This will guide us as we continue to pursue our goal—the creation of new drugs and contributing to society. This goal, which we now pursue on a global scale, has not changed since our founding, and we will continue to maintain it faithfully in the future. By promoting this “Takeda-ism,” and also the Management Mission, we will achieve the goal of striving toward

better health for individuals and progress in medicine by developing superior pharmaceutical products. With all employees in the Takeda Group sharing this Takeda-ism, we will become a world-class pharmaceutical company. We believe that it is our responsibility, as top management executives, to ensure its realization, since this will raise Takeda’s corporate value and provide returns to our shareholders and other stakeholders.

We will devote our efforts to fulfilling the expectations of all our stakeholders.



KUNIO TAKEDA
*Chairman and
Chief Executive Officer*



YASUCHIKA HASEGAWA
*President and
Chief Operating Officer*