



Chairman Kunio Takeda / President Yasuchika Hasegawa

Setting our management philosophy, "Takeda-ism" as the basis of business, we strive toward being a "world-class pharmaceutical company with Japanese origin."

SUMMARY OF ACCOMPLISHMENTS IN FISCAL 2005 ACHIEVING A RECORD HIGH IN NET SALES, OPERATING INCOME AND CURRENT NET INCOME

Net sales in fiscal 2005, which was the final year of the 2001-2005 Medium-Term Management Plan, reached ¥1.2122 trillion (a 7.9 percent increase over the previous year). Net sales of the pharmaceutical business reached ¥1.0745 trillion (a 10.7 percent increase over the previous year), which resulted in an increase of its ratio to total sales up to 88.6 percent from 86.4 percent in the previous year, contributing largely to overall increased revenue. Sales of the ethical drug business, which is our core business category, achieved ¥1.0191 trillion (an 11.4 percent increase over the previous year), exceeding the trillion yen mark for the first time.

Domestic net sales of ethical drugs reached ¥493.5 billion (a 9.2 percent increase over the previous year) and the anti-hypertension drug, candesartan cilexetil (brand name: *Blopress*, *Amias*, *Kenzen*) and anti-diabetic drug, pioglitazone hydrochloride (brand name: *Actos*) significantly boosted their sales. In addition, our core products, including the peptic ulcer drug, lansoprazole (brand name: *Takepron*, *Prevacid*, *Ogast*) and the drug for treatment of prostate cancer and endometriosis, leuprorelin acetate (brand name: *Leuplin*, *Lupron Depot*, *Enantone*), showed steady growth. Net sales of ethical drugs overseas achieved ¥525.6 billion (a 13.5 percent increase over the previous year), with an impact from the weaker yen against the dollar. In the North American market, net sales of the core product, pioglitazone expanded while a newly launched insomnia medication, ramelteon (brand name: *Rozerem*), contributed to the sales performance. In the European market, core products such as pioglitazone and leuprorelin have been performing well.

Research and development costs reached ¥169.6 billion (a 19.9 percent increase over the previous year) as proactive investments for the future, and in addition, sales administrative expenses also increased due to the expenses incurred for preparation of launching ramelteon onto the U.S. market. This increase in costs, however, was absor-

bed by an increase in gross profit driven by revenue growth, and operating income achieved ¥402.8 billion (a 4.6 percent increase over the previous year). Equity method income increased by ¥8.8 billion thanks to the contribution by TAP Pharmaceutical Products Inc. (TAP), a U.S. equity method affiliate company, while there was an increase of interest income caused by rising interest rates in the U.S. as well as generating an extraordinary profit of ¥32.6 billion. As a result, current net income achieved ¥313.2 billion (a 12.9 percent increase over the previous year), namely standing at a record high.

Takeda's Management Vision includes the concept of "a company that grows together with its shareholders and other stakeholders," and based on that, the basic policy of dividend as the return to shareholders is to provide a return on profit in accordance with the consolidated financial results of each fiscal year. In fiscal 2005, which saw record levels of performance achieved, the dividend payout ratio is set at 30 percent as previously projected, whereby the dividend per share is ¥106 (an increase of ¥18 over the previous year).

OVERALL REVIEW OF THE 2001-2005 MEDIUM-TERM MANAGEMENT PLAN

THE GROWTH TRAJECTORY, AIMING TO BE A "WORLD-CLASS PHARMACEUTICAL COMPANY WITH JAPANESE ORIGIN"

Since the 1995-2000 Medium-Term Management Plan, Takeda has been actively expanding its overseas business with the goal of becoming a "world-class pharmaceutical company with Japanese origin." For the last decade, we have achieved remarkable growth supported by superior international strategic products, such as candesartan, pioglitazone, lansoprazole and Leuprorelin. Comparing fiscal 2005 with fiscal 1995, net sales of our in-house ethical drugs (including those of the equity method affiliates), which the Company gives top priority, more than tripled in growth (¥305.6 billion to ¥1.1267 trillion) and consolidated net income achieved an increase of more than fivefold (¥59.8 billion to ¥313.2 billion).

The following is the status of achievement with respect to the four management tasks in the 2001-2005 Medium-Term Management Plan.

1. Realizing One Trillion Yen in Sales of In-House Ethical Drugs

Net sales of in-house ethical products in fiscal 2005 achieved ¥1.1267 trillion and we were able to accomplish the goal. The goals set for the business performance are shown in the chart on the right column and we think the results are at a satisfactory level for the shareholders.

2. Promoting Total Independence of Non-Pharmaceutical Businesses

In order to concentrate management resources into pharmaceutical businesses, Takeda has been restructuring our non-pharmaceutical businesses as originally planned.

3. Creation of "Sources of Growth" toward a World-Class Pharmaceutical Company

The enhancement of the R&D pipeline, which was cited as the most important management task, can be improved from what was accomplished during last five years. Namely, regarding in-house new products, with six years separating the product launch of pioglitazone in 1999 and the launch of ramelteon in 2005 in the United States. We are well positioned to overcome the future gap period of new products by reinforcing in-licensing and alliance activities, as well as the life-cycle management of existing products. However, securing self-sustained growth following the expiration of the patents for the four international

strategic products remains an ongoing challenge for the 2006-2010 Medium-Term Management Plan.

4. Establishing Corporate Management Structure appropriate for a World-Class Pharmaceutical Company

With increasing sales and number of employees in Takeda's overseas subsidiaries, we recognize that it is necessary to further promote the developing structure and management system that the Japanese head office will implement for the group-wide operations.

The Goal and Accomplishment for Business Performance in the 2001-2005 Medium-Term Management Plan		
Goal regarding ethical drugs		Accomplishments in fiscal 2005
Net sales of in-house ethical drugs	¥1.1 trillion	¥1.1267 trillion
Market share in the countries with Takeda's presence	3.0%	2.8%
Operating income margin	More than 35%	36.9%
Company-wide goal		Accomplishment in fiscal 2005
Sustainable growth of consolidated EPS	An annual average of more than 10%	An annual average of 11.6%
Consolidated ROE	17%	14.4%



2006-2010 Medium-Term Management Plan Management Tasks

Growth Toward a "World-Class Pharmaceutical Company with Japanese Origin, as based on Takeda-ism"

Thoroughly improve our own strengths such as "establishment and in-depth implementation of strategies from a long-term perspective" and "high productivity and efficiency."

1 Enhancement of capability to create new drugs through in-house R&D activities

2 Formulation of Japan, U.S., Europe, a tri-polar marketing function

3 Establishment of an efficient global management scheme for corporate headquarters' functions

4 Securing the human resources pipeline necessary for global operation

5 Pursuing the highest productivity and efficiency in each of the "MPDRAP" * functions

* M(marketing), P(production), D(development), R(research), A(alliances), P(patents)

2006-2010 MEDIUM-TERM MANAGEMENT PLAN CHALLENGE TO BECOMING A TRULY "WORLD-CLASS PHARMACEUTICAL COMPANY"

Takeda has started the 2006-2010 Medium-Term Management Plan toward becoming a "world-class pharmaceutical company with Japanese origin." During this medium-term management plan, the patent for lansoprazole, a contributor to our sales growth, will expire in the United States. In addition, we are working to prepare the countermeasures against the patent expiration of pioglitazone after this medium-term management plan. Because of these two patent expirations, the next five-year period is pivotal for Takeda in order to be recognized as a world-class pharmaceutical company with Japanese origin.

However, such challenges will not significantly undermine the basis of Takeda nurtured throughout its more than 220 years of operations. The basic philosophy of our company is condensed in Takeda-ism, namely, "Contributing to society by our determination to continue to expand the business

of creating medicines through corporate activities with integrity (fairness, honesty, perseverance)." Takeda-ism truly represents the core of all perspectives and is the value that each employee should share.

Takeda consistently strives to become a world-class pharmaceutical company by realizing our management mission: "We strive toward better health for individuals and progress in medicine by developing superior pharmaceutical products," as an R&D-oriented pharmaceutical company.

Takeda will comprehensively pursue its strength as a company of Japanese origin, which seeks the "establishment and in-depth implementation of strategies from a long-term perspective" and elaborates strategic planning and implementation from a long-term perspective" and "high productivity and efficiency." With these strengths, Takeda will be able to compete against the major global pharmaceutical companies.

In the 2006-2010 Medium-Term Management Plan, five management tasks are specified and its concrete enforcement of each task will be explained in the next section.



2006-2010 MEDIUM-TERM MANAGEMENT PLAN FIVE MANAGEMENT TASKS

In the 2006-2010 Medium-Term Management Plan, Takeda has established a comprehensive product strategy targeting sales of in-house ethical products of 2 trillion yen in fiscal 2015 with the milestone for fiscal 2010 of sales of in-house ethical products of 1.4 trillion yen. Takeda is working toward becoming a "world-class pharmaceutical company," with collective group efforts in accordance to the following five management tasks:

1. Enhancement of capability to create new drugs through in-house R&D activities

- Based on thorough review of the R&D management scheme and investments focused on the global research infrastructure, Takeda will build a structure that will enable continued launch of new products from its in-house R&D from fiscal 2011.
- Takeda will invest in in-licensing and alliance activities as supportive measures for in-house research while also enhancing the R&D pipeline to a level where the company can expect sales of in-house ethical products of 2 trillion yen in fiscal 2015.

2. Formulation of Japan, U.S., Europe, a tri-polar marketing function

- Takeda will solidify its marketing structure in three regions (Japan, U.S. and Europe), and will conduct self-sustaining and appropriate operations for respective markets. Each regional marketing function will coordin-

ate closely and directly with the headquarters in Japan.

- The target market share in fiscal 2010 in each region is maintaining a market leader position in Japan with the market share of 7 percent with in-house products, more than 1.5 percent market share by TPNA in the U.S., more than 1.1 percent market share in six countries in Europe, and more than 1.4 percent market share in the five countries in Asia. The target overall share is 2.5 percent in the countries where Takeda has its own sales channels.
- Takeda will continue solidifying the marketing structure in the U.S. and Europe, understanding the common target market share is more than 3 percent after fiscal 2010 as a global corporation.

3. Establishment of an efficient global management scheme for corporate headquarters' functions

- Takeda will conduct business operations with increased efficiency and consistency on a group-wide level. Maintaining the principles of "self-responsibility" and "self-independence," the headquarters will control the relevant functions of each group company sharing common operational policies.
- Takeda will also continue enhancing the "MPDRAP function"* by clarifying the scope of responsibility, which will lead to thorough implementation of product strategies in an integrated manner.

* This enables quick decision-making by sharing information across divisions and departments in marketing, production, development, research, alliances, and patents.

4. Securing the human resources pipeline necessary for global operation

- Globally, Takeda will improve human resource assets by systematically hiring and fostering individuals capable of managing global operations and conducting business in accordance with the corporate philosophy represented by Takeda-ism.

5. Pursuing the highest productivity and efficiency in each of the "MPDRAP" functions

- Pursuing and realizing the world's highest standard of productivity and efficiency will allow Takeda to enhance Marketing, Production, Development, Research, Alliances and Patents to a level that will enable the company to compete against major Western pharmaceutical companies.

POLICIES FOR RETURN TO SHAREHOLDERS

During the 2006-2010 Medium-Term Management Plan, as an R&D-oriented world-class pharmaceutical company, Takeda will continue conducting strategic investments to enhance its R&D pipeline and to improve the business infrastructure both in Japan and overseas. This will enable sustainable growth of our corporate value.

As for profits, Takeda is planning to conduct share buy-back in order to improve capital efficiency and promote expeditious financial strategies, taking into consideration its overall capital requirements and continuing a stable increase of the dividend payout ratio.

The basic dividend policy for the next five years continues to be return of profits to shareholders according to consolidated results from a long-term perspective. Takeda

plans to gradually increase the consolidated dividend payout ratio to approximately 45 percent by fiscal 2010.

2006-2010 MEDIUM-TERM MANAGEMENT PLAN OUTLOOK FOR FISCAL 2006

In fiscal 2006, the first year of the 2006-2010 Medium-Term Management Plan, we plan to achieve net sales of ¥1.23 trillion (a 1.5 percent increase over the previous year), an operating income of ¥390 billion (a 3.2 percent decrease over the previous year) and a current net income of ¥320 billion (a 2.2 percent increase over the previous year).

As for net sales, with the growth of our core products, we expect an increase in revenue through absorption of the negative impact from such factors as the National Health Insurance (NHI) drug price revision in domestic market, transfer of the business of Takeda Food Products, Ltd., and the fluctuation of the currency exchange or the appreciation of the yen.

Although operating income is expected to decrease due to the significant increase in R&D costs, we believe these costs are an indispensable investment to accomplish the management task of "enhancing capability to create new drugs through in-house R&D activities." The current net income is expected to increase by ¥6.8 billion from the previous year, with the significant gain resulting from the transfer of Takeda Food Products, Ltd. and the capital gain resulting from the partial transfer of Wyeth K.K. stakes. In addition, we expect an improvement of non-operating profit and loss.

2006-2010 Medium-Term Management Plan Business Goal in Fiscal 2010

Enhancement of R&D pipeline, toward sales of in-house ethical products of **2 trillion yen** in fiscal 2015

Sales of in-house ethical products: **1.4 trillion yen**

Market share: **2.5 percent** (weighted average of countries where Takeda has its own sales channels)

R&D expenses: Up to **20 percent** of the sales of ethical products

Earnings per share (EPS): More than **7 percent** average increase per year (excluding extraordinary gain and loss)

Return on equity (ROE): **Maintain current level**

Takeda-ism and CSR

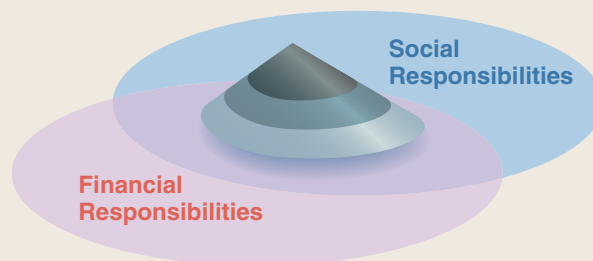
Last year, Takeda issued a Corporate Social Responsibility (CSR) Report for the first time which included a compilation of our expanding CSR activities. The concept of CSR is nothing new to Takeda. We recognize its importance in our everyday activities and have adopted a commitment to CSR in our company philosophy of — Takeda-ism — which commits to "Contributing to society by producing medicine through integrity (fairness, honesty and perseverance) in corporate activities."

To streamline the information presented, we have decided to report Takeda's financial results as well as our CSR activities in a single document. This combined report outlines how the development of superior pharmaceutical products is the cornerstone of our business and our social contributions.

At Takeda, we believe the 2006-2010 Medium-Term Management Plan is crucial to our success. In order to accomplish the goals this plan outlines, we must be determined and have the vision of a truly global pharmaceutical company for the future.

Throughout our more than 220-year history, Takeda has faced a number of difficulties; however we always find ways to overcome them by recognizing the importance of the essential elements of our business. We believe, by sharing Takeda-ism and its true meaning with each of the Takeda group employees, we can pave the way to become a "world-class pharmaceutical company," contributing to the future of mankind.

Takeda will continue to enhance our value by building a relationship of trust as we conduct our business activities based on Takeda-ism with our stakeholders worldwide.



We believe we must continue balancing our social responsibilities with our financial responsibilities in order to contribute to society worldwide.

Chairman
Kunio Takeda

President
Yasuchika Hasegawa