Dynamic Synergy

Mitsubishi Tanabe Phama Corporation
ANNUAL REPORT 2010

Mitsubishi Tanabe Pharma

OUR PHILOSOPHY

We contribute to the healthier lives of people around the world through the creation of pharmaceuticals.

OUR VISION

We strive to be a global research-driven pharmaceutical company that is trusted by communities.

Mitsubishi Tanabe Pharma Corporation was established in October 2007 through the merger of Tanabe Seiyaku Co., Ltd., and Mitsubishi Pharma Corporation. Our vision is to be a global research-driven pharmaceutical company that is trusted by communities.

We will strive to make rapid progress toward being a company that can continually provide new pharmaceuticals to patients around the world. In this way, we will contribute to the healthier lives of those patients and fulfill our responsibilities as a company engaged in the life sciences.

We provide distinctive pharmaceuticals that meet a wide range of medical needs.

Mitsubishi Tanabe Pharma has a wide-ranging product lineup that meets diverse medical needs. One feature of the Company's operations is that it sells distinctive drugs, including drugs for autoimmune diseases, cerebral diseases, and circulatory problems as well as psychiatric and neurological drugs, narcotics, fractionation products, vaccines, and OTC drugs. Remicade, one of the Company's core products, is a groundbreaking biological agent with indications for a number of autoimmune diseases, including rheumatoid arthritis (RA). Remicade has earned strong evaluations in clinical settings, and sales in fiscal 2009, ended March 31, 2010, were ¥47.2 billion.

FORWARD-LOOKING STATEMENTS

Statements contained in this annual report that are not historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, performance, or achievements to differ materially from those anticipated in these statements.

We have a strong presence in the domestic market for ethical drugs.

Mitsubishi Tanabe Pharma's marketing capabilities place the Company in the top ranks of pharmaceutical companies in Japan, and in fiscal 2009 the Company was ranked fifth in domestic sales of ethical drugs. Moving forward, to achieve our vision of being a global research-driven pharmaceutical company, we must bolster our domestic operational foundation, which will support new drug development and overseas business expansion. Profits earned through domestic operations will be the driving force behind the realization of our vision, and accordingly we are taking steps to further enhance our presence in the domestic market.

We are making steady progress in establishing a robust R&D pipeline.

Aiming to be a pharmaceutical company that can continually provide new drugs to patients around the world, Mitsubishi Tanabe Pharma is working to strengthen its R&D pipeline. The Company has positioned the metabolism and circulation disease areas as key areas in R&D. Centered on these areas and on autoimmune diseases, promising late-stage development projects are making steady progress. Mitsubishi Tanabe Pharma's R&D pipeline includes many projects in phase 3 or phase 2/3 and projects for which New Drug Applications (NDAs) had been filed (including licensed products).

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Management Environment

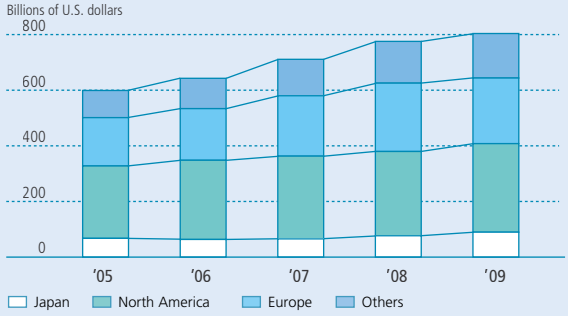
The management environment in the pharmaceutical industry is undergoing dramatic change.

Due to the aging of Japanese society and to increasingly stressful lifestyles, demand for pharmaceuticals continues to grow. In addition, with disease patterns changing, there are many diseases that pose unmet medical needs. For these diseases, there are no treatments at all or existing treatments are unsatisfactory. There is a clear need for the discovery of new drugs that treat those diseases. Accordingly, the importance of pharmaceutical operations will continue to increase.

However, the domestic pharmaceutical market has been sluggish in recent years. Government measures to control health care expenditures are one of the reasons behind those sluggish conditions. Under the influence of national health insurance (NHI) drug price reductions, an increase in the number of hospitals implementing the diagnosis procedure combination (DPC) system, and the implementation of measures to promote the use of generics, market growth has remained at low levels. Consequently, Japan remains the second largest drug market in the world but its share of global drug sales is declining. In addition, the management environment for pharmaceutical companies is becoming increasingly challenging. On the one hand, there is intensifying competition in the development of new drugs in specified disease categories where satisfaction with existing treatments is low. On the other hand, the level of R&D expenses required in new drug development continues to climb due to such factors as increasingly advanced discovery technologies and increasingly strict conditions for drug approval.

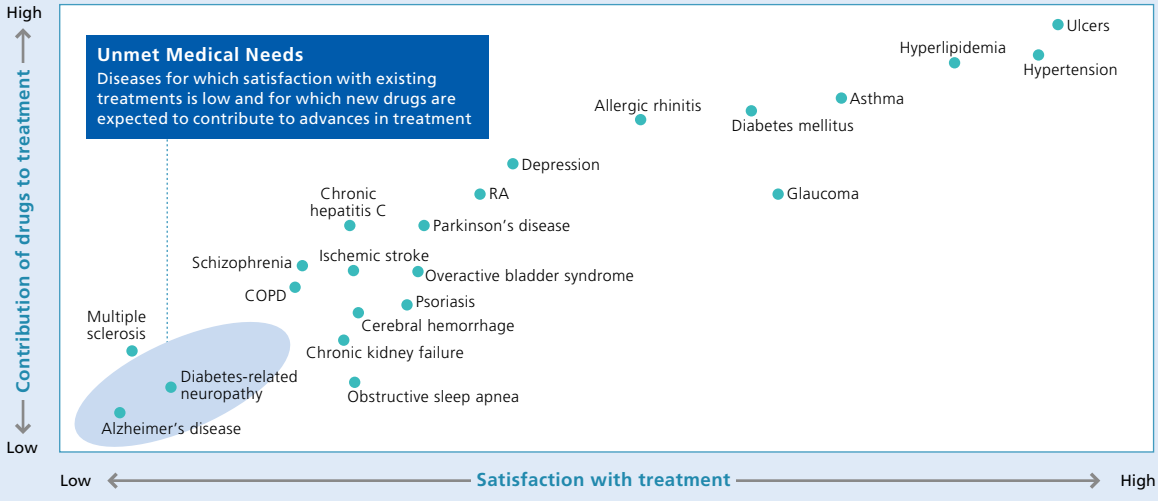
In 2010, NHI drug prices were reduced, and the Japanese government introduced, on a trial basis, a system offering pricing premiums to promote the discovery of new drugs and to eliminate the so-called drug lag, which is the time between the launch of drugs overseas and their approval for the same indication in Japan. Overseas, the pharmaceutical industry is faced with the so-called 2010 problem; in the United States—the world's largest pharmaceutical market—a large number of patent expirations will be concentrated in 2010. In this environment, it is becoming increasingly evident that pharmaceutical companies that cannot discover new drugs will not be able to survive.

WORLDWIDE PHARMACEUTICAL MARKET



Source: IMS (MIDAS, WORLD REVIEW) January 2005–December 2009, Reprinted with permission

CORRELATION BETWEEN SATISFACTION WITH TREATMENT AND CONTRIBUTION OF DRUGS TO TREATMENT



Source: Report issued in 2005 by Japan Heath Sciences Foundation (revised by Mitsubishi Tanabe Pharma)

Medium-Term Management Plan 08–10—Dynamic Synergy for 2015

When the Company was established, we formulated a vision of the type of company that we will become: "We strive to be a global research-driven pharmaceutical company that is trusted by communities." We have clarified our future direction to the greatest extent possible and set fiscal 2015 objectives as milestones on the path toward the realization of our vision.

The Medium-Term Management Plan 08–10—Dynamic Synergy for 2015, which is Mitsubishi Tanabe Pharma's first medium-term management plan, includes key challenges and action plans for the next three years, which target the achievement of the fiscal 2015 objectives and our vision. Mitsubishi Tanabe Pharma is taking on the challenge of making Dynamic Synergy a reality. To the Group, Dynamic Synergy means making full use of the abundant management resources that resulted from the merger, focusing the expertise and energy of all employees throughout the Group, and creating new business domains and business models.

Among the management objectives for fiscal 2010, the final year of the plan, we expect to fall short of our sales and profit objectives due to internal and external environmental changes. In cost synergies, however, our results will basically be in line with our plans. In addition, targeting the achievement of these management objectives, the Group has identified five key issues and is steadily implementing action plans to achieve them.

FISCAL 2015 OBJECTIVES

- Build an R&D pipeline capable of launching one product every two years, with a focus on the metabolism and circulation disease areas
- Establish a top position in the domestic pharmaceutical market by launching and cultivating major products
- Establish an in-house sales structure in the U.S. and achieve overseas pharmaceuticals sales of more than ¥100.0 billion
- Establish competitive superiority through the creation of a differentiated business model

FISCAL 2010 NUMERICAL TARGETS

Billions of yen (except number of employees)	FY 2009 (actual)	FY 2010 (target)
Net sales	¥404.7	¥460.0
Operating income	61.5	95.0
Net income	30.3	56.0
R&D expenses	83.1	82.0
Cost synergies*	18.8	24.0
Number of employees	9,266	9,400

* Cost synergies are cumulative totals from October 2007

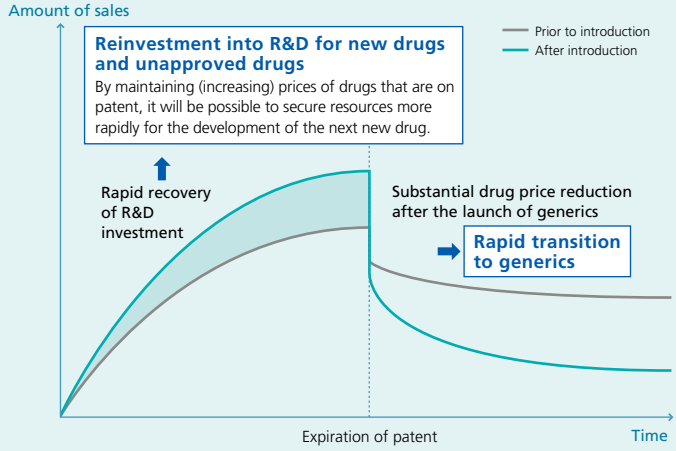
KEY MANAGEMENT ISSUES

- Enhancing the Company's Domestic Sales Presence
- Steady Progress in Key Development Projects
- Progress in Developing Overseas Pharmaceutical Operations
- Progress in Generic Operations
- Creating an Efficient Organization and Cost Structure

INTRODUCTION OF NEW DRUG PRICING SYSTEM

In Japan, the government determines the prices of the ethical drugs prescribed by physicians. As one facet of measures to control health care expenditures, NHI drug prices are revised at a pace of about once every two years. In April 2010, NHI drug prices were reduced by an industrywide average of 5.75%, and a system offering pricing premiums to promote the discovery of new drugs and to eliminate the drug lag was introduced on a trial basis. Under the new system, the prices of drugs that go off patent will be substantially cut, while prices will be maintained for drugs that are still on patent and meet certain conditions. By supporting new drug prices with pricing premiums, it will be possible to recover R&D investment during the patent period. These resources will be used to strengthen the drug discovery initiatives of pharmaceutical companies and accelerate the discovery of innovative new drugs while simultaneously fostering the resolution of such problems as unapproved drugs that are needed in clinical settings. The Company's lineup includes 9 ingredients and 14 products that received pricing premiums for new drug discovery or drug lag elimination.

OBJECTIVE OF NEW DRUG PRICING



FINANCIAL HIGHLIGHTS

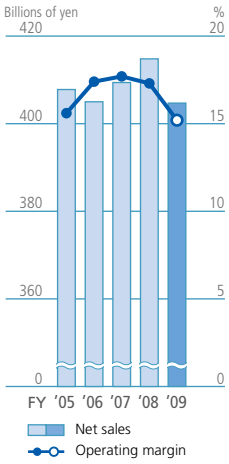
Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 (FY 2009), 2009 (FY 2008) and 2008 (FY 2007)

Figures in financial highlights for fiscal 2007 are the simple sum of the figures for Tanabe Seiyaku and Mitsubishi Pharma to facilitate comparisons and analysis of performance following the merger.

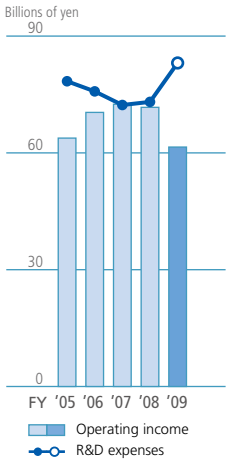
	Millions of yen (except financial indicators, per share amounts and number of employees)			Thousands of U.S. dollars[1] (except per share amounts)	% change
	FY 2009	FY 2008	FY 2007	**FY 2009**	FY 2009/FY 2008
Net sales	**¥404,747**	¥414,752	¥409,427	**$4,350,247**	– 2.4%
Operating income	**61,475**	71,694	72,468	**660,737**	– 14.3
Net income	**30,253**	26,532	31,932	**325,161**	+14.0
R&D expenses	**83,081**	73,122	72,335	**892,960**	+13.6
Capital expenditures	**8,378**	12,175	9,987	**90,047**	– 31.2
Total assets	**796,858**	810,756	807,261	**8,564,682**	– 1.7
Total net assets	**676,813**	666,220	667,808	**7,274,430**	+1.6
Net cash provided by operating activities	**23,923**	50,540	46,447	**257,126**	– 52.7
Net cash used in investing activities	**(61,227)**	(74,508)	(8,981)	**(658,072)**	– 17.8
Net cash used in financing activities	**(17,105)**	(15,986)	(9,097)	**(183,846)**	+7.0
Financial indicators (%):					
Operating margin	**15.2%**	17.3%	17.7%	**–**	–
Ratio of R&D expenses to net sales	**20.5**	17.6	17.7	**–**	–
Equity ratio	**84.1**	80.5	80.9	**–**	–
ROE	**4.6**	4.1	5.7	**–**	–
Per share amounts (yen / U.S. dollars[1]):					
Net income	**¥53.91**	¥47.28	¥50.12	**$0.58**	+14.0%
Cash dividends	**28.00**	28.00	26.00[2]	**0.30**	+0.0
Number of employees	**9,266**	10,030	10,361	**–**	– 7.6

1 U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥93.04 to U.S.$1, the prevailing exchange rate at March 31, 2010.
2 Dividends per share is based on the sum of the interim dividends (¥13) of the former Tanabe Seiyaku and the year-end dividends (¥13) of Mitsubishi Tanabe Pharma.

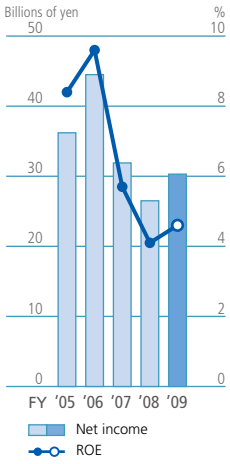
NET SALES / OPERATING MARGIN



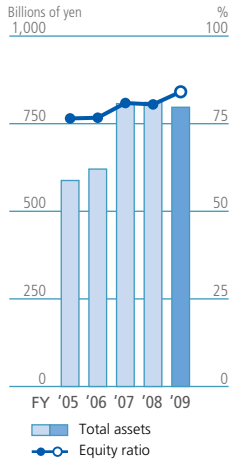
OPERATING INCOME / R&D EXPENSES



NET INCOME / ROE



TOTAL ASSETS / EQUITY RATIO



Note: In general, figures in graphs for fiscal 2007 and prior years are the simple sum of the figures for Tanabe Seiyaku and Mitsubishi Pharma.

Michihiro Tsuchiya
President & Representative Director
Chief Executive Officer

Message from the President

Introduction

Fiscal 2010 is positioned as a year for leveraging qualitative and quantitative improvements. Moving forward, those improvements will drive further progress under the next medium-term management plan.

As a result of changes in the social structure, the management environment for pharmaceutical companies is becoming increasingly challenging, and due to the direction of medical system reforms, pharmaceutical companies that cannot continually discover new drugs will not be able to survive. In this setting, the Group formulated a three-year management plan, the Medium-Term Management Plan 08–10, and worked to realize its corporate philosophy and vision. Two years have passed, and we are now seeing the success of our efforts to enhance our R&D pipeline and strengthen domestic marketing. However, we still face a number of challenges, such as the Medway Injection incident. To resolve these challenges as well as new issues that arise from changes in the internal and external environments, the entire Group will work to "build strengths" and "increase productivity." In this way, we will improve our competitiveness and position in fiscal 2010, ending March 31, 2011, as a year for leveraging qualitative and quantitative improvements. Moving forward, those improvements will drive further progress under the next medium-term management plan.

Overview of Fiscal 2009

Strong sales growth was recorded by core product Remicade, and we made favorable progress in the development of promising new drugs.

Looking at consolidated results for fiscal 2009, ended March 31, 2010, net sales were down 2.4%, to ¥404.7 billion. The principal reason for the decline in sales was the fact that Company sold a portion of its holdings of shares in API Corporation (APIC), and as a result APIC changed from a consolidated subsidiary to an equity-method affiliate. This change had the effect of reducing sales by ¥25.7 billion year on year. Excluding this change, we recorded an effective increase in net sales.

This effective increase was attributable to an increase in domestic sales of ethical drugs, which rose 5.7%, to ¥354.6 billion, basically in line with our plan. Especially strong sales growth was recorded by core product Remicade. Sales of Remicade were up 26.2% in fiscal 2009,

to ¥47.2 billion. Our efforts to maximize Remicade's product value are steadily generating results. Favorable performances were also recorded by other products, such as Talion and Maintate. In addition, sales of vaccines increased by a large margin due to the launches of the H1N1 HA flu vaccine and a freeze-dried, cell-culture-derived Japanese encephalitis vaccine. Sales of generic drugs also increased. Operating income was down 14.3%, to ¥61.5 billion, while net income rose 14.0%, to ¥30.3 billion.

In addition, in fiscal 2009 we saw tangible results from a range of initiatives. For example, we made favorable progress in projects linked to the discovery of future growth drivers. In December 2009, Novartis Pharma, of Switzerland, filed new drug applications (NDAs) in the U.S. and Europe for FTY720 (multiple sclerosis), which it licensed from the Company. FTY720 is now in phase 2 trials in Japan. Also, TA-7284 (diabetes mellitus) is in phase 3 trials overseas conducted by Johnson & Johnson, which has licensed it from the Company, while in Japan, phase 2 trials for TA-7284 were commenced in November 2009. In addition, favorable progress is being made in the development of such promising new drugs as MP-424 (chronic hepatitis C) and MP-513 (type 2 diabetes mellitus). In January 2010. we signed an agreement with Mochida Pharmaceutical, of Japan, for the co-marketing in Japan of the antidepressant Escitalopram. Each of these drugs has the potential to become a major product, and we expect them to become drivers of our future growth. We are seeing solid results from our efforts to promote the discovery of new growth drivers.

Medway Injection Incident

In April 2010, Mitsubishi Tanabe Pharma and its consolidated subsidiary Bipha received an administrative action—suspension of business and an order for improvement—from the Minister of Health, Labour and Welfare in regard to a violation of the Pharmaceutical Affairs Law. There were two main reasons for the action. First, the Company, a manufacturer and marketer, manufactured and sold the ethical drugs Medway Injection 5% and Medway Injection 25% without ensuring that Bipha, the manufacturer, appropriately implemented manufacturing control and quality control. Second, the New Drug Application (NDA) materials for those products that were submitted by the two companies contained materials that were based on fraudulent acts by Bipha. Having received this administrative action, the Company has revised its management system to further clarify its social responsibilities. Moreover, directors and corporate auditors have agreed to voluntarily return a portion of their compensation.

We are taking the recent administrative action very seriously. We have reflected deeply on the actions that led to a loss of society's trust, and we offer our sincere apologies to patients, medical professionals, and the rest of society.

For companies, the trust of society is the foundation of business activities. In addition to the direct corrective and improvement measures that we have formulated in regard to the inappropriate activity related to the Medway Injection, in accordance with the business improvement plan that we submitted to the Minister of Health, Labour and Welfare in June 2010, we will implement thorough countermeasures to prevent a recurrence of such an incident, and we will do our utmost to regain the trust of patients, medical professionals, and the rest of society.

(Information about the Medway Injection problem and the business improvement plan is provided in the CSR Report 2010 and on the Company web site.)

As a company engaged in the life sciences, we are taking the recent administrative action very seriously.

For fiscal 2010, we are forecasting results that fall short of our management objectives. We are, however, achieving steady results, centered on our key management issues.

Progress of the Medium-Term Management Plan 08–10

Fiscal 2010 will be the final year of the Medium-Term Management Plan 08–10. As numerical targets, we have worked to achieve the fiscal 2010 management objectives that are outlined in the plan. However, due to changes in the internal and external environments, such as the removal of APIC from the scope of consolidation, and the Medway Injection incident, we are forecasting net sales, operating income, and net income that are short of our fiscal 2010 management objectives. On the other hand, we are achieving steady results, centered on our key management issues—enhancing the Company's domestic sales presence, steady progress in key development projects, progress in developing overseas pharmaceutical operations, progress in generic operations, and creating an efficient organization and cost structure.

Strengthening Domestic Marketing

In the medium-term management plan, the Group has identified six priority products—Remicade, Radicut, Anplag, Urso, Talion, and Tanatril. We have worked to expand the sales of these products by effectively utilizing our medical representative (MR) workforce, which is one of the largest in Japan. As a result of increases in the number of MRs specializing in Remicade and in cerebrovascular drugs, progress in the lifecycle management strategy, and advances in the focused promotion of priority products, sales of the six priority products have recorded favorable growth.

Remicade, which has been positioned as the Company's growth driver in the short term, continues to strengthen its market presence in the face of intense competition among biological agents used in the treatment of inflammatory autoimmune diseases. In July 2009, approval was received for a partial change of dosage and usage for rheumatoid arthritis (RA) (increase of the dosage, shortening of the administration interval) and for a partial change of indications (inclusion of the prevention of structural joint damage). In addition, approval was received for indications of psoriasis in January 2010, ankylosing spondylitis in April 2010, and ulcerative colitis in June 2010. Remicade has grown into an innovative drug that can change the natural history of diseases that had been intractable. In the treatment of rheumatoid arthritis (RA), for example, Remicade has the potential to inhibit the progression of joint damage and to induce clinical remission. In addition, it is now becoming possible to reach the point where biological agents are no longer necessary (biologic-free remission), and even reach the point where all drugs are no longer necessary (drug-free remission). In the pharmaceutical industry, there is a practice known as fostering of drugs which means post-marketing development of drugs, and Remicade is such a drug. The latent potential of Remicade has been leveraged through the evaluation of its efficacy and safety and the consideration of its dosages and administration intervals. As a company that handles RA drugs, we will continue working to help patients suffering from RA. In fiscal 2010, sales of Remicade are expected to substantially exceed the fiscal 2010 target of ¥50.0 billion that is included in our medium-term management plan. However, this is simply a transit point. Targeting the achievement of even higher goals, we will continue working to maximize the product value of Remicade.

In addition, we will strengthen links with Group companies, such as Yoshitomiyakuhin, which handles psychiatric medications; Benesis, which conducts fractionation products business; and Tanabe Seiyaku Hanbai, a generic drug sales company. We are also aggressively leveraging strategic alliances.

Steady Progress with Promising Development Projects

Targeting the launch of growth drivers from fiscal 2011, we are making steady progress in promising development projects. In December 2009, Novartis Pharma filed NDAs in the U.S. and Europe for multiple sclerosis (MS) treatment agent FTY720, which it licensed from the Company. TA-7284, meanwhile, is a treatment agent for diabetes, which is a priority disease area for our R&D activities. Johnson & Johnson licensed TA-7284 from the Company and is conducting phase 3 trials overseas. In Japan, phase 2 trials for TA-7284 were started in November 2009. In addition, chronic hepatitis C treatment agent MP-424 is in phase 3 trials in Japan, and diabetes treatment agent MP-513 moved up to phase 3 trials in October 2009. In the U.S. and Europe, the Group is moving forward with phase 3 trials for two drugs in the renal field: MC-196 (hyperphosphatemia) and MP-146 (chronic kidney disease). In addition, phase 3 trials for TA-1790 (erectile dysfunction) have been started in the U.S. and South Korea by licensees VIVUS, of the U.S., and Choongwae Pharma, of South Korea. As one facet of lifecycle management, we are working to obtain additional indications and/or dosage forms for Remicade and Radicut. Additional indications for Remicade are making favorable progress. In January 2010, we also received approval for a new dosage form for Radicut, an IV infusion bag formulation, which we launched in May 2010.

We are also making progress in overseas business. In preparation for the start of sales of MCI-196 and MP-146 through our own U.S. sales network, in July 2009 we established Mitsubishi Tanabe Pharma America. We are implementing pre-marketing activities targeting nephrologists and dialysis specialists in preparation for the launch of MCI-196 and MP-146 from fiscal 2011. Meanwhile, in China, South Korea, Taiwan, and Indonesia, we are taking steps to bolster our operational foundation and expand the range of products sold via the Group's own sales network.

In generic operations, we are working to strengthen our sales system for the supply of generic drugs that are trusted by patients and health care professionals (Reliable Generics) and to quickly establish a robust lineup of these products. In April 2009, Tanabe Seiyaku Hanbai merged with Chosei Yakuhin, a sales subsidiary of Choseido Pharmaceutical, and in October 2009 we completed the integration of their sales organizations. In October 2009, Mitsubishi Tanabe Pharma transferred sales of four long-term listed products to Tanabe Seiyaku Hanbai. In these ways, we have strengthened our lineup of generic products.

Targeting the creation of an efficient organization and cost structure, under the medium-term management plan the Company is working to achieve a cumulative total of ¥24.0 billion in cost savings, and to that end we are moving steadily forward with a range of measures, including base consolidation, restructuring of affiliated companies, and the establishment of a lean, efficient organization and cost structure. In fiscal 2009, as a result of progress in the reevaluation of purchasing, costs, distribution, overhead, and personnel, total cost savings since the merger reached a cumulative total of ¥18.8 billion.

Preparing for the Next Medium-Term Management Plan

In fiscal 2010, the Company will continue working to restore the trust of society and to achieve key management issues.

In fiscal 2010, we will continue to advance the action plans that target the achievement of the key management issues of the medium-term management plan. In addition, we will steadily prepare for the next medium-term management plan. More than two years have passed since the merger, and we have made steady progress in enhancing our management system, such as the integration of our personnel systems. As a result, we have steadily grown into a single, united company. In addition, our personnel and financial resources were strengthened through the merger. On that strong foundation, we are making solid progress with action plans targeting the achievement of key management issues in the current medium-term management plan, and are steadily seeing results in the generation of synergies and the advancement of drugs through the development process.

However, we are forecasting results that fall short of our fiscal 2010 management objectives. While it is true that changes in the external environment have had an adverse influence, the fact is that we have had problems specific to the Company. To ensure qualitative and quantitative results from the current medium-term management plan, we must thoroughly understand the current situation and reconfirm this type of problem. First, in regard to the Medway Injection incident, striving to restore the trust of society is an urgent challenge in fiscal 2010. At the same time, we will continue working to achieve key management issues, and the entire Group will work to "build strengths" and "increase productivity." In this way, we will improve our competitiveness, thereby achieving strong growth under the next medium-term management plan.

Working to Become a Global Research-driven Pharmaceutical Company

What is important is to become a company that can continually provide new drugs.

I think of pharmaceutical companies as collections of a wide range of functions, such as research, development, production, and marketing. Mitsubishi Tanabe Pharma will strive to become a global research-driven pharmaceutical company by making use of the research foundation and development experience that we have cultivated as we advance cooperative initiatives in a range of fields, such as research, development, production, and marketing.

Our vision of being a global research-driven pharmaceutical company does not mean that we strive to be a company that does everything itself. Global, research-driven pharmaceutical companies do not necessarily have manufacturing and sales bases around the world. What is important is to become a company that can continually provide new drugs. In competing with the overseas mega-pharmaceutical companies, we are constantly considering the optimal method for discovering new drugs and launching them as rapidly as possible, and we will utilize strategic alliances as necessary. I refer to these alliances as "encouraging collaboration," and believe that they complement in-house sales and development as an effective means of discovering new drugs and maximizing their value.

In the development of new drugs, our basic policy is to conduct development in-house to the establishment of POC (Proof of Concept: confirmation that the mechanism is effective and safe in humans). However, after the acquisition of POC, we carefully consider the features of each drug, and we examine a range of options to maximize the drug's value. In addition to in-house development and sales, we will aggressively implement joint development or license out a drug if we conclude that these methods would be effective.

According to this policy, we have focused our R&D resources on diabetes, which we have identified as a priority disease for our R&D initiatives. In addition, through the utilization of strategic alliances, we have worked to strengthen our R&D pipeline. Consequently, we increased the number of products in late-stage development, including the key development projects identified in the medium-term management plan. Currently, we believe that our R&D pipeline features top-level strengths in Japan, both quantitatively and qualitatively.

Drivers of Significant Growth

We are making steady progress with projects that we expect to contribute to results under the next medium-term management plan. In December 2009, Novartis Pharma filed NDAs in the U.S. and Europe for MS agent FTY720, which it licensed from the Company. Approval is expected in 2010. The number of MS patients worldwide is estimated to be about 2.5 million. Currently, MS drugs are used in injection formulations, and there is a lack of satisfactory treatments. FTY720 is an oral drug that shows great promise in regard to unmet needs for MS treatment, where treatments with greater efficacy and safety are needed. Patients and health care professionals have high expectations for this drug. I believe it has the potential to grow into a blockbuster product. In Japan, the Company and Novartis Pharma are moving ahead with co-development of FTY720, and we plan to file an NDA in 2010.

We also expect TA-7284 to become a major diabetes treatment agent. TA-7284 has an entirely different mechanism from conventional diabetes treatment agents, and we are moving forward with its development, targeting best in class. Overseas, Johnson & Johnson, which has licensed TA-7284 from Mitsubishi Tanabe Pharma, is conducting phase 3 trials. In Japan, the Company is moving forward with development. Phase 2 trials were commenced in November 2009.

As major new drugs discovered by the Company and sold around the world, each of these products will, I believe, have a major impact on our results under the next medium-term management plan.

Further, in January 2010 we signed an agreement with Mochida Pharmaceutical for the co-marketing in Japan of the antidepressant Escitalopram. We plan to file an NDA in fiscal 2010. The number of patients with depression in the domestic market is thought to exceed one million. Escitalopram is an SSRI (selective serotonin uptake inhibitor) that has already been launched in more than 90 countries and has been highly evaluated. It is a major drug, with global sales of about $4.0 billion a year, and in Japan, Escitalopram is anticipated as another option in the pharmaceutical treatment of depression.

We are aiming to create new growth drivers and to become a global research-driven pharmaceutical company.

We are also making favorable progress in the development of MP-424 and MP-513, which we expect to be launched. MP-424 is expected to be positioned as the gold standard in the treatment of chronic hepatitis C, while MP-513 is a diabetes treatment agent with a different mechanism of action from TA-7284.

To further bolster our R&D pipeline, in April 2010 we established the Clinical Incubation Department in the Development Division. In launching new drugs as rapidly as possible and maximizing their value, it is important to acquire POC quickly. Consequently, it is necessary to have an R&D road map that incorporates goals from basic research to clinical development. In accordance with that approach, we established the Clinical Incubation Department, which has overlapping responsibilities, in contrast to the previous system, where separate organizations were in charge of late research and early clinical development. Moving forward, we will continue working to become a global research-driven pharmaceutical company by working to increase the efficiency and speed of R&D activities and striving to discover new growth drivers.

Cultivating Corporate Culture

We will reform the Company, making it stronger and paving the way for continued growth in the years ahead.

Since I was appointed president, I have stressed the importance of being an *inspiring company.* I believe that an *inspiring company* is one that fosters inspiration, pride, and affection among all employees, who work together to create the highest value and strive to continue to provide drugs that help society. To that end, it is important that we break away from past methods and concepts and that all employees have a broad perspective, acute sensitivity, and a strong action orientation. I will take the lead in fostering a free and open-minded corporate culture that will cultivate this type of employee. I will visit work sites throughout the Company and speak directly with employees, not only managers but also younger employees. In this way I will communicate my thoughts as an executive and directly experience the actual circumstances at our work sites. We are also moving ahead with reorganization initiatives. One example is the establishment of the Clinical Incubation Department, which was mentioned above. Our objective is to increase the efficiency and speed of our R&D activities. By removing the walls between research departments and development departments, we will advance cooperation among employees and foster opportunities for free and open discussions. In addition, we will activate the organization by providing employees in research departments and development departments with the chance to experience operations that they have not previously encountered.

By implementing a variety of reforms, including these restructuring initiatives, we will reform the Company, making it stronger and paving the way for continued growth in the years ahead. We will become a free and open, vibrant group. In this way, we will strive to be an *inspiring company* and to work toward our vision of being a global research-driven pharmaceutical company.

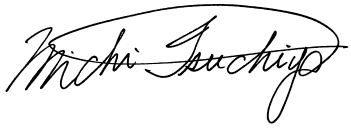
Basic Policy for the Return of Profits

The Company's basic policy on the distribution of earnings calls for providing a stable, ongoing distribution of earnings to shareholders while striving to maximize enterprise value by investing to bolster R&D and marketing activities from a medium-to-long-term perspective. For fiscal 2009, the Company set annual dividends at ¥28.0 per share, the same as in the previous year. The dividend payout ratio, calculated on the basis of net income less amortization of goodwill, was 39.0%.

In a difficult operating environment, we were unable to raise dividends for the year under review, but our objective for the dividend payout ratio is 35% before amortization of goodwill, and over the long term we will work to provide a return at a level that exceeds that objective. I would like to ask for the continued support of shareholders and other stakeholders.

Over the long term we will work to provide an increased return to shareholders.

August 2010



Michihiro Tsuchiya, Ph.D.
President & Representative Director, Chief Executive Officer

RESEARCH AND DEVELOPMENT

Aiming to continually create new drugs that are used around the world, we are working to enhance our discovery research capabilities and strengthen our development system.

Working to Become a Global Research-Driven Pharmaceutical Company

Our vision is to be a global research-driven pharmaceutical company. To that end, we are working to build an organization that can continually provide new drugs that are used around the world. Mitsubishi Tanabe Pharma is striving to launch superior new drugs as rapidly as possible. The Company is using its management resources to fund R&D expenses, bolster discovery research capabilities, and increase development speed. Further, we are taking steps to implement efficient R&D activities, such as focusing the allocation of management resources to important R&D projects, while aggressively utilizing strategic alliances.

Establishing Focus Disease Areas for R&D

One of the Company's objectives for fiscal 2015 is to build an organization capable of launching one new drug every two years.

The Company has identified priority diseases and focused its research activities on them. In identifying priority diseases, we conduct a comprehensive evaluation of such factors as the degree of a drug's contribution to disease treatment, the future market potential, and our R&D pipeline strengths. In particular, the level of satisfaction with diabetes treatments is low, and the market is expected to continue to expand. Consequently, we are moving forward with research in the area of diabetes, one of our priority diseases. For diabetes, our R&D activities are not limited to lowering blood sugar. Our approach includes metabolic risks, such as obesity and lipid abnormalities, as well as complications, such as kidney problems. Moreover, we will aggressively implement initiatives in new research areas in order to build an R&D pipeline that will generate the Company's future growth drivers.

Bolstering Discovery Research Capabilities

Discovery research entails two major processes—theme discovery, where the compounds that will be candidates for new drugs are identified, and optimization, where those compounds are synthesized into forms that are appropriate for pharmaceuticals. In the theme discovery process, the identification of promising new themes is highly important, so these research areas encourage free and open discussions. In the optimization process, we implement the principles of selection and concentration and focus the allocation of our human resources on promising themes. In this way, we are working to increase success rates and shorten research periods.

After the merger, we had five domestic discovery research center sites, but we are now moving ahead with the consolidation of research functions and the integration of research center sites. Moving forward, we will make steady progress toward the division of responsibilities, and we plan to establish a system with two sites—one each in eastern and western Japan. In December 2008, we closed the Hirakata Office and integrated its operations into the Kashima Office. In fiscal 2009, we consolidated the pharmacokinetics and safety functions in the Toda Office and Kazusa Office. Currently, the building for the Medicinal Chemistry Research Laboratories is under construction on the premises of the Yokohama Office. It is scheduled for completion in 2011, and we plan to consolidate the discovery chemistry functions in the Kashima Office into the Yokohama Office. As a result of the construction of the building for the Medicinal Chemistry Research Laboratories, we will strengthen discovery chemistry functions and enhance research efficiency, thereby accelerating progress in research projects.

In April 2010, we reorganized the Research Division. To increase the efficiency of in vitro screening, we established the Discovery Screening Center, and to increase the reliability of test results, we created the Research Quality Assurance Department. In addition, we split the

Medicinal Chemistry Research Laboratories and the Pharmacology Research Laboratories to accelerate discovery research through rapid decision-making and rigorous goal management.

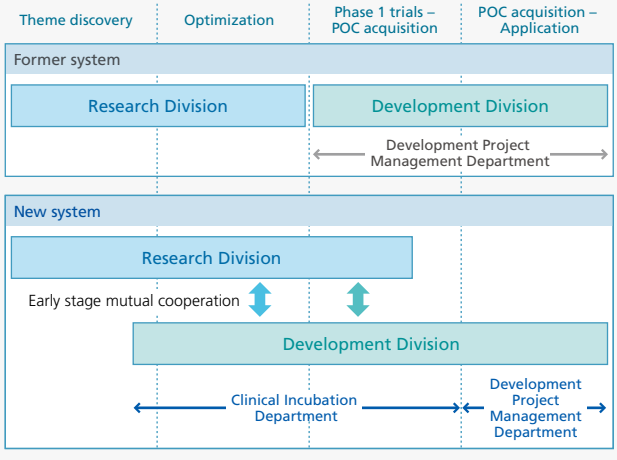
At Tanabe Research Laboratories U.S.A. (TRL), our research site in the U.S., we have shifted the research focus from low-molecular compounds to a biologics-related program. We will make full use of the research facilities of TRL, which is located in San Diego, and of the research resources that we can obtain in the U.S. In addition, we will take advantage of opportunities for joint research with U.S. research institutions and move ahead with discovery research for new biological products. Moreover, the Mitsubishi Chemical Holdings Group includes many companies with technologies that can be applied to drug discovery. These include Molecuence, Mitsubishi Chemical Medience, and Mitsubishi Chemical Group Science and Technology Research Center. Through cooperative ventures with these companies, we will draw on biomarker discovery research and analytical technologies to conduct a wide range of R&D activities that cannot be duplicated by other pharmaceutical companies.

Increasing Speed and Efficiency of Clinical Development Activities

In April 2010, to facilitate the acquisition of POC as rapidly as possible, we created an early-stage clinical development organization with the establishment of the Clinical Incubation Department in the Development Division. Considering the process from research to development and product launch, the key point in drug development is how rapidly POC can be obtained. Under the new organization, researchers who had been working in toxicity and biomarkers in the Research Division have been assigned to the Clinical Incubation Department, and we have strengthened links with the CMC Research Center, the Safety Research Laboratories, and the Pharmacology Research Laboratories. With the department having overall responsibility for early-stage clinical projects, we can obtain POC more rapidly. On the other hand, large-scale clinical trials in Japan are conducted by the new Development Project Management Department, which is in charge of late-stage clinical development projects. With this type of seamless R&D system, we can move smoothly from the late research stages to the early clinical stages, and rapidly obtain POC. We are also working to build project management systems to conduct development activities rapidly and efficiently. By identifying key development projects and clarifying priorities among development products, we are working to ensure an optimal allocation of R&D resources.

Moreover, international drug development and review standards are being harmonized, and in this setting, the Company has moved forward with the construction of a global project management system with bases in the U.S., Europe, and Asia. We expanded the domestic development project management and development governance systems to include overseas development, and in April 2010 we completed the transition to the new organization. Under the new organization, the Development Division is serving as the headquarters for global development, with overall responsibility for these operations, while regional development centers in each region in Japan and overseas advances development activities in their respective regions. The regional development centers are Mitsubishi Tanabe Pharma Development America in the U.S. and Mitsubishi Pharma Europe in Europe. In Asia, the regional development centers are Mitsubishi Pharma Research & Development (Beijing) and the development departments for Japan and Asia in the Company's Development Division. These centers will manage and make decisions about R&D resources in each region. We will work to accelerate overseas development by facilitating rapid decision-making and implementation in each region.

CREATING A SEAMLESS R&D SYSTEM



Leveraging Strategic Alliances

Our basic policy is to conduct clinical studies in-house to the establishment of POC. However, we are aggressively using strategic alliances as one effective means of rapidly launching new drugs that are used around the world. We have licensed products that are expected to become major drugs. In the U.S. and Europe, we have licensed FTY720 to Novartis Pharma, of Switzerland. In addition, in the U.S. and Europe we have licensed TA-7284 (diabetes mellitus) to Johnson & Johnson, of the U.S., and TA-1790 (ED) to Vivus, of the U.S., and Choongwae Pharma, of South Korea. The Company is also working in joint research and joint development with pharmaceutical companies and research institutions in Japan and overseas. We are moving ahead with joint research related to low-molecular compound optimization with Shanghai Pharmaceutical (Group), and in advanced medical fields we are implementing joint research in regenerative medicine using ES cells with Cellartis, of Sweden.

Targeting the Discovery of New Growth Drivers

The Company is working to advance the discovery of new growth drivers for the period after the current management plan, and those efforts are steadily showing results. This section reports on the progress of our major development projects, centered on the key development projects outlined in the Medium-Term Management Plan 08–10.

Promising New Drug Candidate Compounds

FTY720 Sphingosine-1-phosphate receptor modulator (Multiple sclerosis treatment)

Multiple sclerosis (MS) is a disease that causes white matter lesions in such areas as the brain, the spinal cord, and the optic nerve. The cyclical relapse and recurrence of neurological symptoms is a frequent characteristic of the disease. The cause is unknown. The number of MS patients worldwide is estimated to be about 2.5 million. Currently, MS drugs are used in injection formulations, and there is a lack of satisfactory treatments. We are aiming to launch FTY720 as the world's first oral drug for the treatment of MS. It shows great promise in regard to unmet medical needs for MS treatment, where treatments with greater efficacy and safety are needed. As a first-in-class drug, it is expected to become a major product. The Company has licensed FTY720 to Novartis Pharma. Novartis Pharma is developing the drug in the U.S. and Europe, where NDAs were filed in December 2009. As a result of its usefulness, FTY720 was granted priority review status in the U.S. in February 2010, and in June 2010 the FDA advisory committee recommended approval. In Japan, the Company and Novartis Pharma are moving ahead with co-development of FTY720, and we plan to file an NDA in 2010.

MP-424 NS3-4A protease inhibitor (chronic hepatitis C)

MP-424 is the most advanced new treatment for hepatitis C in the world. We licensed MP-424 from Vertex Pharmaceuticals, of the U.S., in June 2004. It is administered orally, and is a selective inhibitor of the hepatitis C virus (HCV) NS3-4A protease, thereby resulting in suppression and clearance of HCV RNA. For patients with viral genotype 1 virus, the standard treatment of combination therapy administration of two drugs—pegylated interferon and ribavarin—is not sufficiently effective. We are collecting data to demonstrate that concomitant administration of three drugs, through the addition of MP-424, results in shorter treatment periods and superior effectiveness. MP-424 is also drawing attention from liver specialists, and is expected to be positioned as the "gold standard" in hepatitis C treatment. In Japan, the drug administration period of the phase 3 trials has completed, and we are aiming to file an NDA in 2011.

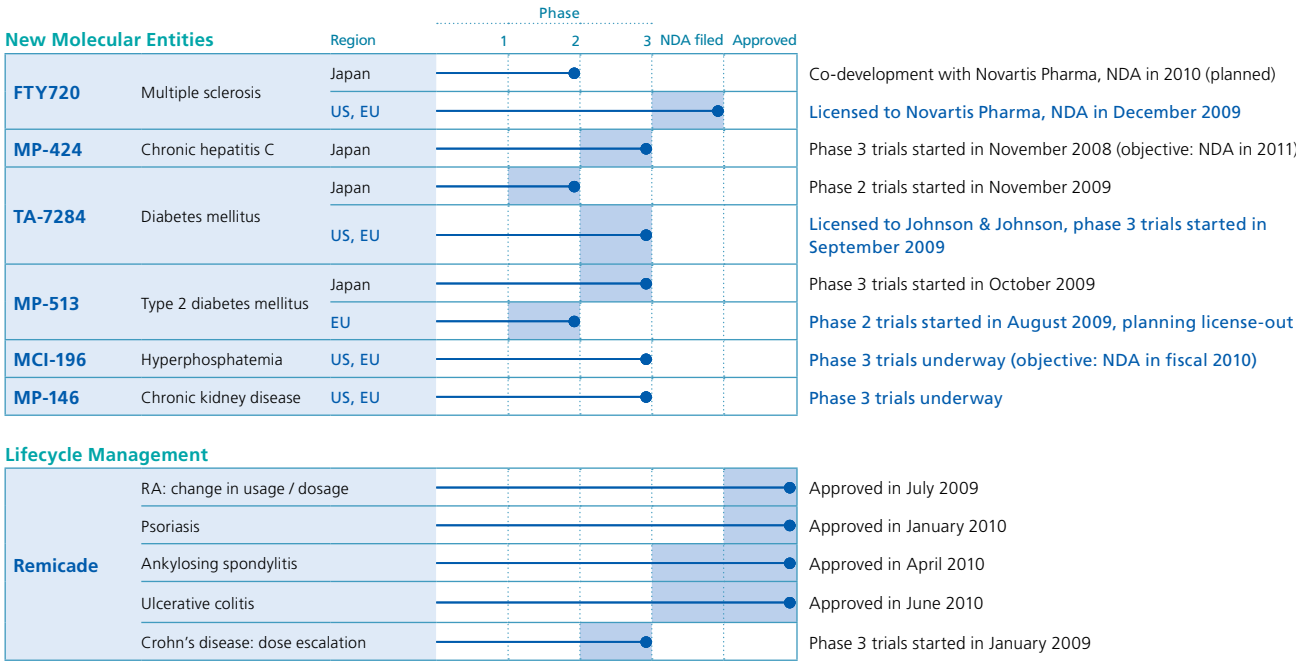
TA-7284 SGLT2 inhibitor (diabetes mellitus)

TA-7284 controls renal tubular reabsorption of glucose and promotes its excretion in the urine, thereby having the effect of controlling blood glucose levels. It has an entirely different mechanism from conventional diabetes treatments in the strong excretion of sugar, and is also expected to have a weight-loss effect through calorie loss. We are moving forward with development of TA-7284, targeting best in class. In Japan, we started phase 2 trials in November 2009. Development in the U.S. and Europe is being conducted by Johnson & Johnson, which has licensed TA-7284 from Mitsubishi Tanabe Pharma. Phase 3 trials were started in September 2009. In June 2010, the blood glucose-lowering effect and the weight-loss effect were reported at the American Diabetes Association's annual meeting.

MP-513 DPP4 inhibitor (type 2 diabetes mellitus)

MP-513 inhibits dipeptidyl peptidase 4 (DPP4), which breaks down GLP-1, which promotes the secretion of insulin. In this way, MP-513 promotes insulin secretion. It is less likely to cause problems associated with conventional diabetes treatments, such as hypoglycemia

PROGRESS IN MAJOR DEVELOPMENT PROJECTS



and weight gain. Due to MP-513's strong DPP4 inhibition and sustained action, we expect it to have the effect of improving blood glucose with once-a-day, low-dose oral administration. MP-513's renal excretion rate is low, so it is possible that it will not be necessary to adjust the dosage, even for patients with impaired renal function. MP-513 has great promise as a next-generation diabetes treatment, and we are proceeding with development, targeting best in class. In Japan, phase 3 trials were started in October 2009, and in Europe, phase 2 trials were started in August 2009. In the U.S. and Europe, we are also moving ahead with negotiations regarding alliances.

Steady Progress in Overseas Development of Drugs for Renal Diseases

MCI-196 Non-absorbed phosphate binder (hyperphosphatemia)

MCI-196 promotes the absorption of phosphate in the digestive tract and its excretion, thereby improving the hyperphosphatemia of renal disease patients. In Japan, it is marketed for the treatment of hypercholesterolemia under the brand name Cholebine. It is currently in phase 3 trials for hyperphosphatemia in dialysis patients in a number of regions, such as the U.S. and Europe, with the objective of filing NDAs in fiscal 2010.

MP-146 Uremic toxin adsorbent (chronic kidney disease)

MP-146 is a spherical adsorbent that adsorbs uremic toxins produced in the digestive tract and promotes their excretion. Mitsubishi Tanabe Pharma licensed MP-146 from Kureha, of Japan, in 2006. Aiming to follow up MCI-196 with approval for MP-146 in the U.S. and Europe, MP-146 is in phase 3 trials for chronic kidney disease patients (moderate to severe), with the objective of filing an NDA.

Aggressively Promoting Lifecycle Management

Remicade Anti-TNFα monoclonal antibody

Remicade is an anti-TNFα monoclonal antibody that is effective against a wide range of inflammatory autoimmune diseases. In 1993, we licensed Remicade from Centocor Ortho Biotech, of the U.S. It has received indications for Crohn's disease, RA, and Behcet's disease complicated with refractory uveoretinitis that does not respond to conventional therapies. In July 2009, the Company received approval for a partial change of usage / dosage for RA and for a partial change of indications to include the prevention of structural joint damage. In addition, approval was received for indications of psoriasis in January 2010, ankylosing spondylitis in April 2010 and ulcerative colitis in June 2010. Currently, we are conducting phase 3 trials in preparation for the filing of an application for a change in usage / dosage for Crohn's disease.

STATE OF NEW PRODUCT DEVELOPMENT

As of July 29, 2010

Pipeline in Japan

New Molecular Entities

Development code (Generic name)	Category	Indications * Orphan drug designated	Stage: Phase 1	Phase 2	Phase 3	NDA filed	Origin (Remarks)
TA-8317 / ACREF (Fentanyl citrate)	Narcotic analgesic	Breakthrough cancer pain: oral transmucosal				08.08	US: Cephalon
CNTO148 (Golimumab)	Anti-TNFα monoclonal antibody	Rheumatoid arthritis				10.06	US: Centocor Ortho Biotech (Co-development Janssen Pharma)
MP-424 (Telaprevir)	NS3-4A protease inhibitor	Chronic hepatitis C			●		US: Vertex Pharmaceuticals
MP-513 (Teneligliptin)	DPP4 inhibitor	Type 2 diabetes mellitus			●		In-house
BK-4SP	Vaccine	Prophylaxis of pertussis, diphtheria, tetanus, an poliomyelitis			●		Japan: BIKEN (The Research Foundation for Microbial Diseases of Osaka University) (Co-development The Research Foundation for Microbial Diseases of Osaka University)
APTA-2217 (Roflumilast)	PDE4 inhibitor	Asthma		●			Switzerland: Nycomed (Co-development Nycomed)
		COPD		●			
FTY720 (Fingolimod hydrochloride)	Sphingosine-1-phosphate receptor modulator	Multiple sclerosis*		●			In-house (Co-development Novartis Pharma)
MP-214 (Cariprazine)	D3/D2 antagonist	Schizophrenia		●			Hungary: Gedeon-Richter
TA-7284 (Canagliflozin)	SGLT2 inhibitor	Diabetes mellitus		●			In-house
MP-435	C5a antagonist	Rheumatoid arthritis	●				In-house
MT-4666	α7nAChR agonist	Alzheimer's disease	●				US: EnVivo Pharmaceuticals

Additional Indications

Venoglobulin IH (Polyethylene glycol-treated human normal immunoglobulin)	Human immunoglobulin G	IgG2 deficiency				97.12	In-house
		Polymyositis, Dermatomyositis*				03.05	
		Systemic sclerosis			●		
		Myasthenia gravis*			●		
Modiodal (Modafinil)	Psychoneurotic agent	Obstructive sleep apnea				10.05	US: Cephalon (Co-development Alfresa Pharma)
Remicade (Infliximab [recombinant])	Anti-TNFα monoclonal antibody	Crohn's disease: dose escalation			●		US: Centocor Ortho Biotech
Radicut (Edaravone)	Free radical scavenger	Amyotrophic lateral sclerosis*			●		In-house
Maintate (Bisoprolol)	Selective β1 antagonist	Chronic heart failure			●		Germany: Merck KGaA
Cholebine (Colestimide (JAN))	Bile acid signal regulation	Type 2 diabetes mellitus		●			In-house
	Non-absorbed phosphate binder	Hyperphosphatemia	●				

Pipeline Overseas

New Molecular Entities

Development code (Generic name)	Category	Indications	Region	Stage: Phase 1	Phase 2	Phase 3	NDA filed	Origin (Remarks)
Livalo (Pitavastatin calcium)	HMG-CoA reductase inhibitor	Hypercholesterolemia, familial hypercholesterolemia	Taiwan				10.04	Japan: Kowa (NDA filed by Tai Tien Pharmaceuticals)
			Indonesia				10.06	Japan: Kowa (NDA filed by P.T. Tanabe Indonesia)
MCI-196 (Colestilan (INN))	Non-absorbed phosphate binder	Hyperphosphatemia	US, EU			●		In-house
MP-146	Uremic toxin adsorbent	Chronic kidney disease	US, EU			●		Japan: Kureha
MT-2832 (Lunacalcipol)	Vitamin D analog	Secondary hyperparathyroidism	US, Canada		●			Canada: Cytochroma
MCI-186 (Edaravone)	Free radical scavenger	Acute ischemic stroke	EU		●			In-house
MP-513 (Teneligliptin)	DPP4 inhibitor	Type 2 diabetes mellitus	EU		●			In-house
			US	●				
GB-1057 (Human serum albumin [recombinant])	Recombinant human serum albumin	Stabilizing agent	US	●				In-house
TA-8995	CETP inhibitor	Dyslipidemia	EU	●				In-house
MP-124	PARP inhibitor	Acute ischemic stroke	US, Canada	●				In-house
MP-136	PPAR α agonist	Dyslipidemia	EU	●				In-house
MT-3995	Selective mineral corticoid receptor antagonist	Hypertension	EU	●				In-house

Additional Indications

Development code (Generic name)	Category	Indications	Region	Stage	Origin (Remarks)
MCI-9038 (Argatroban)	Thrombin inhibitor	Heparin-induced thrombocytopenia (HIT)	EU	Preparing for NDA filing	In-house

Licensing-out

Development code (Generic name)	Category	Indications	Region	Stage: Phase 1	Phase 2	Phase 3	NDA filed	Licensee
FTY720 (Fingolimod hydrochloride)	Sphingosine-1–phosphate receptor modulator	Multiple sclerosis	US, EU				09.12	Switzerland: Novartis Pharma
TA-1790 (Avanafil)	PDE5 inhibitor	Erectile dysfunction (ED)	US			●		US: Vivus
			Korea			●		Korea: Choongwae Pharma
TA-7284 (Canagliflozin)	SGLT2 inhibitor	Type 2 diabetes mellitus	US, EU			●		US: Johnson & Johnson Pharmaceutical Research & Development
		Obesity	US, EU		●			
T-0047 (Firategrast)	Cell adhesion inhibitor [$\alpha4\beta7$ / $\alpha4\beta1$ inhibitor]	Multiple sclerosis	EU		●			UK: GlaxoSmithKline
MKC-242	5-HT1A receptor agonist	Insomnia	US		●			US: MediciNova
TA-2005 (Carmoterol)	Long-acting $\beta2$ agonist	Asthma, COPD	EU		●			Italy: Chiesi Farmaceutici
MKC-231	Neurogenesis enhancer	Depression / Anxiety	US		●			US: BrainCells
Y-39983	ROCK (rho-kinase) inhibitor	Glaucoma	Japan		●			Japan: Senju Pharmaceutical
MT-210	5-HT2A / Sigma2 antagonist	Schizophrenia	EU		●			France: Cyrenaic
sTU-199 (Tenatoprazole)	Proton pump inhibitor	Gastroesophageal reflux disease	EU	●				France: Negma (Sidem)
TT-138	$\beta3$ receptor agonist	Pollakiuria, urinary incontinence	US	●				US: MediciNova

MARKETING ACTIVITIES

To become a global research-driven pharmaceutical company, we will strengthen our domestic business foundation and accelerate overseas business development.

Strengthening Our Domestic Business Foundation

To achieve our vision of being a global research-driven pharmaceutical company, we must first bolster our domestic business foundation. Profits earned through domestic operations will be the driving force behind the realization of our vision.

The market in the domestic pharmaceutical industry is growing increasingly challenging. The Japanese government is strengthening measures to reduce spending on drugs in order to control rising social welfare expenditures, and competition among pharmaceutical companies is intensifying. In this setting, the Company has taken steps to expand sales, centered on its six priority products—Remicade, Radicut, Anplag, Talion, Urso, and Tanatril. Through continued implementation of four action plans—maximizing the product potential of Remicade, increasing specialized knowledge in the cerebral field, reinforcing the promotion system, and strengthening cooperation in Group marketing—we will maximize marketing synergies and enhance our presence in the domestic market.

Maximizing the Product Potential of Remicade

We have positioned Remicade as the current driver of our earnings growth, and we are taking steps to maximize Remicade's product value. A number of competing biological products are being launched, and competition is intensifying. In this setting, we have substantially increased the number of MRs specializing in Remicade since the October 2007 merger. At the same time, we are working to differentiate Remicade by enhancing the capabilities of each specialist and by leveraging clinical experience and evidence with Japanese patients. Moreover, to maximize the product value of Remicade, we are moving forward steadily with additional dosages and usages for RA as well as with additional indications. Through these initiatives, in fiscal 2010 we expect to greatly exceed the goal in the medium-term management plan of Remicade sales of ¥50.0 billion.

(For more information, please see "Close Up: Aiming to Further Increase the Product Value of Remicade" on page 22.)

Increasing Specialized Knowledge in Cerebral Field

In Japan, currently, there are about 1.5 million stroke patients, and it is estimated that there are about 250,000 new stroke patients each year. The majority of stroke patients have ischemic stroke, in which the initial treatment has a substantial effect on the prognosis. The drugs that can be used to treat ischemic stroke vary based on how much time has passed from the onset of symptoms. We are the only company with a lineup of cerebrovascular drugs that extends from the hyper-acute phase to the chronic phase. This lineup includes Grtpa, for the hyper-acute phase; Radicut and Novastan, for the acute phase; and Sermion, for the chronic phase. With this lineup, we have established a solid position in the cerebral field. To further increase our specialized knowledge, we have assigned MRs specializing in the cerebral field to each sales branch. With a team of about 50 of these MRs, we are providing consistent information for the proper use of these products in strokes from the acute phase to the chronic phase. In May 2010, we launched an additional dosage form for Radicut, an IV infusion bag formulation. We have high expectations for this product, which is highly convenient because it can be administered easily and will reduce the burden on health care professionals. To increase our contribution to acute phase treatment of ischemic stroke, we will work to foster the market penetration of this product as rapidly as possible.

Reinforcing the Promotion System

As of April 2010, including MRs specialized in the specific fields, the Group had a total of 2,400 MRs, placing us in the top ranks in Japan. By making full use of the capabilities of this sales force, we are strengthening our promotion system. At the time of the merger, we had completed the consolidation of the branches and sales offices of our two predecessor companies, and in April 2008, we completely integrated the two promotion systems of the former companies. In the hospital sales channel, we have introduced a system of overlapping MRs by clinical department, and in the general practitioner sales channel, we have introduced a system of assigning MRs by district. We are endeavoring to strengthen the ties between these MRs and the MRs specializing in specific fields. In this way, we are working to strengthen our promotion system. To increase the productivity of promotion activities, we have streamlined the number of products slated for focused promotion initiatives. We have also established a system of product

lifecycle management by the Sales & Marketing Division and the Global Product Strategy Department. In these ways, we are working to achieve continual increases in the product value of key products.

Leveraging Alliances

To increase the number of products in our lineup, we are relying not only on products developed in-house but also on the active use of alliances. In November 2009, we acquired a license from Kureha, of Japan, to market Kremezin (chronic kidney disease) in Japan, and in January 2010, we acquired a license from Mochida Pharmaceutical, of Japan, to co-market Escitalopram (depression) in Japan. We also sell vaccines from BIKEN (The Research Foundation for Microbial Diseases of Osaka University). We began sales of JEBIK V, a freeze-dried, cell-culture-derived Japanese encephalitis vaccine, in June 2009. In fiscal 2009, in addition to seasonal flu vaccine, we also provided the H1N1 HA flu vaccine.

Strengthening Cooperation in Group Marketing

Through cooperative initiatives with Group companies, Mitsubishi Tanabe Pharma offers many distinctive drugs. We are meeting a wide range of medical needs through cooperation with Group companies, such as Benesis, which conducts fractionation products operations; Yoshitomiyakuhin, which handles promotion of psychiatric medications; and Tanabe Seiyaku Hanbai, a generic drug sales company. In April 2009, we shifted our plasma fractionation products business marketing system based on Mitsubishi Tanabe Pharma to one based on Benesis. In August 2008, in the generic drug business we made Choseido Pharmaceutical our subsidiary. Choseido Pharmaceutical has extensive business experience and a strong operational foundation in the generic drug market. In April 2009, we completed the integration of the sales operations through a merger between Tanabe Seiyaku Hanbai and Chosei Yakuhin, a wholly owned subsidiary of Choseido Pharmaceutical. We are moving ahead with steps to strengthen our sales lineup. From April 2009 to May 2010, we added a total of 20 ingredients and 42 drugs to our lineup of generic products. In addition, in October 2009 we transferred to Tanabe Seiyaku Hanbai sales of four long-term listed products that have become standard drugs.

Accelerating Development of Overseas Operations

The Company's objectives for fiscal 2015 include the establishment of an in-house sales system in the U.S. and the achievement of overseas drug sales of more than ¥100.0 billion. To those ends, we are moving ahead with the establishment of a system for the sale of our own products in the U.S., the world's largest pharmaceutical market. The Group plans to expand its operations in the U.S. by first entering the renal disease market and rapidly launching MCI-196 (hyperphosphatemia) and MP-146 (chronic kidney disease). Targeting the rapid launch of these products, we established Mitsubishi Tanabe Pharma America, a drug sales company, in July 2009. We are conducting pre-marketing activities targeting nephrologists and dialysis specialists and taking steps to expand our local workforce. In Europe, we are aiming to expand sales of Argatroban and Tanatril, which are already on the market, and we are also moving ahead with preparations for the launch of MCI-196 and MP-146. In addition to Germany, where we already have an in-house sales base, we plan to move forward with preparations for sales systems in the U.K., France, Italy, and Spain, selecting the method that is best suited to each country.

In Asia, the Group already has an operational foundation in China, South Korea, Taiwan, and Indonesia, and we sell about 10 drugs through our in-house system. We are now working to increase the number of MRs and expand the number of products sold through in-house sales systems in each market. We have also acquired rights to pitavastatin calcium, a hypercholesterolemia treatment agent. In August 2009, we concluded exclusive licenses with Kowa, for the development and commercialization of this product in Taiwan and Indonesia. NDAs have been filed for pitavastatin calcium in these countries, and we planning to launch it in 2011 in Taiwan and 2012 in Indonesia. We are taking steps to enhance the Mitsubishi Tanabe brand presence in local markets. For example, in January 2010 the name of a manufacturing and sales subsidiary in South Korea was changed to Mitsubishi Tanabe Pharma Korea.

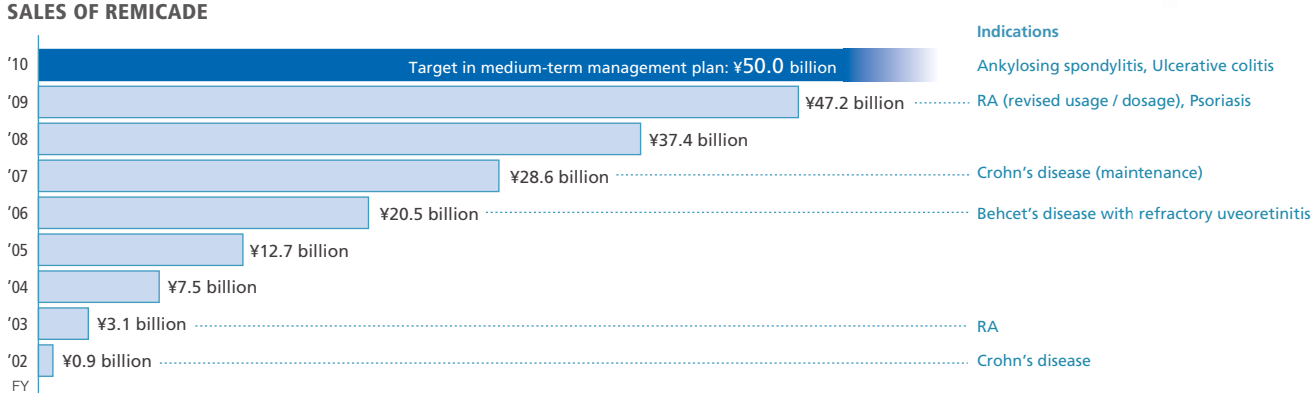
VACCINE OPERATIONS THAT MEET MEDICAL NEEDS

We have been involved in the vaccine business since 1960. Tanabe Seiyaku, one of our predecessor companies, concluded a contract with BIKEN and began to sell vaccines developed and manufactured by BIKEN. We have steadily expanded the lineup, and currently we offer 11 types of vaccines. In recent years, interest in preventive medicine has increased, due in part to the need to control health care spending, and the preventive effects of vaccines have drawn growing attention. In fiscal 2009, the Company's domestic vaccine sales were ¥23.0 billion (excluding H1N1 influenza vaccines sales of ¥8.8 billion). This marked the second consecutive year of sales in excess of ¥20.0 billion, giving us the number one position in Japan. In March 2010, we launched vaccine.net, a web site that provides support for educational activities for immunization in local municipal governments and educational institutions, such as schools. Moreover, together with BIKEN, we have started clinical development of BK-4SP, a combination vaccine against diphtheria, pertussis, tetanus, and polio. The Company will continue to aggressively conduct activities targeting the spread of vaccination and will take on the challenge of developing new vaccines.

Aiming to Further Increase the Product Value of Remicade

Since our launch of Remicade in Japan in 2002, it has flourished into a significant driver of our growth, and in fiscal 2010 we expect to greatly exceed our long-stated goal of Remicade sales of ¥50.0 billion. This section introduces the initiatives that the Company has implemented to maximize the product value of Remicade.

SALES OF REMICADE



Acquisition of Approval for RA

Remicade is a biological agent that is effective against a wide range of inflammatory autoimmune diseases, including rheumatoid arthritis (RA). Remicade was first approved in 1998 for Crohn's disease in the U.S., where it was developed by Centocor Ortho Biotech, of the U.S. In the following year, it was approved for RA. It has since been launched in more than 90 countries around the world, including in the U.S. and Europe, and its effectiveness has been highly evaluated.

In Japan, our predecessor Tanabe Seiyaku was granted a license for Remicade from Centocor Ortho Biotech in 1993 and began full-scale clinical trials in 1996. In fiscal 2002, Remicade was launched in Japan for Crohn's disease, and in fiscal 2003 it received approval for RA.

Completion of Post-Marketing Surveillance

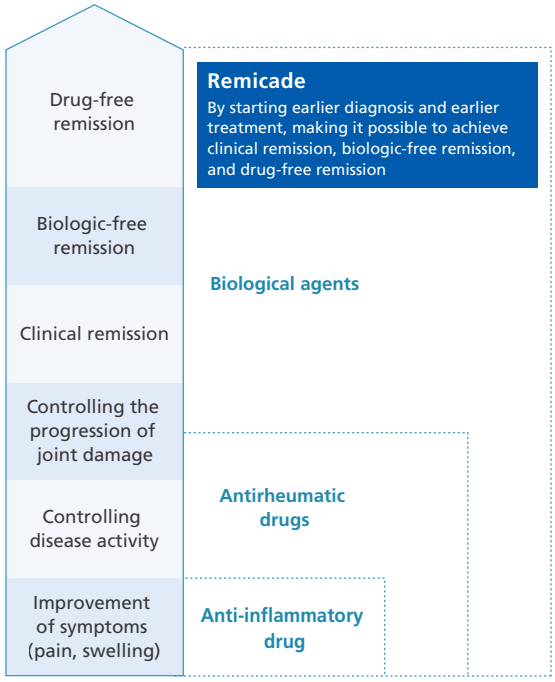
Remicade was the first biological agent approved in Japan for RA. It was expected to be highly effective, but serious side effects were also anticipated. To avoid these side effects, cautious prescription practices were indispensable, and the Minister of Health, Labour and Welfare required the Company to conduct post-marketing surveillance as a condition of Remicade's approval.

When Remicade was first launched, the Company assigned MRs specializing in Remicade with highly specialized knowledge. For the new indication of RA, Tanabe Seiyaku increased the number of these Remicade specialists to 70 in fiscal 2003. The post-marketing surveillance was handled primarily by these Remicade specialists, and the surveillance of 5,000 patients was conducted over a period of approximately two years. As a result, important data was acquired on Remicade's effectiveness and safety in Japanese patients. In addition, through the surveillance, health care professionals developed a high degree of trust in Tanabe Seiyaku's information provision activities. That trust has become a foundation for the safe use of Remicade in clinical settings. Currently, nearly 30,000 RA patients are prescribed Remicade in Japan.

Further Contribution to the Treatment of RA

In the U.S., the prescription rate of biological agents for the treatment of RA has increased rapidly, and it is currently at about 40%. This is the result of a change in RA treatment goals due to the advent of biological agents, such as Remicade. Previously, RA treatment goals were to control disease activity and to delay the progression of joint damage

TRANSITION OF THE RA TREATMENT GOALS



by antirheumatic drugs. However, it is now possible to completely inhibit the progression of joint destruction through the concomitant use of biological agents. The treatment goals are now changing to achieving clinical remission, maintaining remission without the use of biological agents (biologic-free remission), and even reaching a point where all drugs, including antirheumatic drugs, are no longer necessary (drug-free remission). As a result, the market penetration of biological agents is increasing rapidly, and at this point, Remicade is the only biological agent with reported evidence of achieving drug-free remission in RA.

However, to bring out the maximum effects of Remicade, the initially approved dose in Japan of 3 mg per kg was insufficient. Nonetheless, in fiscal 2009 the Company received approval for Remicade for a partial change of dosage and administration for RA and for a partial change of indications to include the prevention of structural joint damage. As a result, the dosage can now be increased up to 10 mg per kg per administration. We expect this change to make a major contribution to accelerating the market penetration of biological agents. The prescription rate of biological agents in RA treatment in Japan is increasing each year, but is still only about 10%, a relatively low level in comparison with the U.S. However, the Company estimates that the rate will reach about 30% in fiscal 2012 and about 40% in the future, in parallel with the U.S. A number of competing biological products are being launched, and competition is intensifying. In this setting, however, Remicade has the potential to secure a high market share. Using the evidence of efficacy and safety that has been accumulated, we will implement a "Remicade First" initiative, working to make this drug the first choice in biological treatment agents. We will strive to establish a position as the leading company in the field of RA.

Steady Acquisition of Indications

As we take steps to foster the growing use of Remicade in RA treatment, we have also worked aggressively to obtain additional indications. In fiscal 2006, Remicade received an indication for Behcet's disease complicated with refractory uveoretinitis that does not respond to conventional therapies. In fiscal 2007 it received an additional indication for the maintenance treatment of Crohn's disease, and in fiscal 2009 it was approved for psoriasis. In fiscal 2010, it received additional indications for ankylosing spondylitis and ulcerative colitis. Currently, we are conducting phase 3 trials for a change in the dosage of Remicade for Crohn's disease.

Remicade is a drug that can contribute to the treatment of intractable diseases, such as Behcet's disease, Crohn's disease, psoriasis, and ulcerative colitis. It is also an orphan-drug designated for ankylosing spondylitis. As an innovative drug that can change the natural history of diseases that have been considered to be intractable, Remicade is the focus of growing expectations. Moving forward, we will steadily provide health care professionals with information about Remicade's safety and methods of use. In this way, we will work to foster the penetration of new methods of treatment through biological agents and make a contribution to improving the quality of life (QOL) of patients suffering from intractable diseases.

Striving Towards the Achievement of New Goals

To increase sales of Remicade, the Company will expand the number of MRs specializing in Remicade and will also work to achieve qualitative improvements among them. Currently, we are implementing affirmative dispersing actions with a system of 170 Remicade specialists.

As a result of these activities, Remicade sales have increased steadily. In fiscal 2009, sales were ¥47.2 billion, and in fiscal 2010 we expect to greatly exceed our long-stated goal of Remicade sales of ¥50.0 billion. However, this is simply a transit point. We believe that it is our mission to provide this superior drug to as many patients as possible.

Striving towards even higher goals, Mitsubishi Tanabe Pharma will continue working to maximize the product value of Remicade.

OVERVIEW OF CORE ETHICAL DRUGS AND SALES TRENDS

Priority Products

Remicade
Infliximab

Treatment of rheumatoid arthritis (RA), Crohn's disease, and Behcet's disease with refractory uveoretinitis, psoriasis, ankylosing spondylitis, ulcerative colitis (Anti-TNFα monoclonal antibody)

FISCAL 2009 SALES
¥47.2 billion

Launch: 2002
Origin: Centocor Ortho Biotech (U.S.)
Development: Mitsubishi Tanabe Pharma

Overview: Remicade is an anti-TNFα monoclonal antibody that targets TNFα, an inflammatory cytokine. It is very fast-acting and its efficacy is sustained for two months with a single administration. In July 2009, a change in usage / dosage was approved for RA (increase in dosage amount, decrease in time interval between administrations) and "prevention of structural joint damage" was approved for inclusion in the indications. In addition, approval was received for indications of psoriasis in January 2010, ankylosing spondylitis in April 2010, and ulcerative colitis in June 2010.

Sales trend: Sales in fiscal 2009 were up 26.2%. In fiscal 2010, competition with biological products is expected to intensify in the RA market, but with support from the change in usage / dosage, the Company is forecasting an increase in sales.

Radicut
Edaravone

Cerebral neuroprotectant (Free radical scavenger)

FISCAL 2009 SALES
¥28.0 billion

Launch: 2001
Origin: Mitsubishi Tanabe Pharma

Overview: Radicut, which was developed in Japan, is the world's first cerebral neuroprotectant (free radical scavenger) shown to improve neurological symptoms at the acute stage of cerebral infarction, interference with activities of daily living, and functional disability. It inhibits damage to brain cells and protects cerebral blood vessels and cells. It is indicated for the treatment of three major types of cerebral infarction (cerebral lacunar, atherothrombotic, and cardiogenic). Administration is started within 24 hours after onset, and it is not administered for more than 14 days. In May 2010, we launched an additional dosage form, an IV infusion bag formulation.

Sales trend: Sales in fiscal 2009 were down 0.3%. Market conditions remain difficult due to an increase in the number of hospitals implementing the DPC system. However, accompanying the aging of the population, the incidence of cerebral infarction is rising about 2% a year. We will launch the highly convenient IV infusion bag formulation, which meets clinical needs, and will strengthen promotions through MRs specialized in the cerebral field.

Anplag
Sarpogrelate

Anti-platelet agent (5-HT2 blocker)

FISCAL 2009 SALES
¥19.5 billion
domestic ¥18.4 billion
overseas ¥1.1 billion

Launch: 1993
Origin: Mitsubishi Tanabe Pharma

Overview: Anplag is an oral anti-platelet agent that is used to treat patients with chronic arterial occlusion, such as arteriosclerosis obliterans (ASO). Anplag improves ischemic symptoms associated with chronic arterial occlusion, such as ulcer, pain, and coldness of limbs, through the inhibition of platelet aggregation, vascular contraction, and growth of vascular smooth muscle cells, which are intensified by serotonin. It especially improves blood flow in the collateral circulatory system. In August 2007, approval was received for a small-sized tablet that is convenient for elderly patients.

Sales trend: Domestic sales in fiscal 2009 were down 0.5%. In November 2009, a generic competitor was launched, and market conditions are expected to become more challenging. However, accompanying the aging of Japan's population, the ASO market is growing. Utilizing new data that shows effectiveness in improving gait disturbance, we will aggressively promote this product to increase new prescriptions.

Talion
Bepotastine

Treatment of allergic disorders

FISCAL 2009 SALES
¥11.3 billion
domestic ¥10.6 billion
overseas ¥0.7 billion

Launch: 2000
Origin: Ube Industries
Development: Co-development with Ube Industries

Overview: Talion has a rapid onset of antihistamine (H1) effects and is effective for allergic rhinitis, urticaria, and pruritus accompanying dermatitis. It has minimal incidence of sedation. In July 2007, we launched an additional formulation, orally disintegrating tablets.

Sales trend: Domestic sales in fiscal 2009 were up 2.3%, the highest rate of growth in the market for allergic disorder drugs. In fiscal 2010, we will bolster promotion activities in the area of dermatitis, and strive for further growth.

Other Core Ethical Drugs

Urso
Ursodeoxycholic Acid

Agent for improving hepatic, biliary, and digestive functions

FISCAL 2009 SALES
¥16.9 billion
domestic ¥16.3 billion
overseas ¥0.6 billion

Launch: 1957
Origin: Mitsubishi Tanabe Pharma

Overview: Ursodeoxycholic acid, which is the principal ingredient of Urso, is the source of the effectiveness of black bear gallbladder. It has been used to improve digestive diseases. UDCA, which is one of the bile acids existing in the human body, has a cytoprotective effect on liver cells. It has indications for improvement of liver function in chronic liver disease and in hepatitis C and for the dissolution of gall stones.

Sales trend: Domestic sales in fiscal 2009 were up 0.5%. We will continue working to disseminate the treatment objectives under the 2008 chronic hepatitis C treatment guidelines.

Tanatril
Imidapril

Treatment of hypertension (ACE inhibitor)

FISCAL 2009 SALES
¥12.9 billion
domestic ¥11.1 billion
overseas ¥1.8 billion

Launch: 1993
Origin: Mitsubishi Tanabe Pharma

Overview: Tanatril shows excellent blood pressure control with effective organ protection as well as minimal incidence of dry cough, a common side effect of ACE inhibitors. With the approval of an additional indication in 2002, it became the first drug in Japan approved for diabetic nephropathy with type 1 diabetes.

Sales trend: The size of the market for ACE inhibitors is declining, and in fiscal 2009 domestic sales declined 6.5%. In fiscal 2010, generics will have an influence, but we will utilize evidence for Tanatril in various guidelines and its superiority in terms of its protective effect against coronary artery disease and its effects against hypertension in the elderly.

Ceredist
Taltirelin

Treatment of spinocerebellar degeneration

FISCAL 2009 SALES
¥16.9 billion

Launch: 2000
Origin: Mitsubishi Tanabe Pharma

Overview: Ceredist, developed by the Company, is the world's first oral thyrotropin-releasing hormone (TRH) derivative drug. In June 2009, approval was received for orally disintegrating tablets that are easily taken by patients who have difficulty swallowing due to the progress of spinocerebellar degeneration.

Sales trend: Sales in fiscal 2009 were up 4.0%. Spinocerebellar degeneration, for which this drug is indicated, is an intractable neurological disease that has been designated by the Ministry of Health, Labour and Welfare as a special chronic disease. The number of registered patients has been increasing by several percent each year. The usage rate among patients is high. For fiscal 2010, sales are forecast to increase as the number of patients records gradual growth. The Company has developed orally disintegrating tablets for patients who have difficulty swallowing.

Vaccines
FISCAL 2009 SALES*
¥24.3 billion
domestic ¥23.0 billion*
overseas ¥1.3 billion

The Company sells vaccines produced by BIKEN. In fiscal 2009, JEBIK V, a freeze-dried Japanese encephalitis vaccine, made a contribution to domestic sales of vaccines, which rose 6.9%, to ¥23.0 billion. In addition, the H1N1 influenza vaccine recorded domestic sales of ¥8.8 billion i fiscal 2009.

* excluding H1N1 influenza vaccine (domestic sales of ¥8.8 billion)

Mearubik
Freeze-dried live attenuated measles and rubella combined vaccine

Launch: 2005

Origin: This is a combined vaccine for the prevention of measles and rubella. Because vaccination against measles and rubella can be implemented at the same time, it reduces the burden on the patient. The Company will work to foster further education about vaccination and to contribute to an increase in the vaccination rate for measles and rubella.

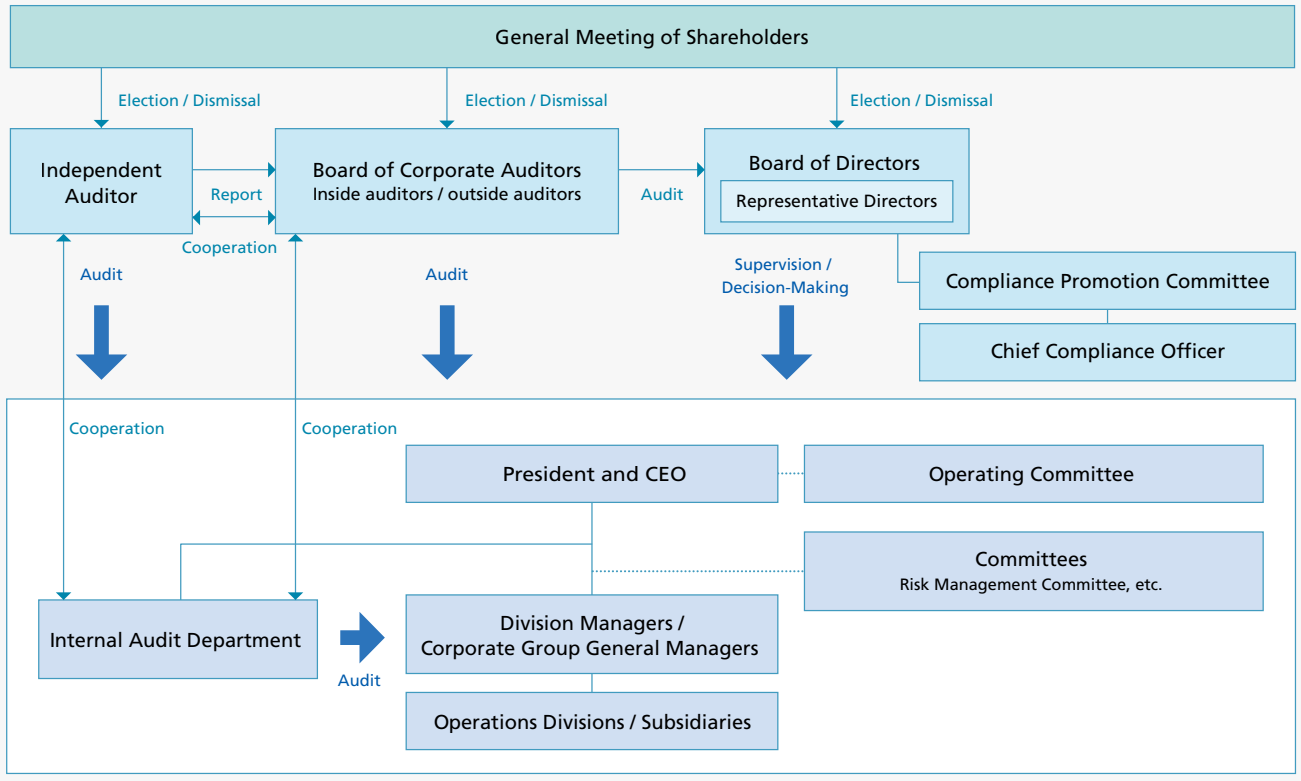
JEBIK V
Freeze-dried Japanese encephalitis vaccine (Cell culture derived)

Launch: 2009

Origin: This vaccine is a freeze-dried preparation containing inactivated Japanese encephalitis virus derived from cell cultures. It is used in the prevention of Japanese encephalitis. There is no specific method of treatment for Japanese encephalitis. Symptomatic treatment plays the central role. Accordingly, prevention is the most important, and preventive vaccines are one effective method. In April 2010, the government announced that it would reinstate recommendation of vaccination against Japanese encephalitis. Moving forward, the Company will work to foster further education about vaccination and to contribute to an increase in the vaccination rate.

CORPORATE GOVERNANCE AND INTERNAL CONTROL

CORPORATE GOVERNANCE SYSTEM



Strengthening Corporate Governance and Internal Controls

The Mitsubishi Tanabe Pharma corporate philosophy is "to contribute to the healthier lives of people around the world through the creation of pharmaceuticals," and our vision is "to be a global research-driven pharmaceutical company that is trusted by communities." To continuously realize these corporate objectives, fundamental policies for the maintenance of internal control systems have been established by the Board of Directors. We are implementing a range of initiatives to strengthen our corporate governance and internal controls. Also, once a year reports are made to the Board of Directors on the current status of the fundamental policies, and revisions are made if necessary.

Corporate Governance System

Mitsubishi Tanabe Pharma has adopted the corporate auditor system. In addition to the General Meeting of Shareholders and the Directors, the Company has established the Board of Directors, Corporate Auditors, and the Board of Corporate Auditors and employs an independent auditor. Under this management system and auditing system, the Company has identified its most important issues as working to maximize enterprise value for shareholders and other stakeholders by ensuring efficiency and speed in management decision-making and working to ensure legality and transparency in management by enhancing the auditing system, centered on the corporate auditors, and clarifying information-provision responsibilities.

Management System

The Board of Directors has six members. To ensure efficient business execution, regular meetings of the Board of Directors are held once a month, and in addition are held flexibly as needed. The Board makes decisions about business execution and supervises operational execution. Mitsubishi Tanabe Pharma has adopted the corporate officer system for the execution of Company business and clarified the distinction between the decision-making / auditing function and the executive function. Composed of the President and CEO, Executive Vice President, Managing Executive Officers, and executive officers who are appointed by the President and CEO and division managers, the Operating Committee meets two or more times per month as a general rule. The Operating Committee discusses issues of importance to the overall execution of Company business, and important matters are brought before the Board of Directors. In this way, the Company ensures the speed and effectiveness of decision-making.

Outside Directors

At this point, the Company has no outside directors.

The roles of outside directors could include providing advice from a societal perspective and serving as a check on conflicts of interest among shareholders and on the actions of managers. Previously, the Company considered it possible to fulfill these functions through outside corporate auditors. However, to enhance management transparency and objectivity and to strengthen the Board of Directors' oversight function, the Company is preparing to extend invitations to independent outside directors, with a goal of starting in the year ending March 31, 2011.

Auditing System

Corporate auditors attend important meetings, such as meetings of the Board of Directors and the Operating Committee. In addition, they conduct interviews on the execution of duties with the Board of Directors, executive officers, and members of each Company division, review documents relating to major decisions, and investigate the operations and assets of principal work sites and subsidiaries (including internal control systems, such as those for compliance and risk management). In these ways, the corporate auditors audit the execution of Company business.

The corporate auditors work to maintain close ties with the independent auditor and the internal auditing divisions and to strengthen the management auditing function. The corporate auditors also receive explanations of audit plans and policies and quarterly reports on audit implementation and results from the independent auditor, as well as regularly exchange opinions with the independent auditor. When necessary, the corporate auditors witness on-site work and review work by the independent auditor. In addition, at the end of each period the corporate auditors receive reports on the execution of audits by the independent auditor. Also, in regard to audit plans, progress, and results, the corporate auditors exchange opinions with the Internal Audit Department on a regular, monthly basis. At the same time, the corporate auditors receive reports on the results of the evaluation of internal control systems for financial reporting.

The Board of Corporate Auditors has four members, two of whom are outside corporate auditors. The Board of Corporate Auditors receives reports on the progress of audits by all corporate auditors and the independent auditor. Also, full-time staff in the Corporate Auditors' Office, which was established under the direct supervision of the Board of Corporate Auditors, provides support for the corporate auditors in the execution of their duties, including the duties of the outside corporate auditors. The Corporate Auditors' Office has three employees.

For internal auditing, we have established the Internal Audit Department, which is independent from the executive divisions and audits the internal control systems in operations divisions. The Internal Audit Department has 12 employees.

The Company has taken steps to facilitate proper audits, appointing Ernst & Young ShinNihon LLC as its independent auditor and providing accurate management information.

Outside Corporate Auditors

The Company works to maintain an auditing system with high levels of independence and specialized skills. Lawyers and people with experience in banks or securities companies are nominated to be outside corporate auditors. At the same time, people with considerable knowledge in finance or accounting are nominated to be standing corporate auditors. Outside management oversight is provided by the outside corporate auditors, who attend Board of Directors' meetings, monitor directors, and express appropriate opinions when required. The outside corporate auditors receive audit progress reports from the standing corporate auditors, audit reports from the independent auditor, and reports on the execution of Company affairs from members of the Board of Directors. Masanao Iechika, an outside corporate auditor, has no personal relationships with members of the Board of Directors or the Board of Corporate Auditors and has no conflict of interest with the Company. Takashi Nishida, an outside corporate auditor, is an outside corporate auditor at parent company Mitsubishi Chemical Holdings Corporation.

Compensation of Directors and Corporate Auditors

The Company has adopted a method of calculating director compensation that reflects the Company's results. The compensation amount is determined by the Board of Directors within a range fixed at the General Meeting of Shareholders and as provided for by the basic formula for the calculation of compensation for the Board of Directors. This is to ensure the transparency of compensation-related decision-making.

In the year ended March 31, 2010, directors' compensation amounted to ¥334 million and corporate auditors' compensation totaled ¥83 million (of which, ¥21 million was for outside corporate auditors).

The Company and consolidated subsidiaries paid ¥80 million and ¥19 million, respectively, to Ernst & Young ShinNihon LLC as compensation for auditing and verification.

Other Special Matters That May Have a Significant Impact on Corporate Governance

In regard to the independence of the Company from its parent company, Mitsubishi Chemical Holdings, both companies have agreed that the Company will remain listed, that Mitsubishi Chemical Holdings, will, in principle, maintain its shareholding ratio in the Company for 10 years from October 1, 2007, and that the Company will be operated based on the principle of independent decisions and judgment as a publicly listed company. The Company believes that it has secured its independence from its parent company.

Mitsubishi Chemical Holdings is a pure holding company that does not conduct its own operating activities. Accordingly, between Mitsubishi Chemical Holdings and the Company, there are no transactions that have the potential to significantly influence the results of the Company, and there are no plans to engage in such transactions in the future. The Company has concluded a contract with Mitsubishi Chemical

Holdings under which the Company provides payment to Mitsubishi Chemical Holdings for Group management expenses in an amount equivalent to the benefits received based on the brand value and comprehensive strengths of Mitsubishi Chemical Holdings. However, the amount of those payments is not significant.

In regard to transactions between the Company and other companies in the Mitsubishi Chemical Holdings Group, in making decisions the highest priority is given to increasing the enterprise value of the Group in order to maximize the benefit to all of the Company's shareholders.

In April 2010, the Minister of Health, Labour and Welfare issued an administrative action to Mitsubishi Tanabe Pharma Corporation and consolidated subsidiary Bipha due to a violation of the Pharmaceutical Affairs Law. The Group has reflected deeply on this incident and has positioned as its highest management priority the steady execution of the business improvement plans that have been formulated. The Group will do its utmost to prevent a recurrence of such an incident and to improve its operations. As our fundamental approach to management, we have decided to give the highest priority to the following management issues.

FUNDAMENTAL APPROACH TO MANAGEMENT

1 Always acting in accordance with the group's corporate behavior charter
2 Ensuring the safety and quality of pharmaceuticals as an enterprise in a life-related industry
3 Bolstering internal control for the group as a whole
4 Fostering enhanced awareness of professional ethics and compliance

Risk Management System

Mitsubishi Tanabe Pharma has established risk management regulations with the objective of implementing appropriate management for the risks that accompany the Company's business activities, and the Company has established and operates a system based on those regulations. In accordance with these regulations, the Risk Management Committee, which is led by the president, meets every six months and otherwise as necessary. The Group regularly monitors the risks that it faces. In implementing this monitoring, we ascertain the areas and types of risks that we face in our business activities, including the risks faced by Group companies, and ensure that the necessary countermeasures are implemented by the relevant department. In preparations for times when it appears that risk events that could give rise to serious damage, such as disasters, accidents, or the emergence of new diseases, might occur, we have established a Companywide system for minimizing damage while continuing business activities, such as providing important pharmaceuticals and meeting customer needs. Previously, the Company announced that it will not provide any gains to antisocial elements, such as organized crime groups and *sokaiya* corporate extortionists. In response to risks that are shared throughout the Company, in March 2009 we formulated guidelines for checking suppliers for any possible affiliations with such antisocial elements. In this way, we have established a system for eliminating transactions with antisocial elements.

Compliance System

To ensure sound business activities, Mitsubishi Tanabe Pharma has formulated the Corporate Behavior Charter, which identifies the top priorities for directors and employees in the implementation of business activities, and the Mitsubishi Tanabe Pharma Group Code of Conduct, which provides specific behavioral guidelines. In accordance with the declaration, members of the Board of Directors and Corporate Auditors take the lead in strictly adhering to laws, regulations, and the Company's Articles of Incorporation. Also, the Company is taking steps to create a Companywide compliance system, including the establishment of the Compliance Promotion Committee and the Compliance Office, both of which are led by the Chief Compliance Officer. All relationships with groups that act in an antisocial manner are terminated.

Furthermore, we have established an internal notification system managed according to separately defined regulations, which operates as an internal system for reporting on legal violations and other compliance issues. We have established internal and external hotlines for reports and consultations, and we are working to respond to a wide variety of needs for consultation, including for the employees of Group subsidiaries.

To ensure a solid compliance foundation, the Company is conducting a range of training. These include top seminars for directors and officers, Companywide training for all employees, and human rights training. In addition, in fiscal 2009 we introduced department-level training that deals with issues specific to the operations of each department. For Group subsidiaries, we are taking steps to build a system to ensure appropriate operational activities are implemented in a seamless manner with the Company, such as building a system for the application of the Company's Compliance Program.

Furthermore, we conduct compliance progress checks once a year, and we implement monitoring of such factors as compliance awareness and workplace environments.

Accountability to Stakeholders

Mitsubishi Tanabe Pharma strives to provide fair, timely, and appropriate information on all its activities, such as its management policies, management objectives, and financial situation, to all of its stakeholders, including shareholders, investors, customers, consumers, and local communities. We adhere to the Financial Instruments and Exchange Law and other Japanese laws and regulations relating to information disclosure. Also, based on our information disclosure regulations, and in accordance with the relevant internal systems, we ensure that both the content and timing of our information disclosure is fair to all stakeholders.

We give a range of presentations to explain the Company's financial situation, describe the development of new products, and explain important management policies and business developments. These presentations include results briefings for institutional investors, R&D presentations, and business presentations. To enable individual and overseas investors to access presentations, the audio and video for presentations, as well as for the Q&A sessions, can be viewed on the Company's web site. We also report on our corporate social responsibility (CSR) initiatives in our CSR Report.

CORPORATE BEHAVIOR CHARTER

We will maintain high ethical standards, place priority on fairness and integrity in all activities, and act in accordance with the following guidelines.

PRIDE AND SENSE OF MISSION	As people involved in the creation of pharmaceuticals, we will work with pride and a sense of mission as we endeavor to research and develop pharmaceuticals that are needed by society and to ensure product safety and quality.
CHALLENGE AND INNOVATION	With acute sensitivity and a broad perspective, we will focus on our future direction, decisively take on the challenge of meeting higher goals, and strive to create innovative value.
TRUST AND TEAMWORK	Through free and open communication, we will promote mutual understanding and respect, and we will emphasize teamwork as we strive to maximize our results based on strong relationships of trust.
HARMONIOUS COEXISTENCE WITH SOCIETY	We will work to achieve harmonious coexistence with society by acting with consideration for local communities and the environment.

CORPORATE SOCIAL RESPONSIBILITY

Mitsubishi Tanabe Pharma respects the various stakeholders that make up society and aims to be a pharmaceutical company that is trusted by communities.

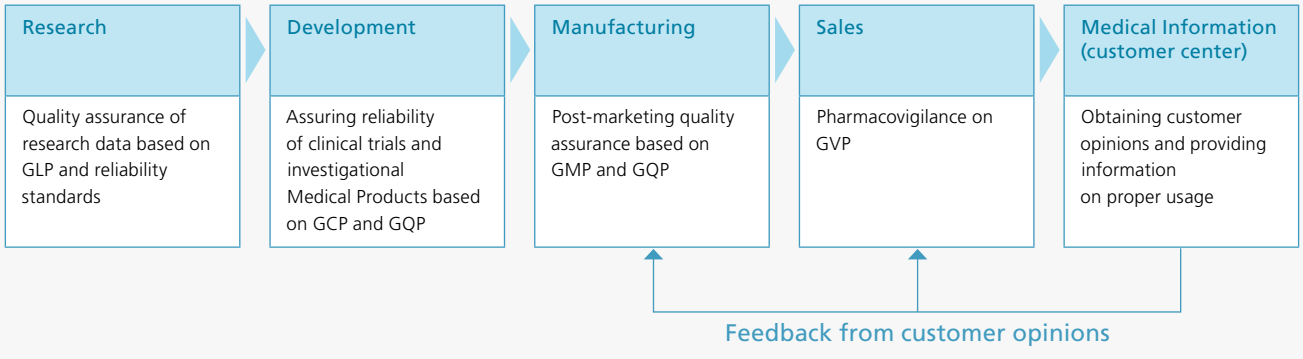
For Patients

To ensure that we can develop and provide a stable supply of pharmaceuticals that can be used with peace of mind, we are bolstering our comprehensive reliability assurance system for quality and safety. These initiatives extend from the R&D stage to raw material procurement, production, and the post-marketing stage. In addition to complying with all regulations and standards in Japan, we are also working to strengthen our pharmaceutical quality assurance and safety management systems on a Groupwide basis. To that end, we established the Quality & Safety Liaison Council for subsidiaries and affiliates in Japan and overseas. In this way, we are fostering cooperation in such areas as sharing of related information and initiatives, and we are building a system for the mutual oversight of the initiatives of subsidiaries and affiliates.

In addition, Mitsubishi Tanabe Pharma has established a supply chain management system that can provide a stable supply of high-quality pharmaceuticals through raw material procurement and manufacturing control, quality control, and distribution control for pharmaceuticals. Our basic purchasing policy calls for fair, impartial, and transparent transactions, and in January 2009 we formulated the Mitsubishi Tanabe Pharma Group Purchasing Compliance Code of Conduct. Moreover, we require our suppliers not only to strive to increase quality and achieve stable supply but also to conduct their activities with consideration for CSR, including complying with laws and regulations, taking the environment into consideration, respecting human rights, and eliminating dealings with antisocial companies.

Furthermore, to cultivate a corporate culture that gives the highest priority to pharmaceutical safety, we are providing pharmaceutical safety education and training for all officers and employees at all Group companies. These education and safety initiatives draw on lessons learned from incidents of health problems caused by pharmaceuticals.

SYSTEM FOR ASSURING THE RELIABILITY OF PHARMACEUTICALS



For Employees

The labor environment is undergoing a variety of changes, such as a declining birthrate and an aging population, as well as diversification in values. In this setting, we are aiming to build a range of systems that support diverse styles of working, so that all employees can realize their full potential. These include flex time, discretionary work, deemed working hours, and short-term work systems. In addition, we have established an environment in which all employees can maintain a balance between their work and private lives, even through various life events, such as childbirth, childcare, and nursing care. As a result, employees can achieve better results and continue to work with peace of mind. To that end, we offer childcare leave, paid leave, and other systems that exceed the legal requirements.

In October 2008, we introduced the Comprehensive Management System for Human Resources. By linking systems at the stages of training, utilizing, evaluating, and treatment, we are striving to maximize the potential of human resources and strengthen our organizational capabilities. From a medium-to-long-term perspective, we work to cultivate human resources that are aware of their own roles, motivated to grow, and take the initiative in continually contributing to a more-dynamic organization activation and improved business results. By providing support in the form of training programs aligned with targets and objectives, as well as systems and opportunities for personnel rotations, we are supporting individual skills development and career management.

Our basic policy for occupational safety is to "give precedence to safety considerations for all of our workers and prevent labor accidents." In accordance with that policy, under the Environmental Safety Medium-Term Voluntary Action Plan (2008–2010), we are "developing people and organizations that put thought into their actions," "enhancing safety measures for equipment," and "advancing industrial safety and health management systems." The Company is continuously working to provide mental health care through countermeasures to stress caused by interpersonal relations and duties in the workplace. These countermeasures include counseling and on-site follow-up systems.

For Local Communities

To contribute to the development of society as a corporate citizen, we are implementing a range of activities for local communities.

For example, to facilitate interaction among people interested in volunteering, we have been holding the MSC Volunteer Salon, which consists of lectures and mini-concert gatherings, every other month since 1968.

Mitsubishi Tanabe Pharma also makes donations to the Japan Foundation of Applied Enzymology and the Mitsubishi Pharma Research Foundation. Through foundation activities, we contribute to the promotion of research and the dissemination of knowledge in a broad range of fields, such as medicine, pharmacology, agriculture, and physical sciences. In addition, at the work site level we cooperate in local events, such as beautification campaigns, blood donation activities, and local festivals. In this way, we continue to interact with local communities.

For the Environment

In accordance with our strong sense of mission as an enterprise in a life-related industry, we strive to contribute to the realization of a sustainable society. To that end, we independently and proactively work to protect the earth's environment and ensure the safety of people in all aspects of our business activities.

We have established an environmental safety management system, which is led by the president, and we are promoting environmental management on a Groupwide basis. The Mitsubishi Tanabe Pharma Group believes that energy conservation and the prevention of global warming are important challenges. In accordance with our Environmental Safety Voluntary Action Plan, we facilitate energy conservation activities and strive to limit the emissions of greenhouse gases associated with our business activities, not only at plants, laboratories, and distribution centers but also at administrative offices. From fiscal 2010, the revised Law Regarding the Rationalization of Energy will take effect in Japan, and energy management will become mandatory at the enterprise level. Moving forward, we will bolster our energy management system through the establishment of the Energy Saving Promotion Liaison Council, which will include the people with primary responsibility for energy management and energy management planning and promotion.

In addition, the Company is working to build an Eco Promotion System that targets the establishment of an operational style reflecting consideration for the global environment from two perspectives—reduction of CO_2 emission reductions and easing of traffic congestion. In fiscal 2009, we introduced electric vehicles for use in marketing, principally in the Tokyo metropolitan area. In addition, we are moving ahead with initiatives targeting smaller vehicles and eco-friendly driving.

The Company issues a CSR Report, which provides information about specific CSR initiatives.

BOARD OF DIRECTORS AND AUDITORS

As of June 22, 2010

Directors

1 Michihiro Tsuchiya
President & Representative Director,
Chief Executive Officer

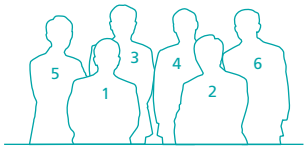
2 Kuniaki Kaga
Representative Director,
Managing Executive Officer
Head of International Business

3 Ken-ichi Yanagisawa
Board Director,
Managing Executive Officer
Head of Sales & Marketing Division

4 Kenkichi Kosakai
Board Director,
Managing Executive Officer
Head of Finance & Accounting Department

5 Masayuki Mitsuka
Board Director, Executive Officer
Head of Global Product Strategy Department

6 Takashi Kobayashi
Board Director, Executive Officer
Head of Corporate Strategic Planning Department



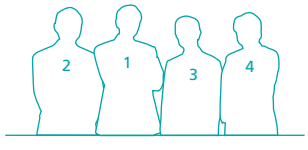
Auditors

1 Akihiro Narimatsu
Corporate Auditor (standing)

2 Junji Hamaoka
Corporate Auditor (standing)

3 Masanao Iechika
Corporate Auditor (outside)

4 Takashi Nishida
Corporate Auditor (outside)



FINANCIAL SECTION

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SIX-YEAR FINANCIAL SUMMARY

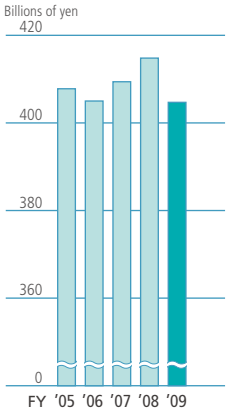
Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31

	2010	2009	2008	2007	2006	2005
Financial figures (millions of yen):						
Net sales						
Tanabe Seiyaku	**¥404,747**	¥414,752	¥315,636	¥177,531	¥171,552	¥171,984
Mitsubishi Pharma			[409,427]	227,517	236,207	234,244
Cost of sales						
Tanabe Seiyaku	**147,800**	158,184	113,471	69,051	61,935	63,609
Mitsubishi Pharma			[150,535]	79,996	81,444	81,712
Selling, general and administrative expenses						
Tanabe Seiyaku	**195,472**	184,874	148,225	78,120	82,057	80,870
Mitsubishi Pharma			[186,423]	107,566	118,528	121,483
Operating income						
Tanabe Seiyaku	**61,475**	71,694	54,024	30,456	27,568	27,467
Mitsubishi Pharma			[72,468]	39,955	36,235	31,049
Net income						
Tanabe Seiyaku	**30,253**	26,532	21,993	20,174	15,466	15,902
Mitsubishi Pharma			[31,932]	24,305	20,699	13,172
R&D expenses						
Tanabe Seiyaku	**83,081**	73,122	59,807	28,519	30,534	27,789
Mitsubishi Pharma			[72,335]	47,239	47,913	50,482
Capital expenditures on an accrual basis						
Tanabe Seiyaku	**8,378**	12,175	5,968	4,368	4,156	3,834
Mitsubishi Pharma			[9,987]	5,412	8,645	13,099
Depreciation and amortization						
Tanabe Seiyaku	**13,291**	15,658	12,555	6,774	7,641	8,413
Mitsubishi Pharma			[15,085]	10,602	11,796	11,457
Total assets						
Tanabe Seiyaku	**796,858**	810,756	807,261	297,087	280,813	269,048
Mitsubishi Pharma				323,364	307,052	290,628
Total net assets[2]						
Tanabe Seiyaku	**676,813**	666,220	667,808	233,595	218,128	203,822
Mitsubishi Pharma				253,242	231,541	205,981
Interest-bearing debt						
Tanabe Seiyaku	**2,440**	7,469	8,151	132	693	1,695
Mitsubishi Pharma				8,485	8,819	11,192
Net cash provided by operating activities						
Tanabe Seiyaku	**23,923**	50,540	38,096	21,419	22,688	19,805
Mitsubishi Pharma			[46,447]	28,072	37,029	27,433
Net cash provided by (used in) investing activities						
Tanabe Seiyaku	**(61,227)**	(74,508)	(4,829)	(8,525)	(16,826)	(24,809)
Mitsubishi Pharma			[(8,981)]	4,357	(9,872)	(6,950)
Net cash used in financing activities						
Tanabe Seiyaku	**(17,105)**	(15,986)	(6,070)	(6,059)	(8,486)	(5,102)
Mitsubishi Pharma			[(9,097)]	(11,239)	(7,812)	(10,586)
Cash and cash equivalents at end of year						
Tanabe Seiyaku	**62,958**	116,903	160,096	46,121	39,249	41,941
Mitsubishi Pharma				85,182	63,812	44,192

	2010	2009	2008	2007	2006	2005
Per share amounts (yen):						
Net income—basic						
Tanabe Seiyaku	**¥53.91**	¥47.28	¥50.12	¥82.36	¥62.43	¥63.70
Mitsubishi Pharma				53.02	45.39	29.02
Net assets[2]						
Tanabe Seiyaku	**1,194.79**	1,162.69	1,163.96	948.30	890.21	822.43
Mitsubishi Pharma				531.95	505.01	454.94
Cash dividends						
Tanabe Seiyaku	**28.00**	28.00	26.00[3]	24.00	20.00	17.00
Mitsubishi Pharma				14.15	20.44	10.00
Financial indicators (%):						
Ratio of cost of sales						
Tanabe Seiyaku	**36.5%**	38.1%	35.9%	38.9%	36.1%	37.0%
Mitsubishi Pharma			[36.8]	35.2	34.5	34.9
Ratio of SG&A expenses						
Tanabe Seiyaku	**48.3**	44.6	47.0	44.0	47.8	47.0
Mitsubishi Pharma			[45.5]	47.2	50.2	51.8
Operating margin						
Tanabe Seiyaku	**15.2**	17.3	17.1	17.2	16.1	16.0
Mitsubishi Pharma			[17.7]	17.6	15.3	13.3
Ratio of R&D expenses to net sales						
Tanabe Seiyaku	**20.5**	17.6	18.9	16.1	17.8	16.2
Mitsubishi Pharma			[17.7]	20.8	20.3	21.6
Equity ratio						
Tanabe Seiyaku	**84.1**	80.5	80.9	78.2	77.7	75.8
Mitsubishi Pharma				75.4	75.4	70.9
DE ratio						
Tanabe Seiyaku	**0.4**	1.1	1.2	0.1	0.3	0.8
Mitsubishi Pharma				3.4	3.8	5.4
ROA						
Tanabe Seiyaku	**3.8**	3.3	4.0	7.0	5.6	5.9
Mitsubishi Pharma			[4.5]	7.7	6.9	4.5
ROE						
Tanabe Seiyaku	**4.6**	4.1	4.9	9.0	7.3	8.0
Mitsubishi Pharma			[5.7]	10.2	9.5	6.5
Dividend payout ratio						
Tanabe Seiyaku	**39.0[5]**	43.0[5]	44.0[4]	29.1	32.0	26.7
Mitsubishi Pharma				30.0	46.8	31.7
Others:						
Number of employees						
Tanabe Seiyaku	**9,266**	10,030	10,361	4,554	4,512	4,517
Mitsubishi Pharma				5,907	5,902	5,917
Number of common stock issued (thousands)						
Tanabe Seiyaku	**561,417**	561,417	561,417	267,598	267,598	267,598
Mitsubishi Pharma				458,435	458,435	458,435

1 Figures in brackets are based on the simple sum of the results of the former Tanabe Seiyaku and the former Mitsubishi Pharma.
2 Due to a change in accounting standards, figures for the year ended March 31, 2006 and prior years are total shareholders' equity.
3 Dividends per share is based on the sum of the interim dividends (¥13) of the former Tanabe Seiyaku and the year-end dividends (¥13) of Mitsubishi Tanabe Pharma.
4 Dividend payout ratio is calculated using Mitsubishi Tanabe Pharma's net income for the second half of the fiscal year (less amortization of goodwill) and Mitsubishi Tanabe Pharma's year-end dividends.
5 Dividend payout ratio is calculated using net income less amortization of goodwill.

NET SALES



Note: In general, figures in graphs for the previous fiscal year and prior years are the simple sum of the figures for Tanabe Seiyaku and Mitsubishi Pharma.

SALES BY REGION

Results of Operations

Net Sales

Net sales in the year under review were down ¥10.0 billion, to ¥404.7 billion. The Company sold a portion of its holdings of shares in API Corporation (APIC), and consequently APIC changed from a consolidated subsidiary to an equity-method affiliate. This change had the effect of reducing sales by ¥25.7 billion year on year (pharmaceuticals: ¥10.8 billion, other business: ¥14.9 billion).

Pharmaceutical operations consist of ethical drugs and OTC drugs. These operations are conducted in Japan and overseas, but domestic sales of ethical drugs account for the majority of the Group's sales. In the fiscal year under review, the operating environment in the domestic ethical pharmaceutical industry grew increasingly challenging. The industry was affected by strengthened measures to reduce spending on drugs in order to control rising social welfare expenditures, intensified competition among pharmaceutical companies, higher R&D expenses, and increasingly strict conditions for drug approval. In addition, NHI drug prices were reduced by an industrywide average of 5.75% in April 2010. (For more information about the NHI drug price revisions, please see "Management Strategies" on page 2.)

In this setting, domestic sales of ethical drugs were up ¥19.2 billion, to ¥354.6 billion. Sales of Remicade, an anti-TNFα monoclonal antibody, increased substantially, rising ¥9.8 billion, to ¥47.2 billion. In addition, sales of Talion, a treatment for allergic disorders, were up ¥0.2 billion, to ¥10.6 billion, and sales of Maintate, a selective β_1 antagonist, rose ¥0.8 billion, to ¥11.0 billion. In addition, domestic sales of vaccines increased by a large margin, rising ¥1.5 billion, to ¥23.0 billion (excluding ¥8.8 billion in sales of the H1N1 influenza vaccine), due to the launches of the H1N1 HA flu vaccine and JEBIK V, a freeze-dried, cell-culture-derived Japanese encephalitis vaccine. Furthermore, sales of generic drugs increased ¥4.6 billion, to ¥8.5 billion.

Overseas sales of ethical drugs were down ¥2.4 billion, to ¥22.8 billion, due in part to the appreciation of the yen. Sales of OTC drugs declined ¥0.3 billion, to ¥5.0 billion. Moreover, due to the exclusion of APIC from the scope of consolidation, other pharmaceutical sales, which include contract production, were down by a large margin, declining ¥7.9 billion, to ¥13.3 billion.

Overall, sales of pharmaceuticals increased ¥8.5 billion, to ¥395.7 billion, and accounted for 97.8% of net sales.

Overseas sales declined ¥8.3 billion, to ¥26.9 billion, and the overseas sales ratio was 6.6%, a decrease of 1.9 percentage points.

Millions of yen

	2010/3		2009/3		Change
Net sales	**¥404,747**	(100.0%)	¥414,752	(100.0%)	¥–10,005
Pharmaceuticals	**395,734**	(97.8)	387,223	(93.4)	+8,511
Domestic ethical drugs	**354,612**	(87.6)	335,443	(80.9)	+19,169
Overseas ethical drugs	**22,834**	(5.6)	25,259	(6.1)	–2,425
OTC drugs	**4,975**	(1.2)	5,280	(1.3)	–305
Others	**13,313**	(3.3)	21,241	(5.1)	–7,928
Other business	**9,013**	(2.2)	27,529	(6.6)	–18,516
Sales by region:					
Domestic	**377,885**	(93.4)	379,544	(91.5)	–1,659
Overseas	**26,862**	(6.6)	35,208	(8.5)	–8,346

Note: Figures in parentheses are percentages of net sales.

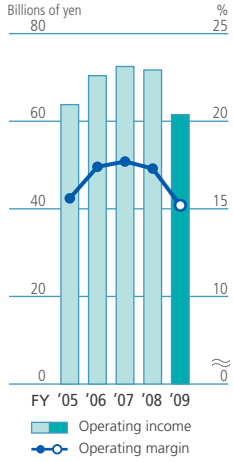
SALES OF MAJOR PRODUCTS IN THE DOMESTIC MARKET

Billions of yen

	2010/3	2009/3	Change
Remicade	**¥47.2**	¥37.4	¥+9.8
Radicut	**28.0**	28.1	– 0.1
Anplag	**18.4**	18.5	– 0.1
Ceredist	**16.9**	16.2	+0.7
Urso	**16.3**	16.2	+0.1
Depas	**11.6**	11.8	– 0.2
Tanatril	**11.1**	11.9	– 0.8
Maintate	**11.0**	10.2	+0.8
Herbesser	**10.8**	11.9	– 1.1
Talion	**10.6**	10.4	+0.2
Vaccines	**23.0**	21.5	+1.5
Mearubik	**11.8**	11.8	– 0.1
Influenza	**6.4**	6.7	– 0.3

Note: In this table, sales of vaccines and influenza vaccine do not include H1N1 influenza vaccine sales of ¥8.8 billion.

OPERATING INCOME / OPERATING MARGIN



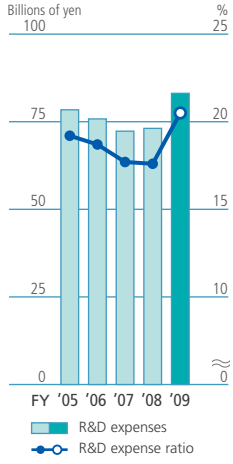
Operating Income

Operating income was down ¥10.2 billion, to ¥61.5 billion.

Due to the increase in domestic sales of ethical drugs, and to the exclusion of APIC from the scope of consolidation, which resulted in a significant decline in sales in other businesses with a relatively high cost of sales margin, the cost of sales ratio improved 1.6 percentage points, to 36.5%. Consequently, gross profit increased ¥0.4 billion, to ¥256.9 billion, despite the ¥10.0 billion decrease in net sales.

Accompanying a change in the licensing contract concluded with Vertex Pharmaceuticals Incorporated, of the United States, for MP-424, a treatment for chronic hepatitis C, the Company made a one-time payment of $105 million, and as a result, R&D expenses increased substantially. In addition, retirement benefit expenses increased. Consequently, despite factors that had the effect of reducing expenses, such as thorough cost-reduction initiatives and the exclusion of APIC from the scope of consolidation, SG&A expenses rose ¥10.6 billion, to ¥195.5 billion. R&D expenses were up ¥10.0 billion, to ¥83.1 billion. The R&D expense ratio increased 2.9 percentage points, to 20.5%.

R&D EXPENSES / R&D EXPENSE RATIO

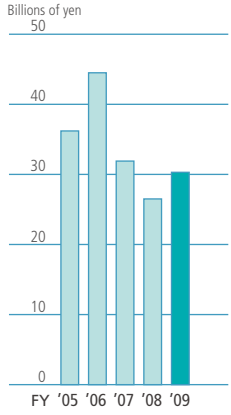


Millions of yen

	2010/3		2009/3		Change
Cost of sales	**¥147,800**	(36.5%)	¥158,184	(38.1%)	¥–10,384
SG&A expenses	**195,472**	(48.3)	184,874	(44.6)	+10,598
R&D expenses	**83,081**	(20.5)	73,122	(17.6)	+9,959
Salaries and wages	**53,028**	(13.1)	50,023	(12.1)	+3,005
Sales promotion expenses	**11,954**	(3.0)	11,679	(2.8)	+275
Amortization of goodwill	**10,137**	(2.5)	10,055	(2.4)	+82
Other	**37,272**	(9.2)	39,995	(9.6)	–2,723
Operating income	**61,475**	(15.2)	71,694	(17.3)	–10,219

Note: Figures in parentheses are percentages of net sales.

NET INCOME

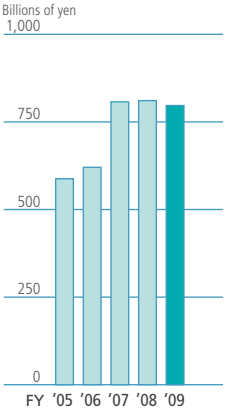


Net Income

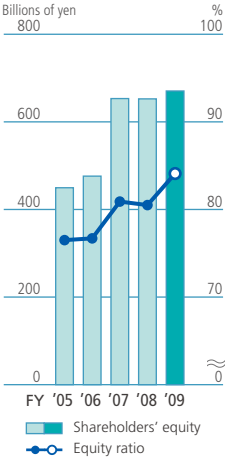
Operating income declined, but extraordinary loss improved substantially, and consequently net income increased ¥3.7 billion, to ¥30.3 billion.

Special gains were down ¥1.1 billion, to ¥0.1 billion, while special losses decreased ¥15.0 billion, to ¥10.8 billion. In regard to the reserve for HCV litigation, in consideration of the number of plaintiffs at the end of the fiscal period and the status of settlement negotiations, the number of future benefits recipients was expected to

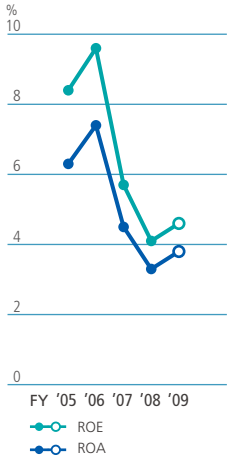
TOTAL ASSETS



SHAREHOLDERS' EQUITY / EQUITY RATIO



ROE[1] / ROA[1]



increase from previous estimates. Accordingly, an additional provision of reserve of ¥3.0 billion was recorded as a special loss. Special losses of ¥10.8 billion included loss related to business suspension of ¥3.3 billion, which was related to Medway Injection, a recombinant human serum albumin preparation; impairment loss on idle assets accompanying head office relocation of ¥1.8 billion; and restructuring loss of ¥1.6 billion, such as expenses related to moving the head office. On the other hand, in the previous fiscal year special losses totaled ¥25.8 billion, including provision of reserve for HCV litigation of ¥8.8 billion, loss on valuation of investments in securities of ¥6.6 billion, special retirement expense of ¥4.3 billion, and impairment loss of ¥3.4 billion. Consequently, special loss improved by a substantial margin in the fiscal year under review.

Financial Position

Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year were ¥796.9 billion, a decline of ¥13.9 billion from the previous fiscal year-end. The exclusion of APIC from the scope of consolidation had the effect of reducing current assets by ¥11.3 billion, fixed assets by ¥4.3 billion, liabilities by ¥9.8 billion, and net assets by ¥5.8 billion.

Total current assets were down ¥20.2 billion from the end of the previous fiscal year, to ¥344.2 billion. In addition to the exclusion of APIC from the scope of consolidation, marketable securities decreased.

Fixed assets increased ¥6.3 billion, to ¥452.6 billion. Property, plant and equipment and goodwill declined due to depreciation and amortization. However, factors contributing to the increase in fixed assets included the exclusion of APIC from the scope of consolidation, which resulted in the inclusion of APIC stock in investments in securities, as well as the marking-to-market of securities.

Total liabilities were down ¥24.5 billion from the end of the previous fiscal year, to ¥120.0 billion. In regard to the reserve for HCV litigation, the amount of the Company's estimated future burden was revised and an additional provision of reserve of ¥3.0 billion was recorded. However, payments of ¥12.3 billion were made during the fiscal year, and consequently the balance was down by ¥9.3 billion from the end of the previous year. In addition, income taxes payable, reserve for employees' bonuses, and accrued retirement benefits for employees declined.

Total net assets at the end of the period were up ¥10.6 billion from the end of the previous fiscal year, to ¥676.8 billion. Net income was ¥30.3 billion, and cash dividends paid were ¥15.7 billion. As a result, retained earnings increased ¥14.7 billion. Total valuation and translation adjustments increased ¥3.3 billion, but due to the exclusion of APIC from the scope of consolidation, minority interests declined substantially. The equity ratio was 84.1%, an increase of 3.6 percentage points from the end of the previous fiscal year.

Millions of yen

	2010/3		2009/3		Change
Total assets	**¥796,858**	(100.0%)	¥810,756	(100.0%)	¥–13,898
Total current assets	**344,249**	(43.2)	364,444	(45.0)	–20,195
Fixed assets	**452,609**	(56.8)	446,312	(55.0)	+6,297
Total liabilities	**120,045**	(15.1)	144,536	(17.8)	–24,491
Total current liabilities	**77,767**	(9.8)	89,150	(11.0)	–11,383
Total long-term liabilities	**42,278**	(5.3)	55,386	(6.8)	–13,108
Total net assets	**676,813**	(84.9)	666,220	(82.2)	+10,593

Note: Figures in parentheses are percentages of total assets or percentages of the total of liabilities and net assets.

1 Special losses were ¥20.3 billion in the year ended March 31, 2008, ¥25.8 billion in the year ended March 31, 2009, and ¥10.8 billion in the year ended March 31, 2010.

Cash Flows

Net cash provided by operating activities was ¥23.9 billion, a decrease of ¥26.6 billion. Major inflows included income before income taxes and minority interests of ¥51.0 billion, depreciation and amortization of ¥13.3 billion, and amortization of goodwill of ¥10.1 billion. Principal outflows included income taxes paid of ¥29.2 billion and decrease in reserve for HCV litigation of ¥9.3 billion. In the previous year, increase in reserve for HCV litigation was ¥8.8 billion, but in the year under review, due in part to reversals of the reserve accompanying payments, the reserve decreased by ¥9.3 billion, and consequently the amount of net cash provided by operating activities declined substantially.

Net cash used in investing activities was ¥61.2 billion, a decrease of ¥13.3 billion. Major items included purchases of marketable securities and proceeds from sales and redemption of marketable securities, which netted out to an outflow of ¥5.8 billion. Net increase in time deposits was ¥8.8 billion. Purchases of property, plant and equipment and proceeds from sales of property, plant and equipment netted out to an outflow of ¥42.3 billion.

Net cash used in financing activities was ¥17.1 billion, an increase of ¥1.1 billion. Major items included cash dividends paid of ¥15.7 billion.

As a result, net cash outflows for the year were ¥54.1 billion, and the balance of cash and cash equivalents at the end of the year under review was ¥63.0 billion, a decrease of ¥53.9 billion.

Millions of yen

	2010/3	2009/3	Change
Net cash provided by operating activities	**¥ 23,923**	¥ 50,540	¥–26,617
Net cash used in investing activities	**(61,227)**	(74,508)	+13,281
Net cash used in financing activities	**(17,105)**	(15,986)	–1,119
Cash and cash equivalents at end of year	**62,958**	116,903	–53,945

Demand for Funds

The Group's working capital is used principally for purchases of raw materials and merchandise; production expenses; and marketing, R&D, and other SG&A expenses.

Dividends

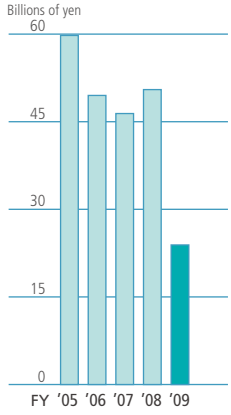
Mitsubishi Tanabe Pharma's basic policy on the distribution of earnings calls for providing a stable, ongoing distribution of earnings to shareholders while striving to maximize enterprise value by investing aggressively to bolster R&D and marketing activities from a medium-to-long-term perspective. Our objective is for a dividend payout ratio of 35% (prior to amortization of goodwill), and over the long term we will work to provide an enhanced return to shareholders.

In accordance with its basic policy on the distribution of earnings, the Company set annual dividends at ¥28.0 per share, the same as in the previous year. The dividend payout ratio, calculated on the basis of net income less amortization of goodwill, was 39.0%.

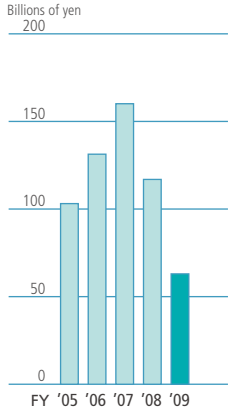
2 Dividends per share are presented as follows: For the year ended March 31, 2007 and previous years, the dividends of the former Tanabe Seiyaku are used. For the year ended March 31, 2008, the interim dividends of the former Tanabe Seiyaku are used for the interim dividends (¥13) and the year-end dividends of Mitsubishi Tanabe Pharma are used for the year-end dividends (¥13).

3 The dividend payout ratio is presented as follows: For the year ended March 31, 2007 and previous years, the dividend payout ratio of the former Tanabe Seiyaku is used. For the year ended March 31, 2008, the dividend payout ratio is calculated using Mitsubishi Tanabe Pharma's net income for the second half of the fiscal year (less amortization of goodwill) and Mitsubishi Tanabe Pharma's year-end dividends. For the years ended March 31, 2009 and 2010, the dividend payout ratio is calculated using Mitsubishi Tanabe Pharma's net income for the fiscal year (less amortization of goodwill) and annual dividends.

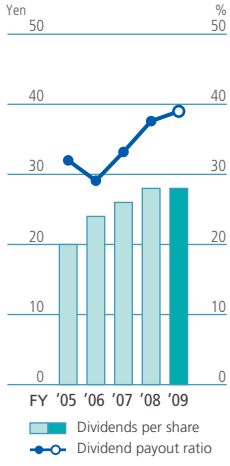
NET CASH PROVIDED BY OPERATING ACTIVITIES



CASH AND CASH EQUIVALENTS



DIVIDENDS PER SHARE[2] / DIVIDEND PAYOUT RATIO[3]



OPERATIONAL RISKS

The following are major risks that have the potential to significantly influence the financial position or performance of the Mitsubishi Tanabe Pharma Group. In recognition of the possibility that these events could occur, the Group works to prevent their occurrence and to implement countermeasures in the event of their occurrence. Items in this document relating to the future are based on the judgment of the Group as of the end of fiscal 2009 (ended March 31, 2010).

1. Risks related to new drug R&D

The R&D of new drugs requires lengthy investment and the commitment of substantial resources, but there is no guarantee that this process will result in the creation of new products or new technologies. In addition, pharmaceuticals cannot be sold if approval is not obtained under the legal and regulatory system of each country, and it is difficult to accurately predict whether or not products will be sold and the timing of those sales. The development of compounds currently in the new drug pipeline might be halted in the event that problems with effectiveness or safety are found in clinical trials or other tests or in the event that they are not expected to be profitable. In the event that R&D investment does not lead to the sales of new drugs, there could be a significant influence on the Group's financial position or results.

2. Risks related to adverse drug reactions

Clinical trials conducted prior to the receipt of approval for a new drug are implemented with a limited number of test subjects, even in the event that approval is acquired following a rigorous safety evaluation, it is not possible to know everything about safety in post-marketing use. At the stage of widespread post-marketing use, it is possible that there will be reports of new adverse drug reactions that had not been experienced previously. In the event that sales are suspended or that compensation to victims exceeds the limits of the Company's product liability insurance, depending on such factors as the severity and frequency of those side effects, the Group's financial position and results of operations could be significantly affected.

3. Risks related to the national health insurance system (NHI) and the reduction of drug price standards

In Japan, the official drug price system, which is a part of the NHI system, has an enormous influence on the sale of ethical drugs. In Japan, drug price standards are revised about once every two years. Accordingly, it is possible that a situation will develop in which it is difficult to secure the expected business results. Further, from the viewpoints of improving health care and separating medical functions, fundamental reform of the NHI system is under way. The details of these reforms could have a significant decline in sales and an adverse influence on the Group's financial position or results.

4. Risks related to product sales

In the future, in the event of the emergence of factors—such as the launch of competing new products or generic products due to the termination of a patent, the launch of innovative new drugs or new technologies that lead to new methods of treatment, or the announcement of new evidence—that lead to a relative change in the position of the Company's pharmaceutical products in clinical treatment and to a decline in sales, the Group's financial position or results could be significantly affected.

5. Risks related to intellectual property

If the Group's business activities conflict with the patents or other intellectual property rights of other parties, it is possible that activities could be suspended or that there could be a legal dispute. Also, in the event that the Group believes that its patents or other intellectual property rights have been infringed upon by another party, the Group might file lawsuits. As a result of these actions, there could be an influence on the Group's financial position or results.

6. Risks related to alliance with other companies

To use its management resources effectively, the Group works with other companies in joint research, joint development, product licensing, commissioned production, commissioned sales, joint promotion, and joint marketing in each business field, such as research, development, production, and marketing. However, in the future if contracts are changed or alliances dissolved, if the management environment of alliance partners worsens, or if the management policies of alliance partners changes substantially, there could be an adverse influence on the Group's financial position or results.

7. Risks related to production and stable supply

a) In the event of the emergence of technical or legal / regulatory problems in production and distribution facilities, or in the event of operational stoppages or disorder due to fires, earthquakes, or other disasters, product supply could be delayed or stopped, and there could be an influence on the Group's financial position or results.

b) For certain raw materials, the Group is dependent on specific sources of supply, and in the event that the supply is interrupted, production could be delayed and there could be a significant influence on the Group's financial position or results.

8. Risks related to legal issues

In the research and production of pharmaceuticals, there is a trend toward stricter regulations regarding product quality and the environment. In the event that these regulations are further tightened, there is a possibility that corresponding additional expenses will arise, which could have an adverse influence on the Group's financial position or results.

9. Risks related to product liability

It is possible that the Group will be responsible for potential product liability stemming from product research, development, manufacturing, or sales activities. The Group is covered by liability insurance, but in the event that claims exceeding the limits of this insurance coverage are approved, there could be a significant influence on the Group's financial position or results.

10. Risks related to financial market fluctuations

a) In the year ended March 31, 2010, overseas sales accounted for 6.6% of the Group's consolidated net sales. Certain raw materials for products and finished goods handled by the Company are directly imported from overseas. Substantial fluctuations in exchange rates could lead to declines in sales, increases in procurement costs, the generation of foreign exchange losses, etc., as well as declines in the assets of overseas consolidated subsidiaries, etc., and the Group's financial position and results of operations could be significantly affected.

b) As of the end of March 2010, the Group held marketable securities of ¥59.7 billion and investments in securities of ¥139.1 billion, certain of which are marketable stocks and bonds, etc. Accordingly, events such as the recording of a loss on valuation due to declines in market prices could have a significant influence on the Group's financial position or results.

11. Risks related to environmental safety

In the event that serious damage to the environment is caused by hazardous chemical substances that are used in operating activities, it is possible that the Group could incur expenses needed for environmental improvement, face a decline in societal trust, bear responsibility for the payment of compensation, etc. In the event that one or more of these situations occurs, the Group's financial position or results could be significantly affected.

12. Risks related to lawsuits

a) In regard to operational activities, in addition to adverse drug reactions, it is possible that the Group could face lawsuits regarding product liability, labor problems, fair trade, etc. As a result, there could be a significant influence on the Group's financial position or results.

b) The Japanese government, the Company, its subsidiary Benesis Corporation, and another party were defendants in lawsuits in which the plaintiffs sought compensation for damages allegedly suffered through HCV (hepatitis C virus) infection following use of a fibrinogen product or a blood coagulant factor IX product (Christmassin). However, to resolve this litigation, in January 2008, the Japanese government promulgated and put into effect "the Special Relief Law Concerning the Payment of Benefits to Relieve the Patients of Hepatitis C Infected through Specified Fibrinogen Preparations and Specified Blood-Coagulation Factor IX Preparations Contaminated by Hepatitis C Virus" (the "Relief Law"). In regard to the expenses associated with the relief payments under the Relief Law, the standards for the method and the allocation of the burden of the expenses were announced on April 10, 2009. In accordance with those standards, the Company has made provisions for those expenses. For this expense burden, the cumulative total of the provisions for reserve for HCV litigation was ¥23.0 billion as of the end of March 2010, of which ¥12.3 billion had already been paid out. However, due to changes in the expected number of benefits recipients, the Group's financial position or results could be significantly affected.

The standards determining the Company's portion of the expense burden are shown below:

1. Portion of expense burden

Classification	The Company's portion of the burden
People infected with HCV, as stipulated in Article 2, Paragraph 3, of the Relief Law, through use of specific fibrinogen products from August 21, 1985 to April 21, 1987	100%
People infected with HCV, as stipulated in Article 2, Paragraph 3, of the Relief Law, through use of specific fibrinogen products from April 22, 1987 to June 23, 1988	Two-thirds
People infected with HCV, as stipulated in Article 2, Paragraph 3, of the Relief Law, through the use of specific coagulation factor IX products on or after January 1, 1984	100%

2. Lump-sum payment of ¥5,186,725 thousand in addition to payments made in accordance with the portions in (1) above.

13. Risks related to information management

The Group possesses large amounts of non-public information, including personal information, and in the event that information is leaked outside the Group due to system damage, accidents, etc., there could be an influence on the Group's results, such as a decline in reputation. The Group is working to ensure rigorous information control. In addition to formulating a privacy policy, in order to protect information, the Group has established countermeasures to prevent inappropriate system access and information leakage. In the event that one or more of these situations occurs, the Group's financial position or results could be significantly affected.

14. Risks related to substantial upfront investment for the purpose of expanding overseas operations

Substantial upfront investment is necessary to expand and advance overseas operations, and it is possible that, due to changes in the laws and systems of each country or to the worsening of diplomatic relations, etc., the opportunity to recover that investment might be lost and operations under development might be affected. As a result of these actions, there could be an influence on the Group's financial position or results.

15. Major assumptions regarding operational activities

Pharmaceutical manufacturing and sales are the Group's principal business operations. In accordance with the Pharmaceutical Affairs Law, the Group has obtained licenses for pharmaceutical manufacturing and sales, pharmaceutical manufacturing and wholesale pharmaceutical sales, and conducts manufacturing and sales of ethical pharmaceutical and OTC products. The products handled include narcotics, psychotropic agents, and

raw materials for stimulants etc., and the Group is subject to laws and regulations related to the Narcotics and Psychotropic Substances Control Law and the Stimulant Drugs Control Law.

Since the Group also handles medical devices, veterinary drugs, and poisonous and toxic substances, the Group is subject to laws and regulations covering the sales and leasing of highly controlled medical devices, wholesale of veterinary drug sales, and general sales of poisonous and toxic substances. In manufacturing drugs that are exported overseas, the Group is subject to the regulations of the Pharmaceutical Affairs Law.

In addition, the Group is required to register the raw materials master file, etc., with the authorities in the importing countries and acquire import permission, local manufacturing permission, etc. In addition, the Group is subject to the pharmaceutical legal / regulatory system in the importing country, as well as the laws and regulations related to customs clearance.

In regard to these permissions, etc., they must be extended periodically, as determined by laws / regulations. Also, in the event of a violation of laws / regulations, it is possible that permissions, etc., of the Group could be cancelled or the Group could be ordered to suspend all or a portion of operations for a specified period of time. In the event that cancellation, etc., of permissions, etc., is ordered, because of the damage to the societal trust or the termination of contract, there could be a significant influence on the Group's financial position or results.

Major permissions, etc., received are as follows:

Date received	Permission, etc.	Approving authority	Details of permission, etc.	Expiry of permission, etc.	Grounds for legal violation or primary reason for revocation of permission, etc.
Jan. 1, 2007	Pharmaceutical manufacturing and sales	Osaka Prefecture	Permission to manufacture and sell pharmaceutical products, etc.	Dec. 31, 2011 (5-year renewable)	Disqualification as per Article 12.2 of the Pharmaceutical Affairs Law
Oct. 1, 2009	Manufacturing of narcotics[1]	Ministry of Health, Labour and Welfare	License to manufacture narcotic drugs	Dec. 31, 2010 (2-year renewable)	Disqualification as per Article 3.2 of the Narcotics and Psychotropic Control Act
Oct. 1, 2009	Manufacturing of psychotropic drugs[1]	Ministry of Health, Labour and Welfare	License to manufacture psychotropic drugs	Sep. 30, 2014 (5-year renewable)	Disqualification as per Article 50.2 of the Narcotics and Psychotropic Control Act
Oct. 19, 2009	Handling of raw materials for stimulants[2]	Local governments	Permission to sell raw materials for stimulants	Dec. 31, 2013 (4-year renewable)	Disqualification as per Article 30.3 of the Stimulant Drugs Control Law
Oct. 13, 2009	Wholesale pharmaceutical sales[3]	Local governments	Permission to sell or offer pharmaceutical products	Oct. 12, 2015 (6-year renewable)	Disqualification as per Article 34.2 of the Pharmaceutical Affairs Law
Oct. 1, 2009	Pharmaceutical manufacturing[4]	Local governments	Permission to manufacture or import pharmaceutical products	Sep. 30, 2014 (5-year renewable)	Disqualification as per Article 13.4 of the Pharmaceutical Affairs Law
Oct. 19, 2009	Wholesale veterinary drug sales[5]	Local governments	Permission to sell or offer pharmaceutical products for animals	Oct. 18, 2015 (6-year renewable)	Disqualification as per Article 34.2 of the Pharmaceutical Affairs Law
Sept. 18, 2007	Sales and leasing of highly controlled medical devices, etc.[6]	Local governments	Permission to sell or offer highly controlled medical devices	Sept. 17, 2013 (6-year renewable)	Disqualification as per Article 39.3 of the Pharmaceutical Affairs Law
Oct. 19, 2009	General sales of poisonous and toxic substances[7]	Local governments	Registration to sell, etc., poisonous and toxic substances	Oct. 18, 2015 (6-year renewable)	Disqualification as per Article 5, or 19 of the Poisonous and Deleterious Substances Control Act

1 Permission information for narcotic manufacturing at Osaka plant of Mitsubishi Tanabe Pharma Factory Ltd. that primarily handles drugs covered by these regulations is shown.

2 Permission information for handling of raw materials for stimulants at Head Office (Production Division) that primarily handles them covered by these regulations is shown.

3 Permission has been obtained by multiple places of operations, therefore permission information for Head Office (Sales and Marketing Division) is shown.

4 Permission has been obtained by multiple places of operations, therefore permission information for Osaka plant of Mitsubishi Tanabe Pharma Factory Ltd. is shown.

5 Permission has been obtained by multiple places of operations, therefore permission information for Head Office (Production Division) is shown.

6 Permission information for West Distribution Center is shown.

7 Permission has been obtained by multiple places of operations, therefore permission information for Head Office (Production Division) is shown.

16. Administrative action issued in regard to a violation of the Pharmaceutical Affairs Law related to Medway Injection

On April 13, 2010, Mitsubishi Tanabe Pharma Corporation and its subsidiary Bipha Corporation received an administrative action issued by the Minister of Health, Labour and Welfare in regard to a violation of the Pharmaceutical Affairs Law. As a result, the Company expects measures to be taken, such as the suspension

by medical institutions of deliveries of the Company's products, as well as damage to the Company's reputation among patients and medical professionals. If these adverse influences continue, the Group's financial position and results of operations could be significantly affected.

17. Relationship with parent company and other Group companies

Position in the Group centered on Mitsubishi Chemical Holdings Corporation

The Company belongs to the Mitsubishi Chemical Holdings Group, which is centered on Mitsubishi Chemical Holdings Corporation, the Company's parent company. Mitsubishi Chemical Holdings Corporation was jointly established by Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation, one of the Company's predecessor companies, by means of a stock-for-stock exchange effective in October 2005. Due to the merger of Mitsubishi Pharma Corporation and Tanabe Seiyaku Co., Ltd., in October 2007, the ownership of Mitsubishi Chemical Holdings Corporation in Mitsubishi Tanabe Pharma Corporation reached 56.34%.

The Mitsubishi Chemical Holdings Group has three core domains: Performance Products, Health Care, and Industrial Materials, and operates businesses with four core business companies—Mitsubishi Tanabe Pharma Corporation, Mitsubishi Chemical Corporation, Mitsubishi Plastics, Inc., and Mitsubishi Rayon Co., Ltd. The Company has integrated systems for the research, development, manufacturing, and sales of ethical pharmaceuticals, and the Company plays a central role in the Mitsubishi Chemical Holdings Group's health care operations.

Operations are currently divided as described above, but in the future, in the event that there is a change in the Mitsubishi Chemical Holdings Group's management policies, the financial position and results of operations of the Mitsubishi Tanabe Pharma Group could be affected.

Transactions with Mitsubishi Chemical Holdings Group

The Company's relationship with its parent company, Mitsubishi Chemical Holdings Corporation, and Mitsubishi Chemical Holdings Corporation's corporate group, includes the following transactions:

- procurement of raw materials, etc., and sales of chemical products, etc.
- conclusion of leases and consignment contracts for the sites of research facilities and plants and the buildings, etc., thereon, in Yokohama City, Kanagawa Prefecture; Kamisu City, Ibaraki Prefecture.
- payment as consideration for exclusive rights to intellectual property held by the corporate group of the parent company.
- conclusion of contracts for research outsourcing and information disclosure.
- consignment contracts with overseas subsidiaries.

Fundamentally, these transactions involve rational transaction terms decided upon following two-way negotiations conducted with reference to general market prices. Payment of compensation for exclusive rights ended on September 30, 2009, but those rights would continue on and after October 1, 2009, and will not be cancelled without the Company's agreement.

The Company leases buildings used for the research laboratory in Yokohama, Kanagawa. The Company formulated plans to construct a laboratory building of its own on that site, and the construction of the Medicinal Chemistry Research Laboratories began in January 2010. In line with the progress of this project, the lease on the buildings used for the research laboratory will be canceled in stages.

Also, plans call for the outsourcing of work by overseas subsidiaries to be gradually eliminated as the Company's international operations progress from 2011 to 2012.

In addition, a contract has been concluded with Mitsubishi Chemical Holdings Corporation regarding the burden of operational expenses, and for enjoyment of benefits based on the brand value and comprehensive strengths of Mitsubishi Chemical Holdings Corporation in the development of operations in Japan and overseas, the Company is responsible for certain expenses arising in regard to the operation of Mitsubishi Chemical Holdings Corporation. Operational expenses are calculated in accordance with the burden on the workforce, total assets, and gross profit, with an upper limit of 0.5% of sales.

In the year ended March 31, 2010, the Company's expense included the following: procurement of raw materials, etc., of ¥0.4 billion, sales of chemical products, etc., of ¥0.1 billion, conclusion of leases and consignment contracts for the sites of research facilities and plants and the buildings, etc., thereon, in Yokohama City, Kanagawa Prefecture, and Kamisu City, Ibaraki Prefecture, of ¥1.9 billion, payment as consideration for exclusive rights to intellectual property held by the corporate group including the parent company of ¥1.4 billion, and operating expenses of ¥0.4 billion. In all of the above cases, the expenses are an insignificant percentage of the Company's total expenses. In the event of changes in the contracts or details of the transactions with the Mitsubishi Chemical Holdings Group, there could be a significant influence on the Mitsubishi Tanabe Pharma Group's results or financial position. API Corporation, a group company of the Mitsubishi Chemical Holdings Group, is an associated company of the Mitsubishi Tanabe Pharma Group, and the above amounts do not include transactions with API Corporation (purchases of raw materials, etc.: ¥9.4 billion, etc.)

Personnel relationships with Mitsubishi Chemical Holdings Group

(a) Concurrent service of directors and corporate auditors

As of June 22, 2010, the directors and corporate auditors and employees of Mitsubishi Chemical Holdings Corporation and its Group companies include one person who is concurrently serving as a corporate auditor (non-full time). The Company's Board of Corporate Auditors has four members.

Position at the Company	Name	Position in Group company	Reason for position
Corporate Auditor (outside)	Takashi Nishida	Mitsubishi Chemical Holdings Corporation Corporate Auditor (full time / outside)	Concurrent service from the viewpoint of Group auditing
		Mitsubishi Chemical Corporation Corporate Auditor (outside)	

Michihiro Tsuchiya, who is a representative director of the Company, serves concurrently as a director (non-full time) of Mitsubishi Chemical Holdings Corporation.

(b) Acceptance of reassigned personnel

The Group has accepted the reassignment of 7 people from Mitsubishi Chemical Holdings Group for limited periods of time with such objectives as enhancing links among research functions and information systems departments.

Capital relationship with Mitsubishi Chemical Holdings Corporation

Currently, Mitsubishi Chemical Holdings Corporation holds 56.34% of the Company's issued shares. In regard to management decision-making, there are no matters that require the prior approval of Mitsubishi Chemical Holdings Corporation, the Company's parent company. Also, the percentage of the Company's stock held by Mitsubishi Chemical Holdings Corporation will, in principle, be maintained for 10 years from October 1, 2007. At this time, the Company believes that the ownership ratio remains unchanged.

However, in the future, in the event that there is a change in the management policies of the Mitsubishi Chemical Holdings Group, the Company's financial position and results of operations could be affected.

18. Risks related to delisting

On October 1, 2007, the date of the merger, the Company received notice from the Tokyo Stock Exchange and Osaka Securities Exchange regarding the commencement of a grace period (October 1, 2007 to March 31, 2011) in accordance with rules for inappropriate mergers for stock delisting criteria.

Targeting the termination of the grace period, the Company is cooperating with suitability examinations on both of the exchanges. In the event that the grace period is not terminated, it is possible that the Company could be delisted and there could be a significant influence on the Group's financial position or results.

There are risks other than those described above, and the risks listed here do not include all of the risks faced by the Group.

CONSOLIDATED BALANCE SHEETS

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Assets			
Current assets:			
Cash and time deposits (Note 3)	¥ 22,792	¥ 23,931	$ 244,970
Notes and accounts receivable, trade:			
Notes	1,281	1,227	13,768
Accounts	124,946	126,903	1,342,928
Less allowance for doubtful receivables	(41)	(50)	(441)
	126,186	128,080	1,356,255
Marketable securities (Notes 4 and 5)	59,726	67,680	641,939
Inventories (Note 6)	73,166	77,692	786,393
Deferred income taxes (Note 10)	11,394	12,975	122,464
Other current assets	50,985	54,086	547,990
Total current assets	344,249	364,444	3,700,011
Property, plant and equipment (Note 16)**:**			
Land	50,931	53,524	547,410
Buildings and structures	130,741	135,613	1,405,213
Machinery and vehicles	111,155	127,198	1,194,701
Tools, furniture and fixtures	38,637	39,704	415,273
Leased equipment	41	24	441
Construction in progress	1,476	2,318	15,864
	332,981	358,381	3,578,902
Less accumulated depreciation	(215,763)	(226,584)	(2,319,035)
Property, plant and equipment, net	117,218	131,797	1,259,867
Investments, goodwill and other assets:			
Investments in securities (Notes 4 and 5):			
Unconsolidated subsidiaries and affiliates	7,630	2,210	82,008
Others	131,503	112,575	1,413,403
Goodwill	125,765	135,494	1,351,730
Software	2,873	2,111	30,879
Long-term prepaid expenses	8,941	5,632	96,099
Prepaid pension expenses (Note 9)	36,730	35,475	394,776
Deferred income taxes (Note 10)	14,300	13,734	153,697
Long-term deposits	3,393	2,185	36,468
Other assets	4,300	5,122	46,217
Less allowance for doubtful receivables	(44)	(23)	(473)
Total investments, goodwill and other assets	335,391	314,515	3,604,804
Total assets	¥ 796,858	¥ 810,756	$ 8,564,682

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Liabilities and Net Assets			
Current liabilities:			
Short-term debt (Note 7)	¥ 2,410	¥ 7,299	$ 25,903
Current maturities of long-term debt (Note 7)	30	140	323
Accounts payable, trade	27,557	26,093	296,184
Accounts payable, other	20,202	20,944	217,132
Income taxes payable (Note 10)	10,310	14,101	110,813
Consumption taxes payable	1,789	2,056	19,228
Reserve for employees' bonuses	11,155	12,436	119,895
Reserve for sales returns	169	144	1,816
Reserve for loss on shutdown of a plant	–	439	–
Other current liabilities (Note 8)	4,145	5,498	44,551
Total current liabilities	77,767	89,150	835,845
Long-term liabilities:			
Long-term debt, less current maturities (Note 7)	–	30	–
Deferred income taxes (Note 10)	11,267	11,673	121,098
Accrued retirement benefits for employees (Note 9)	13,159	15,944	141,434
Accrued retirement benefits for directors and corporate auditors	4	21	43
Reserve for health management allowances for HIV compensation (Note 24)	1,627	1,728	17,487
Reserve for health management allowances for SMON compensation	4,205	4,634	45,196
Reserve for HCV litigation (Note 24)	10,689	20,000	114,886
Other liabilities (Note 8)	1,327	1,356	14,263
Total long-term liabilities	42,278	55,386	454,407
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorized – 2,000,000,000 shares			
Issued – 561,417,916 shares at March 31, 2010 and 2009	50,000	50,000	537,403
Capital surplus	451,185	451,186	4,849,366
Retained earnings	179,409	164,712	1,928,300
Treasury stock, at cost	(277)	(275)	(2,977)
Total shareholders' equity	680,317	665,623	7,312,092
Valuation and translation adjustments:			
Unrealized holding losses on securities	(3,218)	(5,605)	(34,587)
Deferred losses on hedges	(378)	(747)	(4,063)
Translation adjustments	(6,251)	(6,809)	(67,186)
Total valuation and translation adjustments	(9,847)	(13,161)	(105,836)
Minority interests	6,343	13,758	68,174
Total net assets	676,813	666,220	7,274,430
Total liabilities and net assets	¥796,858	¥810,756	$8,564,682

CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Note 22)	**¥404,747**	¥414,752	**$4,350,247**
Cost of sales	**147,800**	158,184	**1,588,564**
Gross profit	**256,947**	256,568	**2,761,683**
Selling, general and administrative expenses (Note 14)	**195,472**	184,874	**2,100,946**
Operating income (Note 22)	**61,475**	71,694	**660,737**
Other income (expenses):			
Interest and dividend income	**2,515**	2,988	**27,031**
Interest expense	**(25)**	(87)	**(269)**
Foreign exchange loss	**(1,452)**	(443)	**(15,606)**
Donations	**(360)**	(399)	**(3,869)**
Loss on sales or disposal of property, plant and equipment, net	**(459)**	(958)	**(4,933)**
Gain on sales of investments in securities, net	**85**	144	**913**
Subsidies for establishing a business	**–**	400	**–**
Compensation received	**–**	489	**–**
Loss related to business suspension (Note 15)	**(3,296)**	–	**(35,426)**
Provision of reserve for HCV litigation (Note 24)	**(3,000)**	(8,800)	**(32,244)**
Loss on valuation of investments in securities	**(233)**	(6,635)	**(2,504)**
Special retirement benefits (Note 9)	**(23)**	(4,344)	**(247)**
Impairment loss (Note 16)	**(1,837)**	(3,351)	**(19,744)**
Settlement for USA HIV litigation	**–**	(1,256)	**–**
Loss on product recall	**–**	(657)	**–**
Loss on shutdown of a plant	**–**	(164)	**–**
Restructuring loss	**(1,583)**	(342)	**(17,014)**
Other, net	**(833)**	(293)	**(8,953)**
	(10,501)	(23,708)	**(112,865)**
Income before income taxes and minority interests	**50,974**	47,986	**547,872**
Income taxes (Note 10):			
Current	**24,841**	27,409	**266,993**
Deferred	**(2,796)**	(6,355)	**(30,052)**
	22,045	21,054	**236,941**
Minority interests	**(1,324)**	400	**(14,230)**
Net income	**¥ 30,253**	¥ 26,532	**$ 325,161**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Number of shares of common stock (Thousands)	Millions of yen								
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains (losses) on securities	Deferred losses on hedges	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008	561,417	¥50,000	¥451,184	¥153,332	¥(209)	¥ 1,511	¥(841)	¥(1,748)	¥14,579	¥667,808
Net income for the year	–	–	–	26,532	–	–	–	–	–	26,532
Cash dividends	–	–	–	(15,152)	–	–	–	–	–	(15,152)
Increase in treasury stock	–	–	–	–	(76)	–	–	–	–	(76)
Gain on sales of treasury stock	–	–	2	–	10	–	–	–	–	12
Net changes in items other than shareholders' equity	–	–	–	–	–	(7,116)	94	(5,061)	(821)	(12,904)
Balance at March 31, 2009	561,417	¥50,000	¥451,186	¥164,712	¥(275)	¥(5,605)	¥(747)	¥(6,809)	¥13,758	¥666,220
Net income for the year	–	–	–	**30,253**	–	–	–	–	–	**30,253**
Cash dividends	–	–	–	**(15,712)**	–	–	–	–	–	**(15,712)**
Increase in treasury stock	–	–	–	–	**(21)**	–	–	–	–	**(21)**
Change in scope of consolidation	–	–	–	**99**	–	–	–	–	–	**99**
Change in scope of equity method	–	–	–	**57**	–	–	–	–	–	**57**
Gain on sales of treasury stock	–	–	**(1)**	–	–	–	–	–	–	**(1)**
Decrease in treasury stock resulting from change in ownership of affiliates accounted for by the equity method	–	–	–	–	**19**	–	–	–	–	**19**
Net changes in items other than shareholders' equity	–	–	–	–	–	**2,387**	**369**	**558**	**(7,415)**	**(4,101)**
Balance at March 31, 2010	**561,417**	**¥50,000**	**¥451,185**	**¥179,409**	**¥(277)**	**¥(3,218)**	**¥(378)**	**¥(6,251)**	**¥ 6,343**	**¥676,813**

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gains (losses) on securities	Deferred losses on hedges	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2009	$537,403	$4,849,377	$1,770,335	$(2,955)	$(60,243)	$(8,029)	$(73,183)	$147,871	$7,160,576
Net income for the year	–	–	**325,161**	–	–	–	–	–	**325,161**
Cash dividends	–	–	**(168,874)**	–	–	–	–	–	**(168,874)**
Increase in treasury stock	–	–	–	**(226)**	–	–	–	–	**(226)**
Change in scope of consolidation	–	–	**1,065**	–	–	–	–	–	**1,065**
Change in scope of equity method	–	–	**613**	–	–	–	–	–	**613**
Gain on sales of treasury stock	–	**(11)**	–	–	–	–	–	–	**(11)**
Decrease in treasury stock resulting from change in ownership of affiliates accounted for by the equity method	–	–	–	**204**	–	–	–	–	**204**
Net changes in items other than shareholders' equity	–	–	–	–	**25,656**	**3,966**	**5,997**	**(79,697)**	**(44,078)**
Balance at March 31, 2010	**$537,403**	**$4,849,366**	**$1,928,300**	**$(2,977)**	**$(34,587)**	**$(4,063)**	**$(67,186)**	**$68,174**	**$7,274,430**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 50,974	¥ 47,986	$ 547,872
Adjustments for:			
Depreciation and amortization	13,291	15,658	142,853
Impairment loss	1,837	3,351	19,744
Amortization of goodwill	10,137	10,055	108,953
Decrease in accrued retirement benefits for employees	(1,105)	(895)	(11,877)
Increase in prepaid pension expenses	(1,254)	(1,487)	(13,478)
(Decrease) increase in allowance for doubtful receivables	(18)	21	(193)
(Decrease) increase in reserve for HCV litigation	(9,311)	8,800	(100,075)
Interest and dividend income	(2,515)	(2,988)	(27,031)
Interest expense	25	87	269
Loss on sales or disposal of fixed assets	312	554	3,353
Gain on sales of investments in securities	(85)	(144)	(914)
Loss on valuation of investments in securities	233	6,635	2,504
Equity in earnings of affiliates	(490)	(100)	(5,266)
Subsidies for establishing a business	–	(400)	–
Loss on shutdown of a plant	–	164	–
Special retirement expense	–	4,344	–
Settlement for USA HIV litigation	–	1,256	–
Increase in notes and accounts receivable, trade	(3,108)	(3,983)	(33,405)
Increase in inventories	(4,960)	(4,971)	(53,310)
Increase (decrease) in notes and accounts payable, trade	1,213	(4)	13,037
Increase in accounts payable, other	425	232	4,568
Other, net	(5,622)	(5,508)	(60,426)
Subtotal	49,979	78,663	537,178
Interest and dividends received	2,733	3,086	29,374
Interest paid	(26)	(92)	(279)
Subsidy received	400	1,027	4,299
Special retirement benefits paid	–	(4,344)	–
Income taxes paid	(29,163)	(27,800)	(313,446)
Net cash provided by operating activities	23,923	50,540	257,126
Cash flows from investing activities:			
Purchases of marketable securities	(58,990)	(57,980)	(634,028)
Proceeds from sales and redemption of marketable securities	53,183	49,496	571,614
Increase in time deposits	(10,322)	(1,402)	(110,942)
Decrease in time deposits	1,565	610	16,821
(Increase) decrease in long-term deposits	(636)	3,000	(6,836)
Purchases of property, plant and equipment	(8,248)	(10,737)	(88,650)
Proceeds from sales of property, plant and equipment	77	29	828
Purchases of intangible fixed assets	(1,070)	(1,720)	(11,500)
Purchases of investments in securities	(44,962)	(62,279)	(483,255)
Proceeds from sales and redemption of investments in securities	2,644	6,166	28,418
Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation (Note 21)	511	–	5,492
Other, net	5,021	309	53,966
Net cash used in investing activities	(61,227)	(74,508)	(658,072)
Cash flows from financing activities:			
(Decrease) increase in short-term debt, net	(398)	579	(4,278)
Repayments of long-term debt	(923)	(1,246)	(9,920)
Purchases of treasury stock	–	(76)	–
Proceeds from sales of treasury stock	–	12	–
Cash dividends paid	(15,712)	(15,154)	(168,874)
Other, net	(72)	(101)	(774)
Net cash used in financing activities	(17,105)	(15,986)	(183,846)
Effect of exchange rate changes on cash and cash equivalents	274	(3,239)	2,945
Net decrease in cash and cash equivalents	(54,135)	(43,193)	(581,847)
Cash and cash equivalents at beginning of year	116,903	160,096	1,256,481
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	190	–	2,043
Cash and cash equivalents at end of year (Note 3)	¥ 62,958	¥116,903	$ 676,677

See accompanying notes to consolidated financial statements.

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of Mitsubishi Tanabe Pharma Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in their respective countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. In addition, the notes to the accompanying consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2009 to the 2010 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S.$1. This translation of convenience should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 27 and 30 significant consolidated subsidiaries for the years ended March 31, 2010 and 2009, respectively.

On April 1, 2009, the Company sold a portion of its shareholding in API Corporation, and as a result, API Corporation and its subsidiary Arkema Yoshitomi, Ltd. became affiliated companies and were excluded from the scope of consolidation.

On April 1, 2009, four businesses including the insurance business of Welfide Service Corporation were transferred to Tanabe Total Service Co., Ltd., through an absorption-type split, and the remaining businesses merged with the Company through an absorption-type merger. As a result, Welfide Service Corporation was liquidated and excluded from the scope of consolidation.

The pharmaceutical sales company MT Pharma America, Inc. was established in the U.S. in July 2009 (with the company name changed to Mitsubishi Tanabe Pharma America, Inc. on October 1, 2009), and was included in the Company's scope of consolidation.

Tanabe Pharma Development America, Inc., a subsidiary of the Company, was liquidated in November 2009.

During the year ended March 31, 2010, the Company acquired additional shares of Koei Shoji Co., Ltd. and made additional capital investments in Guangdong Tanabe Pharmaceutical Co., Ltd. However, these two companies, Choseido Pharmaceutical Co., Ltd., and three other companies were not included in the scope of consolidation for the year ended March, 2010, because they have limited significance in regard to influencing rational judgments about the Group's financial position and results.

The Company applied the equity method to 4 unconsolidated subsidiaries, including Choseido Pharmaceutical Co., Ltd., and 3 affiliates, including API Corporation, for the year ended March 31, 2010, and 3 unconsolidated subsidiaries and 4 affiliates for the year ended March 31, 2009.

On April 1, 2009, the Company sold a portion of its shareholding in API Corporation, and as a result, API Corporation became an affiliated company and was included in the scope of equity application. In addition, as a result of this sale API Corporation's subsidiary Arkema Yoshitomi, Ltd., which had been an affiliated company, was excluded from the scope of equity method application.

On April 1, 2009, Chosei Yakuhin Co., Ltd. was liquidated as the result of an absorption-type merger with the Company's consolidated subsidiary Tanabe Seiyaku Hanbai Co., Ltd., and was therefore excluded from the scope of equity method application.

In June 2009, the Company made an additional capital investment in Guangdong Tanabe Pharmaceutical Co., Ltd., an affiliate which had not been accounted for by the equity method, making Guangdong Tanabe Pharmaceutical Co., Ltd., a wholly owned subsidiary of the Company. Therefore, as a result of its increased significance, Guangdong Tanabe Pharmaceutical Co., Ltd. was included in the scope of equity method application.

On August 31, 2009, the Company sold a portion of its shareholding in Ogura Art Printing Co., Ltd., and as a result, Ogura Art Printing Co., Ltd. ceased to be an affiliated company and was therefore excluded from the scope of equity method application.

On October 1, 2009, the Company acquired all of the shares of Koei Shoji Co., Ltd. which had been accounted for by the equity method. As a result, Koei Shoji Co., Ltd. became an unconsolidated subsidiary accounted for by the equity method.

2 unconsolidated subsidiaries, Tanabe Seiyaku Malaysia and one other company, and Arkema Yoshitomi, Ltd. were not accounted for by the equity method because the net income and retained earnings of these companies were insignificant.

18 overseas consolidated subsidiaries have fiscal years ending on December 31. Since the difference between that date and the end of the Company's fiscal year is not greater than three months, the accounts of these subsidiaries as of December 31 have been used in preparing the Company's consolidated financial statements, with adjustments made as necessary to account for significant transactions occurring between December 31 and the end of March.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are valued using the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill resulting from the difference between the cost and underlying net equity of investments in consolidated subsidiaries and affiliates accounted for under the equity method is deferred and amortized using the straight-line method over a period of fifteen years.

(Change in accounting policy)
Effective the year ended March 31, 2010, the Company adopted the following new accounting standards: "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No.21 issued on December 26, 2008); the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008); the "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23 issued on December 26, 2008); the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7 (Revised 2008) issued on December 26, 2008); the "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 (Revised 2008) issued on December 26, 2008), and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 (Revised 2008) issued on December 26, 2008), which is applicable for corporate mergers, splits and others, etc., conducted since April 1, 2009.

Effective the year ended March 31, 2009, the Company and overseas subsidiaries have adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Solution No.18 issued on May 17, 2006). The adoption of this standard had no impact on the consolidated statement of income for the year ended March 31, 2009.

(2) Foreign Currency Transactions

All monetary receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and are presented as translation adjustments and minority interests in the accompanying consolidated balance sheets.

(3) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(4) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(5) Marketable Securities and Investments in Securities

Marketable securities and investments in securities are classified into one of the following categories based on the intent of holding, resulting in different measurements of and method of accounting for changes in fair value. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with available market value are stated at market value. Unrealized holding gains and unrealized holding losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Other available-for-sale securities with no available market value are stated at cost determined by the moving average method. Cost of securities sold is determined by the moving average method. Investments in investment business limited liability partnerships and other similar partnerships, which are deemed to be securities under Article 2, Clause 2 of the Financial Instruments and Exchange Law of Japan, are valued at the amount of the underlying equity in their net assets based on the latest financial statements available as of the closing date stipulated in the partnership agreement.

Significant declines in market value or the net asset value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method, and available-for-sale securities, judged to be other than temporary, are charged to income.

(6) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the weighted average method.

(Change in accounting policy)
Up to the year ended March 31, 2008, merchandise and finished goods of the Company and its domestic subsidiaries were valued at the lower of weighted average cost or market. Other inventories, including raw materials and supplies, were valued at cost determined by the weighted average method.

Effective the year ended March 31, 2009, as the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9 issued on July 5, 2006) has been applied, inventories of the Company and its domestic consolidated subsidiaries are stated at the lower of cost or net selling value, cost being determined primarily by the weighted average method. The effect of the adoption of this accounting standard on operating income and income before income taxes and minority interests was immaterial for the year ended March 31, 2009.

(7) Property, Plant and Equipment and Depreciation (excluding leased equipment)

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is calculated primarily by the declining-balance method using rates based on the estimated useful lives of the respective assets. Buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 are depreciated using the straight-line method. The principal estimated useful lives are as follows:

Buildings and structures	10 to 50 years
Machinery and equipment	4 to 8 years

(Supplementary information)
Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their useful lives for depreciation of tangible fixed assets, primarily machinery and equipment. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income increased by ¥612 million and income before income taxes and minority interests increased by ¥618 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous useful lives.

(8) Intangible Fixed Assets (excluding leased equipment)

Intangible fixed assets are amortized primarily by the straight-line method. Amortization of software utilized internally is calculated by the straight-line method over an estimated useful life of primarily 5 years.

(9) Leased Equipment

Leased equipment arising from finance lease transactions which do not transfer ownership to the lessee are amortized to a residual value of zero by the straight-line method using the contract term as the useful life.

Among finance lease transactions which do not transfer ownership to lessee, those that started on or before March 31, 2008 are accounted for as operating leases.

(Change in accounting policy)

Up to the year ended March 31, 2008, finance lease transactions which do not transfer ownership to lessee were accounted for as operating leases.

Effective the year ended March 31, 2009, as the "Accounting Standard for Lease Transactions" (ASBJ Statement No.13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by the ASBJ on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No.16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the ASBJ on March 30, 2007) have been applied, lease transactions of the Company and its domestic consolidated subsidiaries are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee. There was no impact on the consolidated statement of income for the year ended March 31, 2009.

(10) Reserve for Employees' Bonuses

Reserve for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(11) Reserve for Sales Returns

The reserve for sales returns is provided based on the estimated amount expected to be incurred subsequent to the balance sheet date based on the historical ratio of sales returns.

(12) Reserve for Loss on Shutdown of a Plant

The reserve for loss on shutdown of a plant is stated at the estimated amount of removal costs and so forth to be incurred as a result of the closure of a plant of a consolidated subsidiary.

(13) Accrued Retirement Benefits for Employees

Accrued retirement benefits for employees are provided based on the estimated retirement benefit obligation and the pension assets.

Prior service cost is amortized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

On April 1, 2009, the Company integrated the retirement benefit system used by the former Tanabe Seiyaku Co., Ltd. with the retirement benefit system used by the former Mitsubishi Pharma Corporation. Up to the year ended March 31, 2009, actuarial gain or loss was amortized in the year following the year in which the gain or loss was recognized by the straight-line method over a periods of 13 and 5 years for the former Tanabe Seiyaku Co., Ltd. and the former Mitsubishi Pharma Corporation, respectively, which were within the estimated average remaining years of service of the eligible employees.

(Change in accounting policy)

Effective the year ended March 31, 2010, the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No.19 issued on July 31, 2008) has been applied. There was no impact on the consolidated statement of income for the year ended March 31, 2010.

(14) Accrued Retirement Benefits for Directors and Corporate Auditors

Certain of the Company's consolidated subsidiaries have retirement benefit plans for their officers which are stated at 100 percent of the estimated amount calculated in accordance with each company's internal rules.

(15) Reserve for Health Management Allowances for HIV Compensation

To provide for future payments of health management allowances and settlement payments (including attorney fees) in connection with a lawsuit for damages filed by plaintiffs infected with HIV, the Company has set aside an estimated amount for such future payments.

In accordance with the settlement reached in March 1996, for health management allowances, the Company has set aside the present value of the estimated amount of future payments to be made calculated with reference to the amounts actually paid to patients with AIDS who have already reached settlements; and, for settlement payments, the Company has set aside, for patients infected with HIV through the use of antihemophilic preparations (non-heat-treated concentrated preparations), the estimated amount of payments to be made to existing plaintiffs of HIV lawsuits as of March 31, 2010 and to future plaintiffs, calculated with reference to settlement outcomes up to March 31, 2010.

(16) Reserve for Health Management Allowances for SMON (Sub-acute Myelo-Optical-Neuropathy) Compensation

The Company pays health management allowances and nursing expenses for plaintiffs covered under the compromise settlement reached in the SMON litigation.

The Company has made a provision in the accompanying consolidated financial statements for the estimated future medical treatment payments to be made over the remaining lives of the parties entitled to such payments under the compromise settlement.

(17) Reserve for HCV Litigation

To provide for losses that may arise in the future in accordance with "the Special Relief Law Concerning the Payment of Benefits to Relieve the Patients of Hepatitis C Infected through Specified Fibrinogen Preparations and Specified Blood-Coagulation Factor IX Preparations Contaminated by Hepatitis C Virus" ("Relief Law"), which was promulgated and enacted to facilitate the settlement of damage recovery lawsuits filed on behalf of people infected with HCV (hepatitis C virus), the Company has set aside the estimated amount of payments based on estimates of the people receiving relief and the amount of relief payments required under the Relief Law.

(Supplementary information)
Since the Japanese government promulgated and put into effect the Relief Law on January 16, 2008, in accordance with Article 16 of the Relief Law, consultations have been conducted between the Minister of Health, Labour and Welfare and the Company and other manufacturers regarding the method and allocation of the expense required to provide payment of this relief. On April 10, 2009, the Minister of Health, Labour and Welfare announced those standards. Accordingly, the Company has set aside the estimated amount of expense that will be incurred for relief payments based on an estimate of the number of people eligible to receive relief as of March 31, 2009, and other estimates.

It is possible that the estimated amount of relief to be paid by the Company will change due to an increase or decrease in the number of people eligible to receive relief.

(18) Derivatives and Hedging Transactions

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred and reported as deferred losses on hedges in a separate component of net assets.

(19) Income Taxes

Deferred income taxes are recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

The Company adopted the consolidated tax payment system from the year ended March 31, 2009.

3. Cash and Time Deposits

A reconciliation of cash and time deposits in the accompanying consolidated balance sheets at March 31, 2010 and 2009 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and time deposits	**¥22,792**	¥ 23,931	**$ 244,970**
Time deposits maturing after three months	**(9,550)**	(1,351)	**(102,644)**
Marketable securities maturing within three months	**3,100**	44,000	**33,319**
Cash equivalents included in short-term loans	**346**	50,323	**3,719**
Cash equivalents included in deposits	**46,270**	–	**497,313**
Cash and cash equivalents	**¥62,958**	¥116,903	**$ 676,677**

4. Financial Instruments

The Company and consolidated subsidiaries ("the Group") manage their funds by investing in both short-term and long-term, highly stable, financial assets.

The Group has introduced a cash management system (CMS) to efficiently use capital and reduce financing costs, and enable Group companies to internally borrow and lend among themselves.

The policy with regard to derivative transactions is to limit the amount to the actual demand, and transactions are not carried out for speculative purposes.

Notes and accounts receivable, trade, are amounts owed to the Company, and are subject to the credit risk of customers. Marketable securities and investments in securities are mainly Japanese government bonds, bonds to be held to maturity, or shares of counterparty companies in operational or capital alliances, and are subject to risk from market price fluctuations.

Notes and accounts payable, trade, are operating obligations to be paid by the Company and most are payable within one year. A portion of these are for purchases of raw materials and are denominated in foreign currencies, and are subject to risk from exchange rate fluctuations. As necessary, however, these are netted against operating claims and forward foreign exchange contracts are used to hedge the net position.

Derivative transactions involve forward foreign exchange contracts and currency option contracts entered into in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates related to operating claims and obligations denominated in foreign currencies.

As to the management of credit risk (risk of nonperformance by counterparty), the Group regularly monitors the status of major counterparties with regard to operating claims and manages maturity dates and outstanding amounts by transaction counterparty in accordance with its claims management regulations, while at the same time working to quickly identify and reduce concerns of repayment resulting from the weakening of a counterparty's financial position.

Japanese government bonds and bonds to be held to maturity are deemed to have minimal credit risk because the Group primarily invests only in bonds with high ratings.

To strictly minimize the credit risk related to counterparty nonperformance when entering into derivative transactions, counterparties are limited to financial institutions with high credit ratings.

The maximum amount of credit risk as of the end of the fiscal year is reflected in the amounts recorded for financial assets in the balance sheet that are subject to credit risk.

As to the management of market risk (risk from exchange rate or interest rate fluctuations), foreign currency-denominated operating claims and obligations are hedged as necessary using forward foreign exchange and foreign exchange options.

The market value of marketable securities and investments in securities are regularly determined and the financial position of the issuer

(counterparty company) is monitored, and for securities other than Japanese government bonds and bonds to be held to maturity, the decision of whether to continue to hold the security or not is regularly reviewed taking into account the relationship with the counterparty company.

For derivative transactions, the authority to enter into transactions and the maximum amounts of those transactions are determined based on internal regulations, and outstanding contract amounts, market values are regularly reported to the responsible director.

As to the management of liquidity risk associated with fund procurement (risk of being unable to make payment on payment date), based on reports submitted by each department, the Finance & Accounting Department prepares and updates funding plans in a timely manner, while at the same time the Group manages liquidity risk by means of maintaining sufficient liquidity on hand.

The market value of financial instruments is based on the market price, and when no market price exists, a rationally calculated amount is used. These calculations include variable factors, so the resulting amount may fluctuate if different underlying assumptions are applied. The notional amounts shown in Note 19 "Derivative and Hedging Transactions" do not represent the amounts of their market risk.

The amounts recorded in the consolidated balance sheet, market values and resulting differences as of March 31, 2010, are as follows. Financial instruments for which market value is deemed extremely difficult to determine are not included.

	Millions of yen		
	Carrying amount	Market value	Unrealized loss
Assets:			
Cash and time deposits	¥ 22,792	¥ 22,792	¥ –
Notes and accounts receivable, trade	126,227	126,227	–
Marketable securities and investments in securities	184,349	182,469	1,880
Deposits	46,271	46,271	–
Short-term loans	426	426	–
Total assets	¥380,065	¥378,185	¥1,880
Liabilities:			
Accounts payable, trade	27,557	27,557	–
Short-term debt	2,440	2,440	–
Total liabilities	29,997	29,997	–
Derivative transactions	¥ (638)	¥ (638)	¥ –

	Thousands of U.S. dollars		
	Carrying amount	Market value	Unrealized loss
Assets:			
Cash and time deposits	$ 244,970	$ 244,970	$ –
Notes and accounts receivable, trade	1,356,696	1,356,696	–
Marketable securities and investments in securities	1,981,395	1,961,189	20,206
Deposits	497,324	497,324	–
Short-term loans	4,579	4,579	–
Total assets	$4,084,963	$4,064,757	$20,206
Liabilities:			
Accounts payable, trade	296,184	296,184	–
Short-term debt	26,225	26,225	–
Total liabilities	322,410	322,410	–
Derivative transactions	$ (6,857)	$ (6,857)	$ –

Gains or losses arising from derivative transactions are shown as the net amount, with total net obligations shown in parentheses.

The instruments such as cash and time deposits; notes and accounts receivable, trade; deposits; short-term loans; accounts payable, trade; and short-term debt are settled within a short period of time and the market value is therefore nearly equal to the book value, so the book value is used.

As to the market value of marketable securities and investments in securities, the exchange price prevailing in the applicable stock exchange is used for equities, and the exchange price or price provided by a financial institution is used for bonds. Negotiable certificates of deposit and commercial paper are settled within a short period of time and the market value is therefore nearly equal to the book value, so the book value is used.

Financial instruments for which it is deemed extremely difficult to determine the market value were as follows:

	Millions of yen	Thousands of U.S. dollars
	Carrying amount	
Unlisted and unquoted stocks	¥13,505	$145,153
Investment limited partnerships	1,005	10,802

Scheduled redemption amounts after the end of the fiscal year ended March 31, 2010 for monetary claims and marketable securities with maturities were as follows:

	Millions of yen			
	Year ending March 31			
	2011	2015	2020	2021 and thereafter
Cash and time deposits	¥ 22,792	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	126,227	–	–	–
Marketable securities and investments in securities:				
Held-to-maturity debt securities:				
Bonds	1,078	–	2,285	–
Other	1,524	1,909	2,034	13,000
Available-for-sale securities with maturities:				
Bonds	27,116	67,641	–	–
Other	32,587	–	–	–
Deposits	46,271	–	–	–
Short-term loans	426	–	–	–
Total	¥258,021	¥69,550	¥4,319	¥13,000

	Thousands of U.S. dollars			
	Year ending March 31			
	2011	2015	2020	2021 and thereafter
Cash and time deposits	$ 244,970	$ –	$ –	$ –
Notes and accounts receivable, trade	1,356,696	–	–	–
Marketable securities and investments in securities:				
Held-to-maturity debt securities:				
Bonds	11,586	–	24,559	–
Other	16,380	20,518	21,862	139,725
Available-for-sale securities with maturities:				
Bonds	291,445	727,010	–	–
Other	350,247	–	–	–
Deposits	497,324	–	–	–
Short-term loans	4,579	–	–	–
Total	$2,773,227	$747,528	$46,421	$139,725

(Supplementary information)

The "Accounting Standard for Financial Instruments" (ASBJ Statement No.10; issued on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19; issued on March 10, 2008) are applied from the fiscal year ended March 31, 2010.

5. Marketable Securities and Investments in Securities

Held-to-maturity debt securities with available market value at March 31, 2010 and 2009 were as follows:

	Millions of yen					
	Held-to-maturity debt securities					
	2010			2009		
	Carrying amount	Market value	Unrealized gain (loss)	Carrying amount	Market value	Unrealized gain (loss)
Securities with market value exceeding carrying amount:						
Bonds	**¥ 4,363**	**¥ 4,526**	**¥ 163**	¥ 2,262	¥ 2,656	¥ 394
Securities with market value not exceeding carrying amount:						
Bonds	**17,467**	**15,424**	**(2,043)**	18,004	15,311	(2,693)
Total	**¥21,830**	**¥19,950**	**¥(1,880)**	¥20,266	¥17,967	¥(2,299)

	Thousands of U.S. dollars		
	Held-to-maturity debt securities		
	2010		
	Carrying amount	Market value	Unrealized gain (loss)
Securities with market value exceeding carrying amount:			
Bonds	**$ 46,894**	**$ 48,646**	**$ 1,752**
Securities with market value not exceeding carrying amount:			
Bonds	**187,736**	**165,778**	**(21,958)**
Total	**$234,630**	**$214,424**	**$(20,206)**

Available-for-sale securities with available market value at March 31, 2010 and 2009 were as follows:

	Millions of yen					
	Available-for-sale securities with available market value					
	2010			2009		
	Acquisition cost	Carrying amount	Unrealized gain (loss)	Acquisition cost	Carrying amount	Unrealized gain (loss)
Securities with carrying amount exceeding acquisition cost:						
Stocks	**¥ 7,090**	**¥ 10,104**	**¥ 3,014**	¥ 1,854	¥ 3,836	¥ 1,982
Bonds	**71,484**	**72,283**	**799**	60,944	61,663	719
Other	**–**	**–**	**–**	89	93	4
Subtotal	**78,574**	**82,387**	**3,813**	62,887	65,592	2,705
Securities with carrying amount not exceeding acquisition cost:						
Stocks	**33,516**	**25,071**	**(8,445)**	36,687	25,551	(11,136)
Bonds	**22,544**	**22,474**	**(70)**	10,057	10,038	(19)
Other	**32,587**	**32,587**	**–**	28	28	(0)
Subtotal	**88,647**	**80,132**	**(8,515)**	46,772	35,617	(11,155)
Total	**¥167,221**	**¥162,519**	**¥(4,702)**	¥109,659	¥101,209	¥ (8,450)

	Thousands of U.S. dollars		
	Available-for-sale securities with available market value		
	2010		
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Securities with carrying amount exceeding acquisition cost:			
Stocks	**$ 76,204**	**$ 108,599**	**$ 32,395**
Bonds	**768,315**	**776,902**	**8,587**
Other	**–**	**–**	**–**
Subtotal	**844,519**	**885,501**	**40,982**
Securities with carrying amount not exceeding acquisition cost:			
Stocks	**360,232**	**269,465**	**(90,767)**
Bonds	**242,304**	**241,552**	**(752)**
Other	**350,247**	**350,247**	**–**
Subtotal	**952,783**	**861,264**	**(91,519)**
Total	**$1,797,302**	**$1,746,765**	**$(50,537)**

In addition to the above table, the Company recognized the portions attributable to its interests in unrecognized holding gain or loss on investments in investment business limited liability partnerships. These portions have been recorded under net assets as unrecognized loss on securities of ¥248 million, net of applicable income taxes of ¥169 million, for the year ended March 31, 2009.

Impairment losses on available-for-sale securities amounting to ¥233 million ($2,504 thousand), and ¥6,635 million were recorded for the years ended March 31, 2010 and 2009, respectively.

Held-to-maturity debt securities sold during the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen					
	Held-to-maturity debt securities sold					
	2010			2009		
	Cost of securities sold	Proceeds	Gain (loss) on sale	Cost of securities sold	Proceeds	Gain (loss) on sale
	¥2,500	**¥2,500**	**–**	¥2,500	¥2,500	–

	Thousands of U.S. dollars		
	Held-to-maturity debt securities sold		
	2010		
	Cost of securities sold	Proceeds	Gain (loss) on sale
	$26,870	**$26,870**	**–**

Available-for-sale securities sold during the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen					
	Available-for-sale securities sold					
	2010			2009		
	Proceeds	Gain on sale	Loss on sale	Proceeds	Gain on sale	Loss on sale
	¥897	**¥104**	**¥14**	¥4,456	¥174	¥7

	Thousands of U.S. dollars		
	Available-for-sale securities sold		
	2010		
	Proceeds	Gain on sale	Loss on sale
	$9,641	**$1,118**	**$150**

Available-for-sale securities with maturities redeemed during the year ended March 31, 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Available-for-sale securities with maturities redeemed					
	2010					
	Proceeds	Gain on redemption	Loss on redemption	Proceeds	Gain on redemption	Loss on redemption
Bonds	**¥ 21,000**	**¥16**	**¥31**	**$225,709**	**$172**	**$333**
Other	**31,981**	**–**	**–**	**343,734**	**–**	**–**
Total	**¥ 52,981**	**¥16**	**¥31**	**$569,443**	**$172**	**$333**

The book value of marketable securities with no available market value at March 31, 2009 was as follows:

	Millions of yen
	Book value of marketable securities with no available fair market value
	2009
Available-for-sale securities:	
Unlisted and unquoted stocks	¥ 7,350
Certificates of deposit	50,500
Investment limited partnerships	930
Total	¥58,780

6. Inventories

Inventories at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finished goods and merchandise	**¥52,774**	¥59,317	**$567,218**
Semi-finished products and work-in-process	**1,298**	2,687	**13,951**
Raw materials and supplies	**19,094**	15,688	**205,224**
Total	**¥73,166**	¥77,692	**$786,393**

7. Short-Term Debt and Long-Term Debt

The annual weighed average interest rates on bank debt at March 31, 2010 and 2009 were as follows:

	2010	2009
Short-term debt	**0.65%**	0.99%
Current portion of long-term debt	**0.70%**	1.43%
Long-term debt	**–**	0.70%

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Debt from banks, insurance companies and other financial institutions	**¥ 30**	¥ 170	**$ 322**
Less current maturities	**(30)**	(140)	**(322)**
Total	**¥ –**	¥ 30	**$ –**

The aggregate annual maturities of long-term debt subsequent to March 31, 2010 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥30	$322

8. Lease Obligations

The aggregate annual maturities of lease obligations subsequent to March 31, 2010 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 9	$ 97
2012	9	97
2013	9	97
2014	6	64
2015	4	43
Total	¥37	$398

9. Accrued Retirement Benefits

The Company and certain domestic consolidated subsidiaries had different retirement benefit plans with respect to the employees of the former Tanabe Seiyaku Co., Ltd. and those of the former Mitsubishi Pharma Corporation.

Effective April 1, 2009, the Company made a decision to merge the former Tanabe Seiyaku Co., Ltd. plans and the former Mitsubishi Pharma Corporation plans, excluding the approved retirement annuity system, on April 1, 2009, and to transfer these plans to a system with a choice between a defined contribution plan and a prepaid plan, or between a cash balance plan and a prepaid plan, along with the system of lump-sum payments at retirement. The transfer was implemented, except for a qualified pension system (closed-type), effective April 1, 2009. This transfer is accounted for in accordance with "Guidance on Accounting for Transfers between Retirement Benefits Plans" (ASBJ Guidance No.1 issued on January 31, 2002).

Certain consolidated subsidiaries have joined comprehensive, multiple-employer welfare pension plans.

In addition to the retirement benefit plans described above, the Company pays additional retirement benefits under certain conditions.

The following table sets forth the funded and accrued status of the retirement benefit plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2009 for the Group's defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Retirement benefit obligation	**¥(142,990)**	¥(145,208)	**$(1,536,866)**
Fair value of pension assets	**139,227**	122,719	**1,496,421**
Unfunded retirement benefit obligation	**(3,763)**	(22,489)	**(40,445)**
Unrecognized actuarial loss	**29,272**	44,182	**314,617**
Unrecognized prior service cost	**(1,938)**	(2,162)	**(20,830)**
Net amount shown on the consolidated balance sheets	**23,571**	19,531	**253,342**
Prepaid pension expenses	**36,730**	35,475	**394,776**
Accrued retirement benefits	**¥ (13,159)**	¥ (15,944)	**$ (141,434)**

As a result of the merger of the former Tanabe Seiyaku Co., Ltd. plans and the former Mitsubishi Pharma Corporation plans, the retirement benefit obligation decreased by ¥2,215 million ($23,807 thousand), amortization of unrecognized prior service cost increased by ¥18 million ($193 thousand), accrued retirement benefits decreased by ¥99 million ($1,064 thousand), and prepaid pension expenses decreased by ¥81 million ($870 thousand) for the year ended March 31, 2010.

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥ 2,393**	¥ 2,906	**$ 25,720**
Interest cost	**3,577**	3,773	**38,446**
Expected return on plan assets	**(2,658)**	(4,032)	**(28,568)**
Amortization of actuarial gain	**5,002**	(761)	**53,762**
Amortization of prior service cost	**(217)**	(15)	**(2,332)**
Contributions to multiple employer pension plans	**9**	–	**96**
Retirement benefit expenses	**¥ 8,106**	¥ 1,871	**$ 87,124**
Other	**723**	–	**7,771**
Total retirement benefit expenses	**¥ 8,829**	¥ 1,871	**$ 94,895**

In addition to the retirement benefit expenses listed above, additional retirement allowances totaling ¥23 million ($247 thousand) and ¥4,344 million were recognized and accounted for as special retirement benefits for the years ended March 31, 2010 and 2009, respectively.

"Other" in the above table is contributions to defined benefit pension plans and comprehensive welfare pension plans.

The assumptions used in accounting for the above defined benefit pension plans for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	**2.5%**	2.5%
Expected rates of return on plan assets	**2.5%**	2.5 to 3.5%

The funded status related to the multiple employer plan for treatment of amounts paid as retirement benefit expenses for the year ended March 31, 2010 is as follows:

	Millions of yen	Thousands of U.S. dollars
Year ended March 31,	**2010**	**2010**
Pension assets	**¥ 217,352**	**$ 2,336,114**
Benefit obligations calculated under pension financing	**388,740**	**4,178,203**
Unfunded obligations	**¥(171,388)**	**$(1,842,089)**

The Group's percentage of overall contributions to the plan is 0.16% for the year ended March 31, 2010.

This percentage is not the same as the Group's actual percentage of obligations.

The above information on funded status and the Group's contribution percentage are as of March 31, 2009, the most recent valuation date.

10. Income Taxes

The Company and certain domestic consolidated subsidiaries are subject to a number of different income taxes, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 40.6% for the years ended March 31, 2010 and 2009.

Overseas consolidated subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 differ from the above statutory tax rate for the following reasons:

	2010	2009
Statutory tax rate	**40.6%**	40.6%
Adjustments:		
Amortization of goodwill	**8.0**	8.5
Non-deductible expenses	**3.8**	4.3
Non-taxable dividend income, etc.	**(2.3)**	(2.8)
Elimination of dividends upon consolidation	**2.0**	2.9
Adjustment for per capita inhabitant taxes	**0.2**	0.2
Special deduction for R&D expenses	**(10.7)**	(9.0)
Valuation allowance	**2.4**	1.9
Reversal of deferred tax liabilities for retained earnings of overseas subsidiaries	**–**	(2.4)
Other	**(0.8)**	(0.3)
Effective tax rates	**43.2%**	43.9%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Reserve for employees' bonuses	**¥ 4,403**	¥ 4,955	**$ 47,324**
Enterprise taxes	**1,151**	1,383	**12,371**
Loss on devaluation of inventories	**2,680**	2,539	**28,805**
Unrealized gain on inventories	**2,137**	2,028	**22,969**
Retirement benefits	**173**	851	**1,859**
Reserve for health management allowances for SMON compensation	**671**	788	**7,212**
Reserve for health management allowances for HIV compensation	**660**	701	**7,094**
Reserve for HCV litigation	**4,339**	8,120	**46,636**
Loss on devaluation of investments in securities	**173**	197	**1,859**
Excess amortization of long-term prepaid expenses	**5,819**	2,668	**62,543**
Prepaid research and development expenses	**10,808**	6,755	**116,165**
Net operating loss carryforward	**20,217**	20,026	**217,294**
Excess depreciation	**1,968**	2,107	**21,152**
Loss on impairment of fixed assets	**1,388**	1,110	**14,918**
Other	**2,272**	3,052	**24,419**
Gross deferred tax assets	**58,859**	57,280	**632,620**
Valuation allowance	**(21,060)**	(20,921)	**(226,354)**
Total deferred tax assets	**37,799**	36,359	**406,266**
Deferred tax liabilities:			
Prepaid pension expenses	**(2,322)**	(1,480)	**(24,957)**
Unrealized holding gains on securities	**(7,752)**	(6,171)	**(83,319)**
Deferred capital gain on property	**(1,972)**	(2,111)	**(21,195)**
Reserve for special depreciation	**(1)**	(75)	**(11)**
Unrealized holding gain on land	**(11,147)**	(11,290)	**(119,808)**
Other	**(178)**	(196)	**(1,913)**
Total deferred tax liabilities	**(23,372)**	(21,323)	**(251,203)**
Net deferred tax assets	**¥ 14,427**	¥ 15,036	**$ 155,063**

11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital.

Common stock and treasury stock

Movements in common stock in issue and treasury stock for the years ended March 31, 2010 and 2009 are summarized as follows:

	Thousands of shares			
	2010			
	Number of shares at end of previous fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Number of shares at end of the fiscal year
Common stock	**561,417**	**–**	**–**	**561,417**
Treasury stock	**252**	**19**	**14**	**256**

	Thousands of shares			
	2009			
	Number of shares at end of previous fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Number of shares at end of the fiscal year
Common stock	**561,417**	**–**	**–**	**561,417**
Treasury stock	**202**	**59**	**10**	**252**

12. Contingent Liabilities

The Company and consolidated subsidiaries had the following contingent liabilities at March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Debt guaranteed:			
Employees' housing loans from banks	**¥ 121**	¥150	**$ 1,301**
Bank loans to Choseido Pharmaceutical Co., Ltd.	**3,834**	–	**41,208**
Trade notes receivable discounted with banks	**–**	25	**–**

13. Deposits

During the year ended March 31, 2010, deposits representing monies deposited in connection with the cash management system (CMS), which is used to centrally manage funds, increased based on a change in the CMS contract from a revolving loan contract to one for monetary deposit contract.

14. Research and Development Expenses

Research and development expenses for the improvement of existing products and the development of new products, including basic research and fundamental development costs, are charged to income as incurred.

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were ¥83,081 million ($892,960 thousand) and ¥73,122 million, respectively.

15. Loss Related to Business Suspension

Loss related to business suspension was recorded mainly in relation to the suspension of manufacturing for recombinant human serum albumin preparation, "Medway Injection."

16. Loss on Impairment of Fixed Assets

The Company and its domestic consolidated subsidiaries group their assets in association with their business and production process. Idle assets which are not anticipated to be utilized in the future and leased property are classified as individual cash-generating units. Assets, which are not definitely linked to a specific business, such as the head-office building, the facilities for research and development and the facilities for welfare, are classified as corporate assets.

For the year ended March 31, 2010, the book value of the impaired fixed assets, which primarily includes idle assets, was reduced to the recoverable amount, and the amount of the reduction of ¥1,837 million ($19,744 thousand) was recorded as impairment loss. The impairment loss on primary fixed assets is summarized as follows:

Location	Major use	Classification	Millions of yen	Thousands of U.S. dollars
Mitsubishi Tanabe Pharma Head Office (Chuo-ku, Osaka)	Administrative and sales operations	Buildings and structures	¥350	$ 3,762
Mitsubishi Tanabe Pharma Awaji-machi Office (Chuo-ku, Osaka)	Administrative and sales operations	Land, buildings and structures	983	10,565
Mitsubishi Tanabe Pharma No.3 Hirano-machi Building (Chuo-ku, Osaka)	Administrative and sales operations	Land, buildings and structures	404	4,342
Mitsubishi Tanabe Pharma No.4 Hirano-machi Building (Chuo-ku, Osaka)	Administrative and sales operations	Land and buildings	85	914

The Company integrated its head office functions during the year ended March 31, 2010, and in connection with this integration, the buildings listed above became idle assets. The book value of the assets was reduced to its recoverable amount.

For the year ended March 31, 2009, the book value of the impaired fixed assets, which primarily includes idle assets, was reduced to the recoverable amount, and the amount of the reduction of ¥3,351 million was recorded as impairment loss. The impairment loss on primary fixed assets is summarized as follows:

Location	Major use	Classification	Millions of yen
Mitsubishi Tanabe Pharma No.2 Nabari Training Center (Nabari City, Mie Prefecture)	Training center	Land, buildings and structures	¥ 639
Mitsubishi Tanabe Pharma Hirakata Office (Hirakata City, Osaka)	Research facility	Land, buildings and structures	1,917
Mitsubishi Tanabe Pharma No.1 Nabari Training Center (Nabari City, Mie Prefecture)	Training center	Land, buildings and structures	421
Mitsubishi Tanabe Pharma Osaka No.1 Distribution Center (Neyagawa City, Osaka)	Distribution facility	Land, buildings and structures	294
MP-Logistics Corporation Osaka No.1 Distribution Center (Neyagawa City, Osaka)	Distribution facility	Machinery and equipment	68

Because Mitsubishi Tanabe Pharma No.2 Nabari Training Center, Mitsubishi Tanabe Pharma Hirakata Office, and Mitsubishi Tanabe Pharma No.1 Nabari Training Center have become idle assets, and Mitsubishi Tanabe Pharma Osaka No.1 Distribution Center is not anticipated to be utilized in the future, the book value of the assets was reduced to its recoverable amount.

The recoverable amounts of these assets are measured at their net selling values. The net selling value is based on reasonable estimates made with reference to the officially published prices.

17. Related Party Transaction

Principal transactions between the Company and its related parties for the years ended March 31, 2010 and 2009 are summarized as follows:
[Transactions with MCFA Inc.]

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deposits	**¥14,269**	¥ –	**$153,364**
Loans	**–**	56,320	**–**
Interest income	**269**	320	**2,891**

MCFA Inc. is a fellow subsidiary of the Company whose parent company is Mitsubishi Chemical Holdings Corporation.

The balances due to the related parties at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due to MCFA Inc.	**¥46,270**	¥50,002	**$497,313**

(Supplementary information)
Effective the year ended March 31, 2009, the Company has adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No.11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No.13 issued on October 17, 2006).

18. Leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of property leased to the Company and its domestic consolidated subsidiaries at March 31, 2010 and 2009, which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased property to the Company or its domestic consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	Millions of yen					
	2010			2009		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Category of leased property:						
Machinery	**¥ 187**	**¥157**	**¥ 30**	¥ 217	¥126	¥ 91
Tools and equipment	**1,009**	**727**	**282**	1,409	837	572
Other	**44**	**39**	**5**	50	28	22
Total	**¥1,240**	**¥923**	**¥317**	¥1,676	¥991	¥685

	Thousands of U.S. dollars		
	2010		
	Acquisition cost	Accumulated depreciation	Net book value
Category of leased property:			
Machinery	**$ 2,010**	**$1,687**	**$ 322**
Tools and equipment	**10,845**	**7,814**	**3,031**
Other	**473**	**419**	**54**
Total	**$13,328**	**$9,920**	**$3,407**

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance leases accounted for as operating leases amounted to ¥273 million ($2,934 thousand) and ¥377 million for the years ended March 31, 2010 and 2009, respectively. Depreciation on these leased assets calculated by the straight-line method would have amounted to ¥273 million ($2,934 thousand) and ¥377 million for the years ended March 31, 2010 and 2009, respectively, if it had been reflected in the accompanying consolidated balance sheets.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 under finance leases, other than those which transfer the ownership of the leased property to the Company or its domestic consolidated subsidiaries, that started on or before March 31, 2008 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ending March 31	
2011	¥193	$2,074
2012 and thereafter	124	1,333
	¥317	$3,407

Future minimum payments subsequent to March 31, 2010 under non-cancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ending March 31	
2010	¥1,009	$10,845
2011 and thereafter	2,673	28,729
	¥3,682	$39,574

19. Derivative and Hedging Transactions

Derivative financial instruments are utilized by the Company principally in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment, including an assessment of the effectiveness of hedging, and for the approval, reporting and monitoring of transactions involving derivatives. The Company does not hold or issue derivatives for speculative trading purposes.

The Company is exposed to certain market risk arising from forward foreign exchange contracts and currency option contracts. The Company is also exposed to the risk of credit loss in the event of non-performance by any of the counterparties to the forward foreign exchange contracts and currency option contracts; however, the Company does not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

The Company does not carry out an assessment of hedge effectiveness because of a high correlation between the hedging instruments and hedged items.

The notional amounts and estimated fair value on the outstanding derivatives positions for which hedge accounting has been applied at March 31, 2010 was as follows:

	Millions of yen		
	2010		
	Notional amounts	Over 1 year	Estimated fair value
Forward foreign exchange contracts:			
Buying:			
USD, accounts payable–trade	**¥24,706**	**¥11,629**	**¥(558)**
EUR, accounts payable–other	**592**	**–**	**7**
GBP, accounts payable–other	**622**	**–**	**9**
Currency option contracts:			
Selling:			
USD, accounts payable–trade	**9,779**	**9,779**	**(33)**
Buying:			
USD, accounts payable–trade	**9,779**	**9,779**	**(63)**
Total	**¥ –**	**¥ –**	**¥(638)**

	Thousands of U.S. dollars		
	2010		
	Notional amounts	Over 1 year	Estimated fair value
Forward foreign exchange contracts:			
Buying:			
USD, accounts payable–trade	$265,542	$124,989	$(5,997)
EUR, accounts payable–other	6,363	–	75
GBP, accounts payable–other	6,685	–	97
Currency option contracts:			
Selling:			
USD, accounts payable–trade	105,105	105,105	(355)
Buying:			
USD, accounts payable–trade	105,105	105,105	(677)
Total	$ –	$ –	$(6,857)

20. Amounts per Share

Amounts per share as of and for the years ended March 31, 2010 and 2009 were as follows:

	Yen		U.S. dollars
	2010	2009	2010
Net income	¥ 53.91	¥ 47.28	$ 0.58
Cash dividends	28.00	28.00	0.30
Net assets	1,194.79	1,162.69	12.84

Diluted net income per share has not been presented since no potentially dilutive securities have been issued.

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. The amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year-end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

21. Supplementary Cash Flow Information

On April 1, 2009, the Company sold a portion of its shareholding in API Corporation, and as a result, API Corporation became an affiliated company and was included in the scope of equity method application. The following summarizes the assets and liabilities, the profit on the sale of a portion of its shareholding in API Corporation and the cash and cash equivalents at the time of sale.

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Current assets	¥10,355	$111,296
Non-current assets	4,259	45,776
Current liabilities	(7,819)	(84,039)
Non-current liabilities	(1,753)	(18,841)
Minority interests	(4,522)	(48,603)
Profit on sale of a portion of its shareholding in API Corporation	71	763
Sales amounts of the shareholding	591	6,352
Cash and cash equivalents	(80)	(860)
Net proceeds from sales of shareholding	¥ 511	$ 5,492

On April 1, 2009, Chosei Yakuhin Co., Ltd., which had been accounted for by the equity method, was liquidated as the result of an absorption-type merger with the Company's consolidated subsidiary, Tanabe Seiyaku Hanbai Co., Ltd., and was therefore excluded from the scope of equity method application. The following summarizes the assets and liabilities assumed by Tanabe Seiyaku Hanbai Co., Ltd. as of the date of merger.

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Current assets	¥ 1,832	$19,690
Non-current assets	125	1,344
Total assets	¥ 1,957	$21,034
Current liabilities	¥ 1,455	$15,638
Non-current liabilities	1,007	10,824
Total liabilities	¥ 2,462	$26,462

22. Segment Information

The Company and consolidated subsidiaries are primarily engaged in manufacturing and selling in two business segments: Pharmaceuticals and Other Businesses.

Operations in the Pharmaceuticals segment involve the manufacture and sale of ethical drugs and over-the-counter drugs.

Operations in the Other Businesses segment involve the manufacture and sale of fine chemicals, real-estate leasing, information services, advertising, and so forth.

As more than 90% of consolidated net sales and operating income for the year ended March 31, 2010, and total assets at March 31, 2010 were made or held in the Pharmaceuticals segment, the disclosure of business segment information for the year then ended has been omitted.

Business segment information for the year ended March 31, 2009 was as follows:

	Millions of yen				
	Pharmaceuticals	Other Businesses	Subtotal	Elimination or corporate	Consolidated
I. Sales and operating income:					
Sales to third parties	¥387,223	¥27,529	¥414,752	¥ –	¥414,752
Inter-segment sales or transfer	–	6,111	6,111	(6,111)	–
Net sales	387,223	33,640	420,863	(6,111)	414,752
Operating expenses	317,946	31,396	349,342	(6,284)	343,058
Operating income	¥ 69,277	¥ 2,244	¥ 71,521	¥ 173	¥ 71,694
II. Total assets, depreciation and amortization, impairment loss and capital expenditure:					
Total assets	¥589,610	¥26,013	¥615,623	¥195,133	¥810,756
Depreciation and amortization	15,112	546	15,658	–	15,658
Impairment loss	3,283	68	3,351	–	3,351
Capital expenditure	13,353	545	13,898	–	13,898

As described in Note 2(6), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the method of valuation of inventories. The effect of this change on business segment information was immaterial for the year ended March 31, 2009.

As described in Note 2(7), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the useful lives for depreciation of tangible fixed assets. As a result, operating income in the Pharmaceuticals segment increased by ¥589 million, and the Other Businesses segment increased by ¥23 million for the year ended March 31, 2009 from the amounts which would have been recorded under the method applied in the previous year.

As described in Note 2(9), effective the year ended March 31, 2009, the accounting treatment for finance lease transactions, which do not transfer ownership to lessee, has been changed from an accounting manner similar to operating leases to one in which they are accounted for as finance leases. There was no impact on business segment information for the year ended March 31, 2009.

As more than 90% of consolidated net sales for the years ended March 31, 2010 and 2009 and total assets at March 31, 2010 and 2009 were made or held in Japan, the disclosure of geographical segment information for the years then ended has been omitted.

As more than 90% of consolidated net sales for the years ended March 31, 2010 and 2009 were made in Japan, the disclosure of overseas sales information for the years then ended has been omitted.

23. Business Combination

Transactions under common control

During the year ended March 31, 2010, a merger has been carried out between a wholly-owned subsidiary of the Company, Mitsubishi Tanabe Pharma Factory Ltd., as the inheriting entity and the Company, as the divesting entity.

The Company undertook corporate divestitures of its Kashima Plant effective April 1, 2009, and its Osaka Plant effective October 1, 2009, and integrated these factories into Mitsubishi Tanabe Pharma Factory Ltd. to construct a production system that can appropriately handle environmental changes and optimize production bases. With these integrations, Mitsubishi Tanabe Pharma Factory Ltd. will work toward the further improvement of quality and productivity based on a high level of specialization and technological capabilities as the drug manufacturing company of the Mitsubishi Tanabe Pharma Group, which has global operations.

This merger was treated as a transaction under common control under "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 issued on December 26, 2008).

The Company invested ¥3,502 million ($37,640 thousand) in Mitsubishi Tanabe Pharma Factory Ltd. as part of the divestiture of the Kashima Plant as of March 31, 2009.

The following table summarizes the acquisition cost:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥2,791	$29,998
Fixed assets	1,748	18,788
Total assets	¥4,539	$48,786
Current liabilities	¥1,037	$11,146
Total liabilities	¥1,037	$11,146

The Company invested ¥3,000 million ($32,244 thousand) in Mitsubishi Tanabe Pharma Factory Ltd. as part of the divestiture of the Osaka Plant as of September 30, 2009.

The following table summarizes the acquisition cost:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥3,706	$39,832
Fixed assets	200	2,150
Total assets	¥3,906	$41,982
Current liabilities	¥ 901	$ 9,684
Long-term liabilities	5	54
Total liabilities	¥ 906	$ 9,738

Upon the corporate divestiture, Mitsubishi Tanabe Pharma Factory Ltd. issued one share of common stock and assigned it to the Company.

During the year ended March 31, 2009, a merger was carried out between MP-Technopharma Corporation, as the surviving entity and Tanabe Seiyaku Yamaguchi Co., Ltd., as the dissolved entity. Both entities were the Company's consolidated subsidiaries, and the merger has been carried out to reinforce the Group's manufacturing capabilities and to raise manufacturing efficiency. After the merger, MP-Technopharma Corporation changed its name to Mitsubishi Tanabe Pharma Factory Ltd., and it is engaged in the manufacture, sales, import and export of pharmaceuticals.

This merger was treated as a transaction under common control under "Accounting Standard for Business Combinations" (issued on October 31, 2003 by the BACJ) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (revised by the ASBJ on November 15, 2007).

24. Litigation

Court action for damages relating to HIV (human immunodeficiency virus) infection

The former Green Cross Corporation, one of the predecessors of the Company, together with the Japanese government and four other pharmaceutical manufacturers were named as defendants in a number of lawsuits for compensation filed by plaintiffs claiming to have been infected with HIV (human immunodeficiency virus) through use of non-heat-treated concentrated preparations. However, from the first settlement relating to the lawsuits, which was agreed to on March 29, 1996, to March 31, 2010, settlements have been reached with 1,379 plaintiffs.

In order to reach a full resolution on the issue of HIV infection through non-heat-treated concentrated preparations, the Company is committed to continued earnest engagement.

U.S. court action for damages relating to HIV (human immunodeficiency virus) infection

A wholly-owned U.S. subsidiary of the Company, Alpha Therapeutic Corporation, together with three other U.S. manufacturers of blood products, are defendants in a U.S. class action lawsuit filed chiefly by non-U.S. residents (residents of Europe, etc.) claiming to have been infected with HIV or other viruses by non-heat-treated concentrated preparations sold in the 1980s. Currently procedures targeting a resolution through settlement are underway.

In regard to this lawsuit, Alpha Therapeutic Corporation has product liability insurance, and in parallel with procedures for resolution of the lawsuit through settlement, negotiations with the insurance companies are underway.

Court action for compensation by patients infected with HCV (hepatitis C virus)

Since 2002, the Company and its subsidiary Benesis Corporation, together with the Japanese government and other parties, have been defendants in lawsuits in which the plaintiffs seek compensation for damages allegedly suffered through HCV (hepatitis C virus) infection following use of a fibrinogen product or a blood coagulant factor IX product (Christmassin) sold by the former Green Cross Corporation, one of the predecessors of the Company. To resolve these lawsuits, on January 16, 2008, the Japanese government promulgated and put into effect the Relief Law. Subsequently, on September 28, 2008, a "basic agreement" for the conclusion of the court action was signed with the nationwide plaintiff group.

In regard to the lawsuit with the nationwide plaintiff group, it has been terminated successively, with the settlement organized by the government including the abandonment of claims by the plaintiffs against the Company. In district courts, there are pending lawsuits with plaintiffs other than those in the nationwide plaintiff group, and after a settlement of these lawsuits is reached with the government, the lawsuits will be concluded and claims against the Company will be abandoned.

In regard to the expense of relief payments under the Relief Law, the burden of that expense and the method of sharing that burden were the subject of discussions with the Minister of Health, Labour and Welfare, and those standards were announced by the Minister of Health, Labour and Welfare on April 10, 2009.

In order to reach a full resolution of the issue of HCV infection through use of specific fibrinogen products or specific coagulation factor IX products, the Company is committed to continued earnest engagement.

Court action regarding average wholesale price

With respect to the sales of some pharmaceutical products in the United States, civil litigations have been brought against many pharmaceutical companies, including the Company's wholly-owned subsidiary, Alpha Therapeutic Corporation, by the federal government and certain state governments, etc., in which plaintiffs claimed, among others, damages due to price discrepancies between the average wholesale prices (AWP) as publicized by independent industry compendia and the actual selling prices. These suits are currently pending. In certain of the AWP lawsuits, settlements have been reached with the plaintiffs.

25. Subsequent Events

(1) At the annual general shareholders' meeting held on June 22, 2010, the shareholders approved a resolution for the distribution of cash dividends amounting to ¥7,856 million ($84,437 thousand), which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2010. Such distributions are recognized in the period in which they are approved by the shareholders.

(2) On April 13, 2010, the Japanese Minister of Health, Labour and Welfare issued an administrative action requiring both the Company and consolidated subsidiary Bipha Corporation to suspend operations (the Company, 25 days from April 17; Bipha Corporation, 30 days from April 14), and to submit business improvement plans. The administrative action resulted from a violation of the Pharmaceutical Affairs Law with regard to the Medway Injection, which was manufactured by Bipha Corporation and manufactured and marketed by the Company.

As a result of this administrative action, it is likely that the Company's financial position and results of operations in the next fiscal year and thereafter could be affected, but it is difficult to reasonably estimate the corresponding impact at the present time.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Mitsubishi Tanabe Pharma Corporation

We have audited the accompanying consolidated balance sheets of Mitsubishi Tanabe Pharma Corporation and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Tanabe Pharma Corporation and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information
As described in Note 25(2), the Company received an administrative action from the Minister of Health, Labour and Welfare resulting from violation of the Pharmaceutical Affairs Law of Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 21, 2010

GROUP COMPANIES

As of April 1, 2010

JAPAN

	Establishment	Paid-in Capital	% Voting Control*	Principal Business
Mitsubishi Tanabe Pharma Factory Ltd. ●	October 2008	¥1,130 million	100.0%	Manufacture of pharmaceuticals and related products
Tanabe Seiyaku Yoshiki Factory Co., Ltd. ●	July 1964	¥400 million	100.0%	Manufacture of pharmaceuticals
Benesis Corporation ●	October 2002	¥3,000 million	100.0%	Manufacture and sale of pharmaceuticals
BIPHA CORPORATION ●	November 1996	¥7,500 million	51.0%	Manufacture of pharmaceuticals
API Corporation ●	April 1982	¥4,000 million	47.7%	Manufacture and sale of chemicals and related products
Sun Chemical Co., Ltd. ●	June 1970	¥342 million	48.3%	Manufacture and sale of chemicals
Yoshitomiyakuhin Corporation ●	April 2000	¥385 million	100.0%	Provision of information about pharmaceuticals
Tanabe Seiyaku Hanbai Co., Ltd. ●	April 2008	¥169 million	92.7% (7.7%)	Sale of generic pharmaceuticals and related products
Choseido Pharmaceutical Co., Ltd. ●	December 1947	¥340 million	51.0%	Manufacture and sale of pharmaceuticals and related products
Hoshienu Pharmaceutical Co., Ltd. ●	October 1962	¥75 million	51.0% (51.0%)	Manufacture and sale of pharmaceuticals and related products
Tanabe R&D Service Co., Ltd. ●	August 1984	¥44 million	100.0%	Testing and examination of pharmaceuticals and related products
Tanabe Total Service Co., Ltd. ●	February 1964	¥90 million	100.0%	Real estate
MP-Logistics Corporation ●	September 1980	¥95 million	65.0%	Distribution, warehouse operations

OVERSEAS

		Establishment	Paid-in Capital	% Voting Control*	Principal Business
Asia	Tianjin Tanabe Seiyaku Co., Ltd. ●	October 1993	US$12,000,000	66.7%	Manufacture and sale of pharmaceuticals
	Mitsubishi Pharma (Guangzhou) Co.,Ltd. ●	December 1991	US$12,000,000	100.0%	Manufacture and sale of pharmaceuticals
	Mitsubishi Pharma Research & Development (Beijing) Co., Ltd. ●	October 2006	US$1,000,000	100.0%	Research and development of pharmaceuticals
	Guangdong Tanabe Pharmaceutical Co., Ltd. ●	May 2009	RBM7,000,000	100.0%	Sale of pharmaceuticals
	Taiwan Tanabe Seiyaku Co., Ltd. ●	September 1962	NT$90,000,000	65.0%	Manufacture and sale of pharmaceuticals
	Tai Tien Pharmaceuticals Co., Ltd. ●	July 1987	NT$20,000,000	65.0%	Sale of pharmaceuticals
	P.T. Tanabe Indonesia ●	July 1970	US$2,500,000	99.6%	Manufacture and sale of pharmaceuticals
	Mitsubishi Tanabe Pharma Korea Co., Ltd. ●	April 1989	KRW2,100,000,000	100.0%	Manufacture and sale of pharmaceuticals
U.S.	Mitsubishi Tanabe Pharma Holdings America, Inc. ●	December 2000	US$166	100.0%	Management of Group companies in the United States
	Tanabe Research Laboratories U.S.A., Inc. ●	November 1990	US$3,000,000	100.0% (100.0%)	Research of pharmaceuticals
	Tanabe U.S.A., Inc. ●	January 1970	US$1,400,000	100.0% (100.0%)	Import and sale of chemicals
	Mitsubishi Tanabe Pharma Development America, Inc. ●	October 2001	US$100	100.0% (100.0%)	Development of pharmaceuticals
	MP Healthcare Venture Management Inc. ●	August 2006	US$100	65.0%	Investments in bio-ventures, etc.
	Mitsubishi Tanabe Pharma America, Inc. ●	July 2009	US$100	100.0% (100.0%)	Sale of pharmaceuticals
Europe	Tanabe Europe N.V. ●	December 1972	EUR260,330	100.0%	Import and sale of chemicals and pharmaceuticals
	Mitsubishi Pharma Europe Ltd. ●	October 2001	£4,632,000	100.0%	Development of pharmaceuticals
	Mitsubishi Pharma Deutschland GmbH ●	June 2003	EUR25,000	100.0% (100.0%)	Sale of pharmaceuticals
	Synthelabo-Tanabe Chimie S.A. ●	June 1987	EUR1,600,000	50.0%	Manufacture and sale of bulk pharmaceuticals

* Figures in parentheses show indirect control

● Consolidated subsidiary ● Equity-method subsidiary ● Affiliated company accounted for by the equity method

CORPORATE DATA

As of March 31, 2010

Mitsubishi Tanabe Pharma Corporation

2-6-18, Kitahama, Chuo-ku, Osaka 541-8505, Japan
URL: http://www.mt-pharma.co.jp

Incorporated

December 1933

Date of Merger

October 1, 2007

Number of Employees

9,266 (Consolidated)
5,186 (Parent company only)

FOR FURTHER INFORMATION

Investor Relations Group
Corporate Communications Department
TEL: 81-6-6205-5211
FAX: 81-6-6205-5105
URL: http://www.mt-pharma.co.jp

INVESTOR INFORMATION

As of March 31, 2010

Stock Exchange Listings

Tokyo and Osaka

Stock Code

4508

Paid-in Capital

¥50,000 million

Common Stock

Authorized: 2,000,000,000 shares
Issued: 561,417,916 shares

Closing Date of Accounts

March 31

Number of Shareholders

10,448

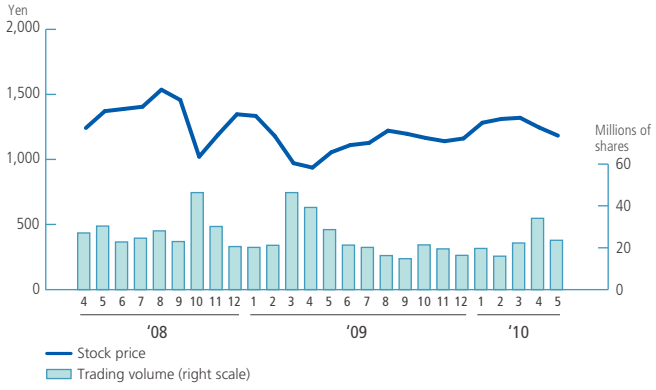
Major Shareholders (% voting rights)

Mitsubishi Chemical Holdings Corporation (56.3)
The Master Trust Bank of Japan, Ltd. (5.7)
Japan Trustee Services Bank, Ltd. (4.5)
Nippon Life Insurance Company (2.8)
Nipro Corporation (1.4)
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (1.3)
JPMorgan Chase Bank, N.A., 385147 (1.2)
Tokio Marine & Nichido Fire Insurance Co., Ltd. (0.9)
Trust & Custody Services Bank, Ltd. (0.9)
Employee Stock Ownership Plan (0.7)

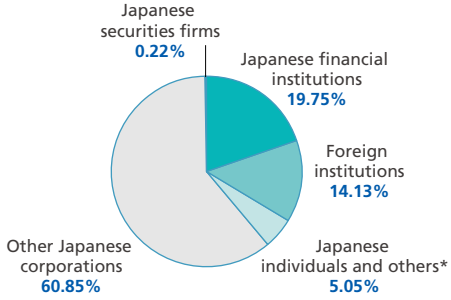
Shareholder Register Agent for Common Stock in Japan

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

STOCK PRICE RANGE / TRADING VOLUME



DISTRIBUTION OF SHARE OWNERSHIP BY TYPE OF SHAREHOLDER



* Individuals and others includes treasury stock (256 thousand shares at March 31, 2010)

Mitsubishi Tanabe Pharma Corporation
www.mt-pharma.co.jp

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