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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	39.0⁵	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.

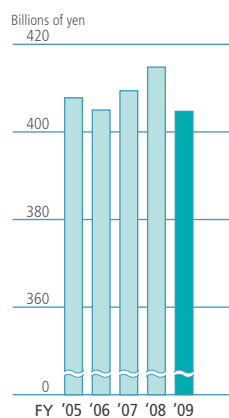
2 Due to a change in accounting standards, figures for the year ended March 31, 2006 and prior years are total shareholders' equity.

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.

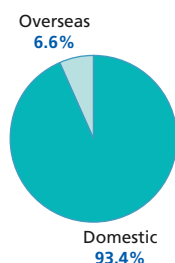
5 Dividend payout ratio is calculated using net income less amortization of goodwill.

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-TNF α 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				Change
	2010/3		2009/3		
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 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%.

	2010/3		2009/3		Change
	Millions of yen		Millions of yen		
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

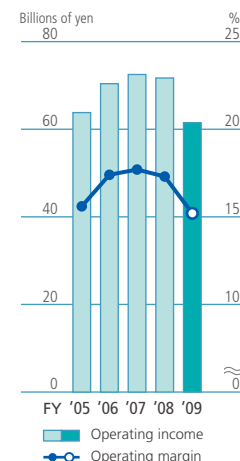
Note: Figures in parentheses are percentages of net sales.

Net Income

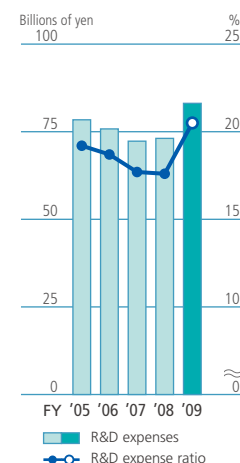
Operating income declined, but extraordinary loss improved substantially, and consequently net income increased ¥3.7 billion, to ¥30.3 billion.

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

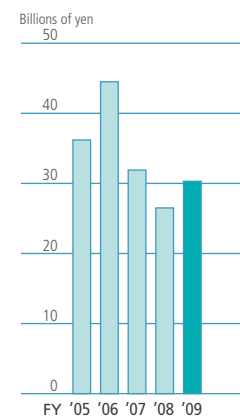
OPERATING INCOME / OPERATING MARGIN

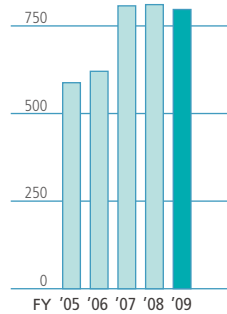
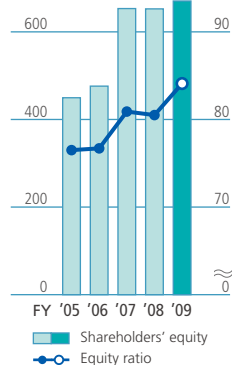
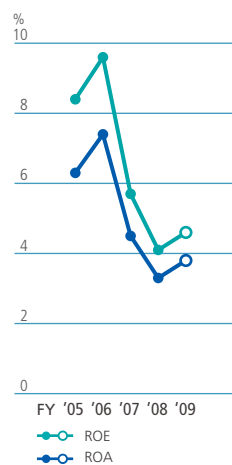


R&D EXPENSES / R&D EXPENSE RATIO



NET INCOME



TOTAL ASSETSBillions of yen
1,000**SHAREHOLDERS' EQUITY / EQUITY RATIO**Billions of yen
800**ROE¹ / ROA¹**

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				Change
	2010/3		2009/3		
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

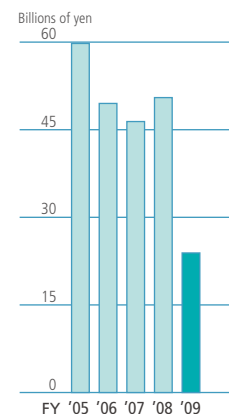
Mitsubishi Tanabe Pharma's basic policy on the distribution of earnings calls for providing a stable, ongoing distribution of earnings to shareholders while striving to maximize enterprise value by investing aggressively to bolster R&D and marketing activities from a medium-to-long-term perspective. 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%.

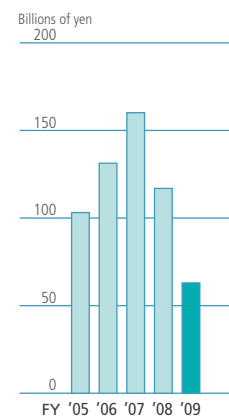
² Dividends per share are presented as follows: For the year ended March 31, 2007 and previous years, the dividends of the former Tanabe Seiyaku are used. For the year ended March 31, 2008, the interim dividends of the former Tanabe Seiyaku are used for the interim dividends (¥13) and the year-end dividends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

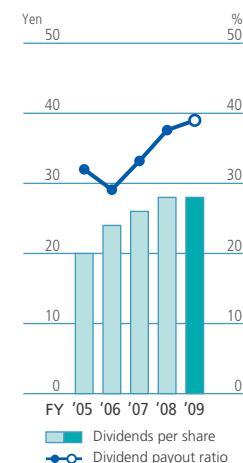
NET CASH PROVIDED BY OPERATING ACTIVITIES



CASH AND CASH EQUIVALENTS



DIVIDENDS PER SHARE² / DIVIDEND PAYOUT RATIO³



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 Bipa 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 consign-ment 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.

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.

(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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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		
	Proceeds	Gain on redemption	Loss on redemption	Proceeds	Gain on redemption	Loss on redemption
	Available-for-sale securities with maturities redeemed					
	2010					
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:

Year ended March 31,	Millions of yen	Thousands of U.S. dollars
	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.

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, 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:

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:

Category of leased property:	Millions of yen					
	2010			2009		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
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

Category of leased property:	Thousands of U.S. dollars		
	2010		
	Acquisition cost	Accumulated depreciation	Net book value
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		
	Notional amounts	2010 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

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

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.

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.

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