

January 29, 2008 (Tuesday) from 17:30 to 18:15

[Attendees]

Kunihiko Shimojuku, Board Director, Executive Vice President

Junji Hamaoka, Board Director, Managing Executive Officer

Kenkichi Kosakai, General Manager, Finance & Accounting Department

[Sales and sales costs]

Q: You have said that, for the first-half business results, the front-loaded shipment was implemented and the dealer stock was gained prior to the merger. However, no backlash to these matters was seen during the third quarter. Are we correct in understanding that the sales force integration is progressing smoothly at the field site after the merger, without any confusion?

A: The sales forces integrated extremely smoothly after the merger. In terms of numerical figures, however, if we take the third quarter alone, although “actual sales” has been growing steadily, sales have dropped somewhat compared with the same period last year. This is attributable to inventory adjustment.

Q: For the fourth quarter, we anticipate sales of Remicade[®] to be ¥6.4 billion (Overview of the Financial Affairs and Business Performance for the third Quarter; page 18). According to calculations, the growth rate for the third quarter will be 45% but will drop to 17% in the fourth quarter. Will the Change of Control be executed by the licensor in the fourth quarter, with this as the reason?

A: Since we have not revised our forecasts for the full business year, we have not reexamined the sales for individual product. Our sales forecasts by product basis, which we had announced in our half-year business results in last November, were shown as is, as our sales forecasts for the full business year. Since business of Remicade[®] has remained steady, we have possibilities that the figures may swing upward somewhat at the end of the term. The licensing agreement remains unchanged.

Q: Will the drug price of Remicade[®] be re-evaluated in April according to the repricing associated with expansion of market scale? Have you not received any notifications from the authorities yet?

A: I would like to decline to comment on drug pricing revision before the official announcement from the authorities.

Q: Do you think that the side effect issue of ENBREL[®] had an influence on the current brisk sales of Remicade[®]?

A: I do not think there was any influence. Our understanding is that the additional indication for maintenance therapy of Crohn’s disease whose approval was obtained in November of last year had contributed to sales, and that business has been growing steadily because of this.

Q: Why are sales of overseas subsidiaries growing? It is because Mitsubishi Pharma (Guangzhou) is doing well?

A: It is true that Mitsubishi Pharma (Guangzhou) and Welfide Korea are faring well; however, one item that has the biggest impact on numerical figures is Tanabe Europe's chemical products.

Q: You have cited Remicade[®]'s increased income as to why the gross margin ratio has dropped. Are we correct in thinking that vaccines are also contributing to this like Remicade[®]?

A: Exactly. Sales of Mearubik[®] have also grown steadily, so the difference of the product mix may also have worked to raise the cost percentage.

Q: What are the sales results of Lochol[®] up to the third quarter? Have you revised the sales forecasts for the full business year?

A: Actual sales results totaled ¥3.7 billion. We have not revised the sales forecasts for the full business year.

Q: Your sales dropped as a result of the changes in the collaborative framework regarding Lochol[®] with Novartis Pharma. Is this sales reduction already incorporated in the latent negative synergy totaling ¥5 billion associated with the merger?

A: No, we did not anticipate Lochol[®] to be included in the latent negative synergy of ¥5 billion.

[Sales expenses and general administrative costs]

Q: If we calculate the "others" of SG&A featured on page 17 of the Summary of 3rd Quarter Consolidated Financial Results for Fiscal 2007, we come up with ¥20 billion as the sales forecasted for the fourth quarter. Are there any special reasons for this? If we look at other numbers for each quarter, they remain the expense levels from the ¥13 billion to ¥15 billion, and only the fourth quarter has a huge value of ¥20 billion. Please tell us the background for this.

A: Since we have not revised our forecasts for the full business year, we have not reexamined the sales for individual product. Compared with the second quarter, the numbers for the third quarter include goodwill depreciation costs, so SG&A should increase. However, if we look at the status of expense processing, the rate of progression is gently for R&D expenses and sales expenses as compared with the budget. Although not too much costs accrued from October to December after the merger, we will see that much more costs accrued in bulk from January to March. Depreciation of goodwill will be added to this. We are not considering any special factors other than these.

Q: What did you initially forecast for the third quarter in terms of the sales administrative expenses for "others"?

A: We do not disclose any quarterly forecasts.

Q: The rate of progress/completion of SG&A is low vis-à-vis the whole-year predictions. Have the figures simply been moved over to the fourth quarter, or was the budget set rather slackly?

A: We have not been able to analyze the situation at this stage. As the budget for the second-half of the year, the two companies devised it separately in August prior to the merger, and then made simple additions. Incorporated reductions in personnel fees associated with early retirement and other fees were added in the budget afterward. It could be that the effects of these measures have manifested more than anticipated.

By way of reference, the actual, single company-based results in the third quarter have decreased by ¥4.6 billion compared with the second quarter. If we incorporated the fact that we have earmarked a goodwill depreciation fee of ¥2.5 billion in the third quarter as a factor for increase, the amount has essentially decreased by a little under ¥7 billion.

We have the feeling that R&D and other expenses may swing downward somewhat as compared with the budget. At this stage, however, it is difficult to predict, with a high level of accuracy, to what extent it would swing upward.

Q: Don't we need to consider that R&D expenses have been postponed for delay in any projects and putting off the expenses they caused?

A: As for the reexamination of the strategy concerning our R&D expenses, the selection and concentration measure is being studied in the process on establishing the midterm management plan. Depending on their conclusions, fees that had accrued may decrease. As of now, however, we are seeing as deviation of the accrual of fees.

[Special gains and losses]

Q: A fee of ¥10.1 billion is shown as the special losses in the plan for the full business year. Do you see the need to change this view?

A: As of now, we are not thinking of changing it. Depending on how the hepatitis C lawsuit reaches to solution, it is possible that we would earmark the losses in a lump. However, the discussions with the government are going on as to the burden-sharing with them and nothing has been determined, so we do not know at this stage.

Q: Are we correct in thinking that merger-related fees of ¥6.4 billion would be earmarked as planned?

A: Yes, that's correct.

[New product development]

Q: We assume that Medway[®] was not released in December because you are taking longer-than-expected time negotiating the drug price. Are negotiations that tough?

A: I would like to refrain from commenting on that.

Q: What is the current status of Medway[®]?

A: At present, full-scale production has already begun at Bipha's factory. Since the manufacturing process of Medway[®] requires a long work period, it is still an intermediate product. We are making all-out efforts, however, so that we may include it in the NHI drug price list this spring and release the product on the market.

Q: Regarding the discontinuation of the development of Novastan[®] in China, why was it that the authorities did not approve it?

A: The authorities felt that the control drug used in Novastan[®]'s clinical trial was not appropriate. No patent of Novastan[®] has been obtained in China yet. A domestic company that entered into development after our IND obtained approval before our approval, and has already begun marketing the drug. We decided that there was no benefit in conducting a clinical test using other control drugs at this stage, in line with the authorities' instructions, and releasing it on the Chinese market as a generic drug.

Q: In considering the future development of drugs in China, do you feel that conducting development in China is difficult? Or do you see this as a special or exceptional case?

A: We acknowledge that doing development in China is considerably difficult. However, dramatic growths are expected in the market, so we hope to overcome the obstacles although they are quite formidable.

[Mid-term management plan]

Q: Regarding the mid-term management plan, do you intend to also study numerical goals that include sales targets for FY2010, or do you plan to study the content without changing it?

A: The 2010 management goal announced in May of last year was established once again as a goal in drawing up the midterm management plan, and we have begun studying concrete measures to realize that goal. It remains to be seen if we can formulate a concrete plan, by taking into consideration the current on-going performance that would corroborate this.

[Generic businesses]

Q: What is the preparation status of your generic business?

A: We have already begun selling the four ingredients and nine standards whose approvals were obtained last year. Preparations are also under way to establish a sales subsidiary this April. As soon as an overview of the subsidiary has been finalized, we plan to announce it.

Q: How much sales were generated from your generic business in the third quarter?

A: We have not yet begun any sales promotions, so sales figures were minimal.

Q: Do you still believe that M&A is one of the options in moving your generic business forward?

A: Our view that we still consider making an alliance with other companies and aim at attaining sales of ¥10 billion in 2010 remains unchanged.

[Synergy from the merger]

Q: What was your sales synergy and cost synergy for the third quarter?

A: We predict a sales synergy of ¥700 million and a cost synergy of ¥800 million for the latter half of the year. For the third quarter, the cost synergy would be around ¥3 million.

Q: Are we correct in perceiving the synergy effects to be making steady progress vis-à-vis the 2010 goals?

A: With the aim of strengthening the management base, we have established the structural optimization project and the staff optimization project, and have just begun studying specific plans for realizing the cost synergy goal of ¥20 billion.