

## **(5) Basic Policies and Implementation of Measures concerning Corporate Governance**

Takeda seeks to enhance compliance and internal control as well as improve organization structure, so as to accurately assess changes in the external environment, such as increasing competition in the market, the continuing implementation of various measures to contain healthcare expenditures worldwide and large-scale corporate consolidation in Japan and abroad, and thereby quickly find the best ways to respond to such changes.

### **1. Management Structure**

Starting in June 2003, Takeda established a new senior management structure designed to promote faster, more efficient decision-making. The Chairman of the Board, serving as Chief Executive Officer, oversees the whole Takeda Group, supervises management and performs strategic decision-making for management in general. The President, as Chief Operating Officer, supervises overall execution of business operations.

Under this structure, as part of its task of establishing an operating structure suited to a world-class pharmaceutical company originating in Japan, Takeda is promoting the strengthening of collaboration between headquarters and overseas subsidiaries and affiliates by stipulating global operating standards for every function of business units and headquarters divisions.

### **2. Compliance**

As demonstrated in its management mission, Takeda believes that it must not only comply with laws and regulations, it must also maintain high ethical standards to justify the trust placed in us by society, since Takeda is a company that manufactures and markets pharmaceuticals related to human life. Therefore, Takeda is promoting company-wide compliance measures by institutionalizing the “Takeda Compliance Program,” to clearly define a code of conduct for management and employees to follow, thereby to ensure that Takeda management complies with laws and corporate ethics (compliance).

### **3. Audit System**

#### **(1) Audit by Corporate Auditors**

Based on the corporate auditor system adopted by Takeda, each auditor attends Board of Directors' meetings and other important meetings and expresses his/her opinions, appropriately conducting rigorous periodic audits of business execution conditions according to the policies and scope of work determined by the Board of Auditors.

#### **(2) Internal Audit**

At Takeda, periodic internal auditing is conducted and strengthened under the control of the Auditing Department, an independent function reporting directly to the president, who acts its role in collaboration with and assigns a partial role to each related division, such as Finance & Accounting Department.

From this fiscal period, Takeda introduced a “Control Self-Assessment” program for each business unit and domestic and overseas affiliate companies, that is designed to self-check the internal control system over financial reporting.

#### **(3) Accounting Audit**

The certified public accountants that conducted accountancy services for Takeda during the fiscal 2004 were Mr. Masao Takagi (for eight fiscal periods, including this term) and Mr. Shojiro Yoshimura of Deloitte Touche Tohmatsu. In addition, the assistants comprised six certified public accountants, five junior accountants and eight other persons.

The audit fees for this fiscal term were as follows.

Compensation pursuant to Article 2-1 of Certified Public Accountant Law (Law No. 103, 1948) ¥ 132 million

Compensation pursuant to other than above ¥ 35 million

#### 4. Board of Directors, Directors' and Auditors' Remuneration

Takeda had nine directors (including no outside directors) and four auditors (including three outside auditors) as of March 31, 2005, and has established no voluntary committees. There are no personal, equity or business relationships, nor any other interests, between Takeda and the outside auditors. As a rule, Board of Directors' meetings are held once a month to resolve and report on important matters concerning Takeda's management.

The directors' and auditors' remuneration paid in this fiscal period were as follows:

Remuneration paid to directors	¥ 641 million
Remuneration paid to auditors	¥ 134 million

(Note) The above figures include bonus to directors by appropriation of retained earning and retirement bonus to retiring directors.

The above figures do not include that portion of employee remuneration paid to directors having duties in employee capacity.

#### (6) Litigation

Regarding losses alleged to have been sustained as a result of marketing and sales practices for *Leuplin* (U.S. brand name: Lupron Depot), a treatment for prostate cancer and endometriosis by TAP Pharmaceutical Products Inc. (TAP), in which Takeda's wholly owned subsidiary Takeda America Holdings, Inc. owns a 50 percent stake (the other 50 percent is owned by Abbott Laboratories), civil (class) actions have been brought against TAP, Abbott Laboratories and Takeda in federal and state courts by patients, insurance companies and others, in which plaintiffs claim damages due to price discrepancies between the AWP (Average Wholesale Prices) as made publicized by independent industry compendia and the actual sales prices (the lawsuits alleging similar causes of actions are sometimes collectively called as "AWP Suits"). In negotiating reconciliation with these Lupron AWP suits, TAP, Abbott and Takeda concluded a class and another settlement agreement with plaintiff attorneys on November 15, 2004, which will release TAP, Abbott and Takeda on condition that TAP pay \$150 million. The proposed settlement was on November 24, 2004, preliminarily approved and is under the review for the final approval by the United States District Court for the District of Massachusetts in Boston. Apart from the above suits, industry-wide AWP Suits involving numerous U.S. major pharmaceutical companies have been under dispute. As part of the industry-wide civil litigations, several actions have been brought against TAP and Takeda Pharmaceuticals North America Inc. (a consolidated subsidiary of Takeda, "TPNA") in federal and state courts, in regard to medicinal products other than *Leuplin*; Takeda is also a defendant in some litigations together with the above companies.

In addition, regarding pharmaceutical patents for *Leuplin*, a lawsuit claiming remuneration for employee invention has been brought against Takeda in Tokyo District Court by complainants, who allegedly justified their action on the basis that they inherited the right to claim the consideration of certain employee invention valued at ¥ 37.2 billion from the deceased ex-employee. The complainant filed a complaint with Tokyo District Court demanding ¥ 100 million as an initial part of claimable amount from Takeda.

Takeda is diligently coping with these matters.