

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		
	Available-for-sale securities with maturities redeemed					
	2010					
	Proceeds	Gain on redemption	Loss on redemption	Proceeds	Gain on redemption	Loss on redemption
Bonds	¥ 21,000	¥16	¥31	\$225,709	\$172	\$333
Other	31,981	–	–	343,734	–	–
Total	¥ 52,981	¥16	¥31	\$569,443	\$172	\$333

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

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

6. Inventories

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

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

7. Short-Term Debt and Long-Term Debt

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

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

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

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

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

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

8. Lease Obligations

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

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

9. Accrued Retirement Benefits

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

Effective April 1, 2009, the Company made a decision to merge the former Tanabe Seiyaku Co., Ltd. plans and the former Mitsubishi Pharma Corporation plans, excluding the approved retirement annuity system, on April 1, 2009, and to transfer these plans to a system with a choice between a defined contribution plan and a prepaid plan, or between a cash balance plan and a prepaid plan, along with the system of lump-sum payments at

retirement. The transfer was implemented, except for a qualified pension system (closed-type), effective April 1, 2009. This transfer is accounted for in accordance with "Guidance on Accounting for Transfers between Retirement Benefits Plans" (ASBJ Guidance No.1 issued on January 31, 2002).

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

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

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

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

As a result of the merger of the former Tanabe Seiyaku Co., Ltd. plans and the former Mitsubishi Pharma Corporation plans, the retirement benefit obligation decreased by ¥2,215 million (\$23,807 thousand), amortization of unrecognized prior service cost increased by ¥18 million (\$193 thousand),

accrued retirement benefits decreased by ¥99 million (\$1,064 thousand), and prepaid pension expenses decreased by ¥81 million (\$870 thousand) for the year ended March 31, 2010.

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

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

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

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

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

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

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

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.