

Management Environment

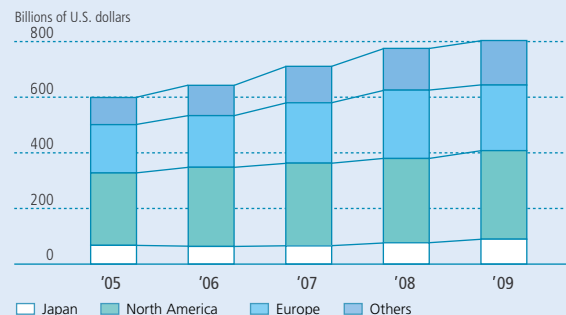
The management environment in the pharmaceutical industry is undergoing dramatic change.

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.

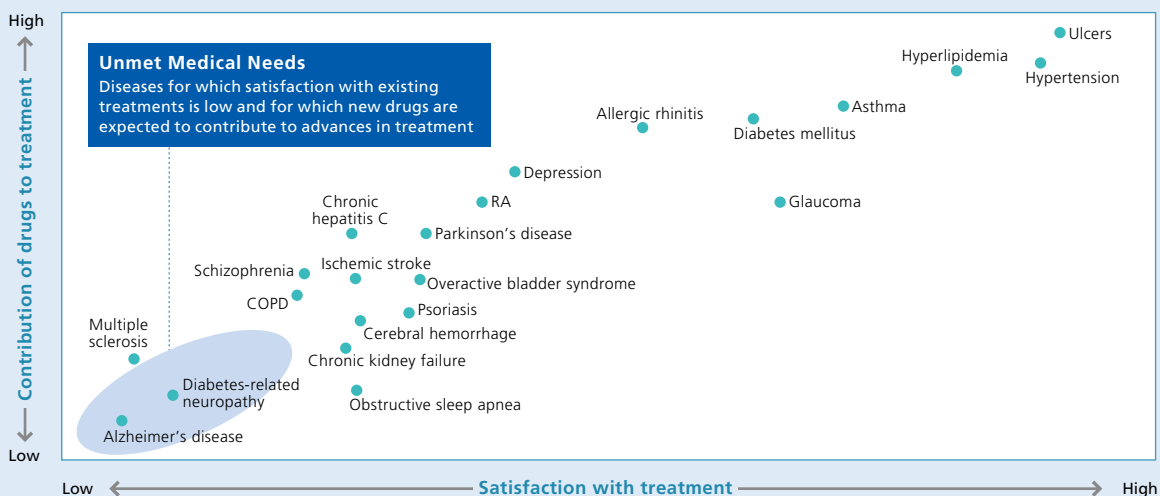
In 2010, NHI drug prices were reduced, and the Japanese government introduced, on a trial basis, a system offering pricing premiums to promote the discovery of new drugs and to eliminate the so-called drug lag, which is the time between the launch of drugs overseas and their approval for the same indication 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



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CORRELATION BETWEEN SATISFACTION WITH TREATMENT AND CONTRIBUTION OF DRUGS TO TREATMENT



Source: Report issued in 2005 by Japan Health 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 pharmaceutical 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

