

### (3) Results of Operations and Financial Position

#### 1. Summary of Results for the Fiscal Year

##### 1) Overview of Results

In the ethical pharmaceutical industry, R&D costs rose sharply and competition among multinational companies further intensified amid a lack of new products worldwide, together with a slowdown in market growth due to stronger measures to restrain healthcare costs in advanced countries.

The United States market, which is the world's largest, maintained a year-on-year growth rate of more than 10 percent. However, the high growth of recent years is beginning to show signs of slowing due to factors including measures to promote generic drugs at the federal level and to reduce drug prices at the state level. In Japan, a revision to the National Health Insurance (NHI) prices for drugs was implemented in April 2002, and the size of the market for the fiscal year showed almost no growth from the previous year. In Europe, measures to contain healthcare costs were enacted in various countries, and market growth was generally slow.

In response to this business environment, to achieve the objectives of the 2001-2005 Medium-Term Management Plan, Takeda continued to take steps to expand sales of core products, focusing on international strategic products, and to enhance its R&D pipeline. In non-pharmaceutical businesses, Takeda further promoted measures to shift to optimal business structures.

Consolidated results for the fiscal year were as follows:

		<u>Year-on-year change</u>	
Net sales	¥1,046.0 billion	¥41.0 billion	(4.1%) increase
Operating income	¥310.6 billion	¥29.4 billion	(10.5%) increase
Ordinary income	¥405.1 billion	¥45.9 billion	(12.8%) increase
Net income	¥271.7 billion	¥36.1 billion	(15.3%) increase

**Net sales** totaled ¥1,046.0 billion, a year-on-year increase of ¥41.0 billion (4.1 percent). Sales of ethical drugs increased ¥89.5 billion (11.7 percent) over the previous fiscal year, contributing to the overall growth in sales. In addition, the decline in the value of the yen increased net sales by ¥8.2 billion. To strengthen its business foundation in Europe, in April 2002, Takeda acquired all the shares of German marketing company Takeda Pharma GmbH and its marketing subsidiaries Takeda Pharma Ges.m.b.H (Austria) and Takeda Pharma AG (Switzerland), and added these companies as wholly owned consolidated subsidiaries, which increased net sales by ¥19.6 billion. However, the transfers of the food, agricultural chemicals and latex businesses decreased net sales by ¥44.9 billion.

**Operating income** increased ¥29.4 billion (10.5 percent) from the previous fiscal year to ¥310.6 billion. Gross profit increased ¥78.5 billion, and the gross margin improved 4.9 percentage points to 73.1 percent, due to growth in sales of high-value-added products, primarily in-house ethical drugs. This offset higher R&D expenses and increased selling costs for business in the United States and Europe.

**Ordinary income** increased ¥45.9 billion (12.8 percent) to ¥405.1 billion, due to the increase in operating income, as well as a ¥14.3 billion increase in equity in earnings of affiliates.

**Net income** increased ¥36.1 billion (15.3 percent) to ¥271.7 billion, as a result of the increase in ordinary income, in addition to an extraordinary gain recorded on the transfer of the food and agricultural chemicals businesses and the transfer of stock of Shimizu Pharmaceutical Co., Ltd.

## 2) Cash Flows

Cash flows for the fiscal year continued to result in a net surplus, totaling ¥324.6 billion, despite increased taxes and dividends paid, because of factors such as an increase in dividend income from companies accounted for by the equity method, proceeds from the transfer of the food and agricultural chemicals businesses and proceeds from the transfer of stock of Shimizu Pharmaceutical Co., Ltd. As a result, cash and cash equivalents (marketable securities and time deposits that mature or are redeemable within 3 months of the date of acquisition) at the end of the period were ¥1,022.9 billion.

## 3) Cash Dividends

The Company's basic policy is to return profits to shareholders according to consolidated results for each accounting period. In addition, the Company seeks to make a stable distribution of profits, taking into overall consideration the Company's financial condition and medium- to long-term capital requirements for business investments to increase the value of the Company.

Retained earnings are primarily allocated to investments leading to future growth, such as research and development of ethical drugs and reinforcement of business operations in Europe and the United States. Subject to the approval at the Ordinary General Shareholders' Meeting on June 27, 2003, the Company plans the acquisition of its own shares to improve capital efficiency and also to implement more flexible financial operations in response to the business environment.

For the year ended March 31, 2003 the Company plans to pay cash dividends of ¥65.00 per share, an increase of ¥5.00 from the previous fiscal year. This total comprises a year-end dividend of ¥33.00 per share and an interim dividend of ¥32.00 per share.

## 4) Results by Segment

### (1) Business Segments

(Consolidated sales by segment below represent net sales to outside customers in each segment.)

[Pharmaceuticals Segment]

	Net Sales		Operating Income	
	Amount	Year-on-year change	Amount	Year-on-year change
Pharmaceuticals-total	928.2	84.9	306.4	34.2
Ethical Drugs	856.4	89.5		
Domestic	462.0	20.2		
Overseas	394.4	69.2		
Consumer Healthcare	71.8	(4.5)		

The **Pharmaceuticals** segment posted an increase of ¥84.9 billion (10.1 percent) in net sales over the previous fiscal year to ¥928.2 billion. Operating income increased ¥34.2 billion (12.6 percent) to ¥306.4 billion, as the increase in gross profit absorbed higher R&D expenses and selling, general and administrative expenses.

In the **Ethical Drugs** business, net sales were ¥856.4 billion, an increase of ¥89.5 billion (11.7 percent) from the previous fiscal year.

In the **domestic** market, Takeda focused on providing high-quality scientific information to expand sales of core products and maintain our solid competitive advantage amid increasing competition from foreign companies. As a result, sales of the hypertension treatment *Blopress* increased substantially during the fiscal year to ¥70.1 billion. Sales of the peptic ulcer treatment *Takepron* grew steadily to ¥33.9 billion, supported by the launch of a new orally disintegrating tablet formulation in June 2002 and the launch of *Lansap*, a combination pack with two other drugs for the eradication of *Helicobacter pylori*, in December 2002. Sales of two other core products, *Basen*, an improving agent for postprandial hyperglycemia in diabetes mellitus, and *Leuplin*, a treatment for prostate cancer and endometriosis, also increased, and the May 2002 launch of the osteoporosis treatment *Benet* also contributed to sales. As a result, net sales of ethical drugs in Japan absorbed the effects of the revision of NHI drug prices and increased ¥20.2 billion (4.6 percent) over the previous fiscal year to ¥462.0 billion.

Takeda transferred all of its shares of Shimizu Pharmaceutical Co., Ltd., an affiliate accounted for by the equity method, in December 2002, and terminated its exclusive sales contract with the company on March 31, 2003.

In **overseas** markets, Takeda's international strategic pharmaceuticals, including *Actos* for the treatment of diabetes, lansoprazole (domestic brand name: *Takepron*) for the treatment of peptic ulcers, leuprolide acetate (domestic brand name: *Leuplin*) for the treatment of prostate cancer and endometriosis, and candesartan cilexetil (domestic brand name: *Blopress*) for the treatment of hypertension, continued to post sales growth. As a result, overseas net sales of ethical drugs increased ¥69.2 billion (21.3 percent) year-on-year to ¥394.4 billion.

In research and development, the Company increased investments to enhance its R&D pipeline as a generator of growth and to strengthen and speed up activities for the soonest possible launches of new products to add to its existing portfolio of core products.

Regarding in-house research and development, the Company is selectively working to strengthen research activities in the core area of lifestyle-related diseases, reinforce its ability to identify drug discovery targets through the use of resources such as genomic information, speed up its development projects and maximize the value of existing products by adding new indications and formulations. During the fiscal year, the Company started a five-year partnership with the Oxford Centre for Diabetes, Endocrinology and Metabolism in the United Kingdom, and also began joint research into the seeds of new therapies for diabetes and obesity with the Beth Israel Deaconess Medical Center of Harvard Medical School in the United States.

The Company also conducts in-licensing and alliance activities, which are as important as in-house research and development in enhancing the R&D pipeline. In August 2002, the Company entered into a co-marketing agreement in Japan with Kissei Pharmaceutical Co., Ltd. for mitiglinide, a short-acting insulin secretagogue to suppress postprandial hyperglycemia created and developed by Kissei Pharmaceutical.

In the **Consumer Healthcare business**, *Hicee White 2*, which fades age spots and freckles, was launched in May 2002 and sold well. However, the effects of the weak market and decreased sales of *Alinamin* tablets and *Alinamin* health tonics resulted in net sales of ¥71.8 billion, a decrease of ¥4.5 billion (6.0 percent) compared with the previous fiscal year.

[Non-Pharmaceutical Businesses]

(Billions of yen)

	Net Sales		Operating Income (Loss)	
	Amount	Year-on-year change	Amount	Year-on-year change
Non-Pharmaceutical-total	117.7	(43.9)	4.3	(4.6)
Vitamin & Food	45.8	(21.2)	(1.2)	(1.3)
Chemical Products	49.5	(0.9)	2.9	(1.1)
Other	22.3	(21.7)	2.6	(2.1)

Total net sales of **non-pharmaceutical businesses** decreased ¥43.9 billion (27.2 percent) from the previous fiscal year to ¥117.7 billion. Operating income decreased ¥4.6 billion (51.9 percent) to ¥4.3 billion.

In the **Vitamin & Food** segment, net sales were limited to ¥45.8 billion, a decrease of ¥21.2 billion (31.7 percent) from the previous fiscal year, mainly due to the effect from the transfer of the food business in April 2002 (a decrease of ¥23.6 billion). Operating loss was ¥1.2 billion, compared with operating income of ¥0.1 billion in the previous fiscal year.

In the **Chemical Products** segment, although sales of wood preservatives increased in the Life-Environment business, due to decreased sales of activated carbon and the effect of the transfer of the latex business in October 2002, net sales declined ¥0.9 billion (1.9 percent) from the previous fiscal year to ¥49.5 billion, and operating income declined ¥1.1 billion (28.4 percent) to ¥2.9 billion.

In order to continue to maintain its competitive advantage and conduct more efficient business operations, on April 1, 2003, Takeda's Life-Environment business was separated from the Company and started operations as Japan EnviroChemicals, Ltd., a wholly owned subsidiary.

In **Other businesses**, Sumitomo Chemical Takeda Agro Company, Ltd., a joint venture with Sumitomo Chemical Co., Ltd., began operations in November 2002 and took over Takeda's agricultural chemicals business. As a result of this transfer (a decrease of ¥20.0 billion), net sales decreased ¥21.7 billion (49.3 percent) from the previous fiscal year to ¥22.3 billion, while operating income decreased ¥2.1 billion (45.0 percent) to ¥2.6 billion.

(2) Geographical Segments

Geographical segments are classified as domestic or overseas according to the location of the consolidated group companies. Exports from Takeda to its consolidated group companies and unconsolidated affiliates accounted for by the equity method are included in net sales and operating income of the domestic segment.

(Billions of yen)

	Net sales		Operating income	
	Amount	Year-on-year change	Amount	Year-on-year change
Domestic segment	879.3	(14.5)	285.0	(0.5)
Overseas segment	237.1	68.4	22.1	20.0
Intersegment transactions	(70.4)	(12.8)	3.4	9.8
Total	1,046.0	41.0	310.6	29.4

Note: In accordance with rules for consolidated financial statements, equity in earnings of affiliates is recorded as non-operating income.

## 2. Outlook for the Next Fiscal Year

### Outlook for Consolidated Results

		Year-on-year change
Net sales	¥1,050.0 billion	¥3.9 billion (0.4 percent) increase
Ordinary income	¥406.0 billion	¥0.8 billion (0.2 percent) increase
Net income	¥259.0 billion	¥12.7 billion (4.7 percent) decrease
Net income excluding extraordinary gain and loss	¥259.0 billion	¥0.5 billion (0.2 percent) increase

### Net Sales

Growth in sales of core products such as *Blopress* and *Takepron* in Japan and continued expansion in sales of *Actos* in the United States are expected to absorb the decrease in sales due to the transfer of the agricultural chemicals business, the discontinuation of sales of products of Shimizu Pharmaceutical Co., Ltd. and the weak U.S. dollar. As a result, a slight increase in sales compared to the previous year is projected.

### Ordinary Income

Gross profit is projected to increase due to growth in sales of ethical drugs, while R&D expenses will also be increased to strengthen the pipeline for the soonest possible launch of new products. As a result, a slight increase in ordinary income is projected.

### Net Income

Takeda does not expect to record an extraordinary gain. Therefore, net income is projected to decrease year-on-year, although net income excluding extraordinary gain and loss is projected to increase slightly.

### [Assumptions of the Outlook]

The exchange rate for the next fiscal year is assumed to be US\$1 = ¥115 and 1 euro = ¥125.

### [Note Concerning the Projections Above]

The results outlook is calculated according to judgments based on information available to management at the present time. Certain risks and uncertainties could cause actual results to differ from these projections.