Open Up the Future

Mitsubishi Tanabe Pharma
Corporate Report 2017

Mitsubishi Tanabe Pharma

Corporate Communications Tools

To foster a deeper understanding of the Group among stakeholders, Mitsubishi Tanabe Pharma prepares a variety of communications tools in addition to disclosure materials.

Providing Information about Initiatives Targeting Sustained Growth

MITSUBISHI TANABE PHARMA CORPORATE REPORT 2017

Mitsubishi Tanabe Pharma prepares this report to provide information to its shareholders, investors, and other stakeholders about the Group's initiatives targeting sustained growth. This report, which was prepared with reference to the framework released by the International Integrated Reporting Council (IIRC)*, is positioned as the Group's integrated report. Its principal sections comprise reports on value creation over the short, medium, and long term. The business model for value creation is explained in the business overview section, initiatives to create value are covered in the business strategy section, and initiatives to support value creation are described in the ESG section.

* Private-sector organization established in 2010 by private-sector companies, investors, accountants' organizations, and government institutions to develop an international corporate reporting framework.

Providing Information about Initiatives Targeting the Sustainable Development of Society

CSR WEBSITE (CORPORATE WEBSITE) WEB

Mitsubishi Tanabe Pharma prepares this report to provide information to a wide range of stakeholders, including patients, health care professionals, shareholders and investors, local communities, and employees, about the principal CSR activities implemented in fiscal 2016 (initiatives targeting the sustainable development of society). This report includes information about specific initiatives based on the corporate philosophy, presented in accordance with the ISO 26000 core subjects. Other sections in the report include the VOICE section, which contains messages from employees and outside parties related to those initiatives, and the data section, which contains related data.

Inclusion in SRI Indexes*

Mitsubishi Tanabe Pharma's initiatives in the area of CSR activities have been highly evaluated, and we have been included in the following SRI indexes.

* Indicators of socially responsible investment, which utilizes evaluation / selection standards that consider not only corporate financial matters but also social responsibility.

FTSE4Good

FTSE Blossom Japan

MSCI 2017 Constituent MSCI Japan ESG Select Leaders Index

MSCI 2017 Constituent MSCI Japan Empowering Women Index (WIN)

Other Communications Tools

To foster a better understanding of the Group's businesses among a wide range of stakeholders, Mitsubishi Tanabe Pharma has created a corporate website and prepared a corporate profile in pamphlet form.

CORPORATE WEBSITE WEB

In addition to corporate information, the Group has prepared a variety of specialized sites, such as an investor relations site for shareholders and investors and a health support site.

CORPORATE PROFILE

The corporate profile is a digest version of Mitsubishi Tanabe Pharma Corporate Report 2017.

Contents

02 Business Overview Section

This section explains the Group's business model for the realization of value creation.

07 Business Strategy Section

This section explains the business strategies that play the central role in initiatives to create value.

Message from the President

P14

Special Feature: Radicava—Opening Up Doors in U.S. Business Development

P28

Business Strategies by Process

P32

53 ESG Section

This section includes ESG-related information as initiatives to support value creation.

71 Financial Section

Application of IFRS

To improve the international comparability of financial information in the capital markets, the Company has adopted IFRS effective from fiscal 2016. Figures for fiscal 2015 are also presented in accordance with IFRS. For information about reconciliations in the transition from Japanese GAAP to IFRS, please refer to page 127.

Forward-Looking Statements

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

The

OUR PHILOSOPHY

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

OUR VISION

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

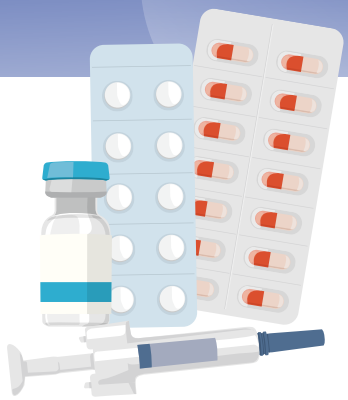
Mitsubishi Tanabe Pharma was established in October 2007, and since then the Company's corporate philosophy has been to "contribute to the healthier lives of people around the world through the creation of pharmaceuticals." In accordance with this philosophy, we have worked to become a global research-driven pharmaceutical company that is trusted by communities. We believe that our mission is to open up the future of medicine for patients and foster innovative changes in methods of treating diseases. Over the past 10 years, we have delivered a wide range of drugs to patients in Japan and around the world and have produced those changes.

Remicade is used in the treatment of RA (rheumatoid arthritis) and a wide range of other intractable diseases, and the cumulative total number of patients has surpassed 100,000.

Remicade is the world's first anti-TNFα monoclonal antibody. Tanabe Seiyaku, one of our predecessor companies, in-licensed Remicade from Jannsen Biotech Inc., of the U.S., and launched it as a treatment agent for Crohn's disease in 2002. Remicade is the first biologic in Japan used for a chronic disease. To maximize the value of this innovative drug, the Company has continued working to obtain additional indications and changes in administration / dosage. Currently, Remicade is used in the treatment of a wide range of intractable diseases, including RA.

Power of Change

New Products



We were able to launch a number of new products and to provide patients with new options.

Under Medium-Term Management Plan 11–15, we launched a number of new products, and we have provided patients with new options in our priority disease areas — autoimmune diseases, diabetes and kidney diseases, central nervous system diseases, and vaccines. For example, Tenelia, which was launched in 2012, is the first diabetes treatment agent that was developed by Mitsubishi Tanabe Pharma, and the launch of this product marked our full-scale entry into the field of diabetes.

Licensing–Out

Gilenya, which was discovered by Mitsubishi Tanabe Pharma and developed overseas by a licensee, has contributed to the treatment of patients in more than 80 countries.

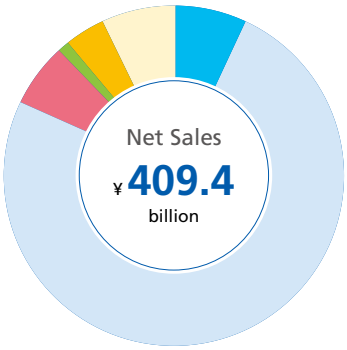
To rapidly deliver new drugs to patients around the world, we are advancing collaborative initiatives with global companies. Gilenya, which was developed in-house and licensed overseas to Novartis International AG, of Switzerland, is the world's first oral treatment agent for MS (multiple sclerosis). Existing treatment agents were all injections, and consequently the use of Gilenya, an innovative drug that reduces the burden on patients, grew rapidly after its launch in the U.S. in 2010. Currently, it is contributing to the treatment of more than 200,000 patients around the world.

The Power of Change

Our domestic operating environment has undergone dramatic change since our founding in 2007. In this setting, the Company has taken steps to change its business structure.

Establishment of Mitsubishi Tanabe Pharma Corporation ····· Medium-Term Management Plan 08–10: Dynamic Synergy for 2015

FY 2007

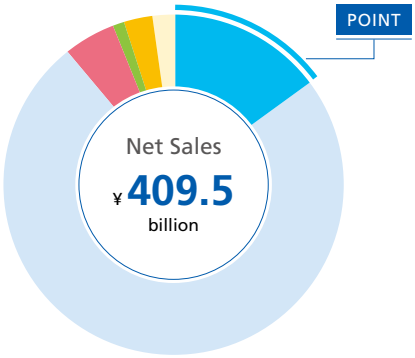


POINT

Both of our predecessor companies — Tanabe Seiyaku and Mitsubishi Pharma — had overseas sales ratios that were limited to approximately 10%.

Operating income	¥**72.4** billion
Operating margin	**17.7**%
R&D expenses	¥**72.3** billion
R&D expenses ratio	**17.7**%
Overseas sales	¥**37.2** billion
Overseas sales ratio	**9.1**%
Number of employees	**10,361**

FY 2010



POINT

Remicade recorded strong sales growth and developed into a core product accounting for approximately 15% of our sales.

Operating income	¥**76.5** billion
Operating margin	**18.7**%
R&D expenses	¥**65.7** billion
R&D expenses ratio	**16.1**%
Overseas sales	¥**25.7** billion
Overseas sales ratio	**6.3**%
Number of employees	**9,198**

Mitsubishi Tanabe Pharma was established through the merger of Tanabe Seiyaku and Mitsubishi Pharma. At that time, the overseas sales ratios of both companies were limited to about 10%, in contrast with large Japanese pharmaceutical companies that had overseas sales ratios of more than 50%. In addition, each of the predecessor companies had an insufficient business scale. To further strengthen drug discovery capabilities and accelerate overseas business development, both companies determined that it would be necessary to move up into the top ranks of Japanese pharmaceutical companies by expanding the business scale and bolstering the management foundation. Accordingly, the two companies decided to implement a merger.

Under Medium-Term Management Plan 08–10, Remicade was positioned as a driver of the Company's growth, and we worked to maximize its value. Targeting the achievement of the sales objective of ¥50.0 billion, we increased the number of specialized Remicade MRs and took steps to steadily advance the life–cycle management strategy, such as obtaining changes in administration / dosage for RA as well as additional indications. As a result, Remicade became a core product. In fiscal 2010, Remicade had sales of ¥60.4 billion, more than twice the level in fiscal 2007, and accounted for approximately 15% of the Company's sales.

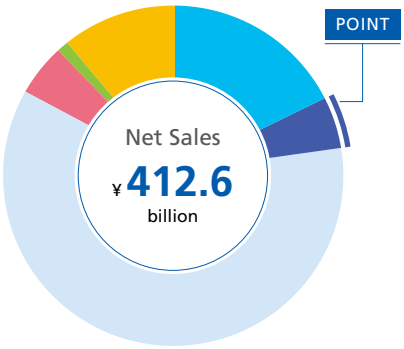
Domestic ethical drugs
- Remicade
- New products
- Other products

Overseas ethical drugs
OTC drugs
Others
Other business

Note: Figures for fiscal 2007 are the simple sums of the figures for the former Tanabe Seiyaku and the former Mitsubishi Pharma.
From fiscal 2016, the Company has voluntarily applied IFRS instead of Japanese GAAP, but the following are figures before the application. New products are products that were launched in or after April 2011.

Medium-Term Management Plan 11–15: New Value Creation

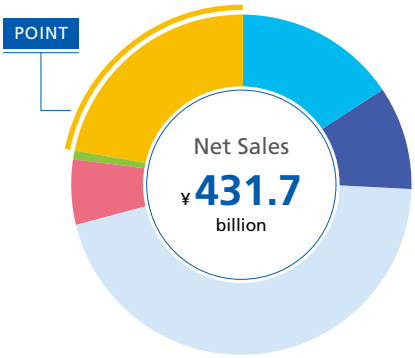
FY 2013



POINT With the earnings power of long-listed drugs declining substantially, we were able to launch multiple new drugs in Japan.

Operating income	¥59.1 billion
Operating margin	14.3%
R&D expenses	¥70.4 billion
R&D expenses ratio	17.1%
Overseas sales	¥59.4 billion
Overseas sales ratio	14.4%
Number of employees	9,065

FY 2015



POINT Royalty revenues from out-licensed products, centered on Gilenya and Invokana, recorded substantial growth and become an earnings pillar.

Operating income	¥94.9 billion
Operating margin	22.0%
R&D expenses	¥75.2 billion
R&D expenses ratio	17.4%
Overseas sales	¥116.9 billion
Overseas sales ratio	27.1%
Number of employees	8,125

In the domestic market for ethical drugs, as one part of government measures to control health care expenditures, the official national health insurance (NHI) prices for ethical drugs are generally revised once every two years. In addition, measures to promote the use of generic drugs are also being strengthened. The generic drug substitution rate* is increasing rapidly, and the earnings power of long-listed drugs is declining substantially. In this setting, under Medium-Term Management Plan 11–15, we launched a number of new drugs in Japan, and sales of these drugs reached ¥26.7 billion over the first three years of the plan.

* Substitution rate = Number of generic drugs / (Number of original drugs for which there are generic competitors + Number of generic drugs)

Under Medium-Term Management Plan 11–15, we recorded strong expansion in overseas sales, which reached ¥116.9 billion in fiscal 2015. This growth was led by royalty revenues from sales of Gilenya and Invokana, which were discovered in-house and licensed overseas to global companies. These two drugs have recorded substantial growth. For example, as the world's first oral MS treatment agent, Gilenya has grown into a blockbuster drug with annual sales of more than $1.0 billion. As a result, the Company's royalty revenue, etc., reached ¥92.0 billion in fiscal 2015.

The Power of Change

Mitsubishi Tanabe Pharma is currently taking on the challenge of creating the following changes under Medium-Term Management Plan 16–20.

Open Up the Future

Overview of Medium-Term Management Plan 16–20

Period: April 2016 to March 2021 (five years)

Objectives that will be realized under Medium-Term Management Plan 16–20

1 Maximizing Pipeline Value
Invest ¥400.0 billion in R&D, launch new drugs with the potential for worldwide roll-out

2 Strengthening IKUYAKU and Marketing
Domestic pharmaceutical revenue of ¥300.0 billion
New drugs and priority products revenue ratio of 75% (ethical pharmaceuticals)

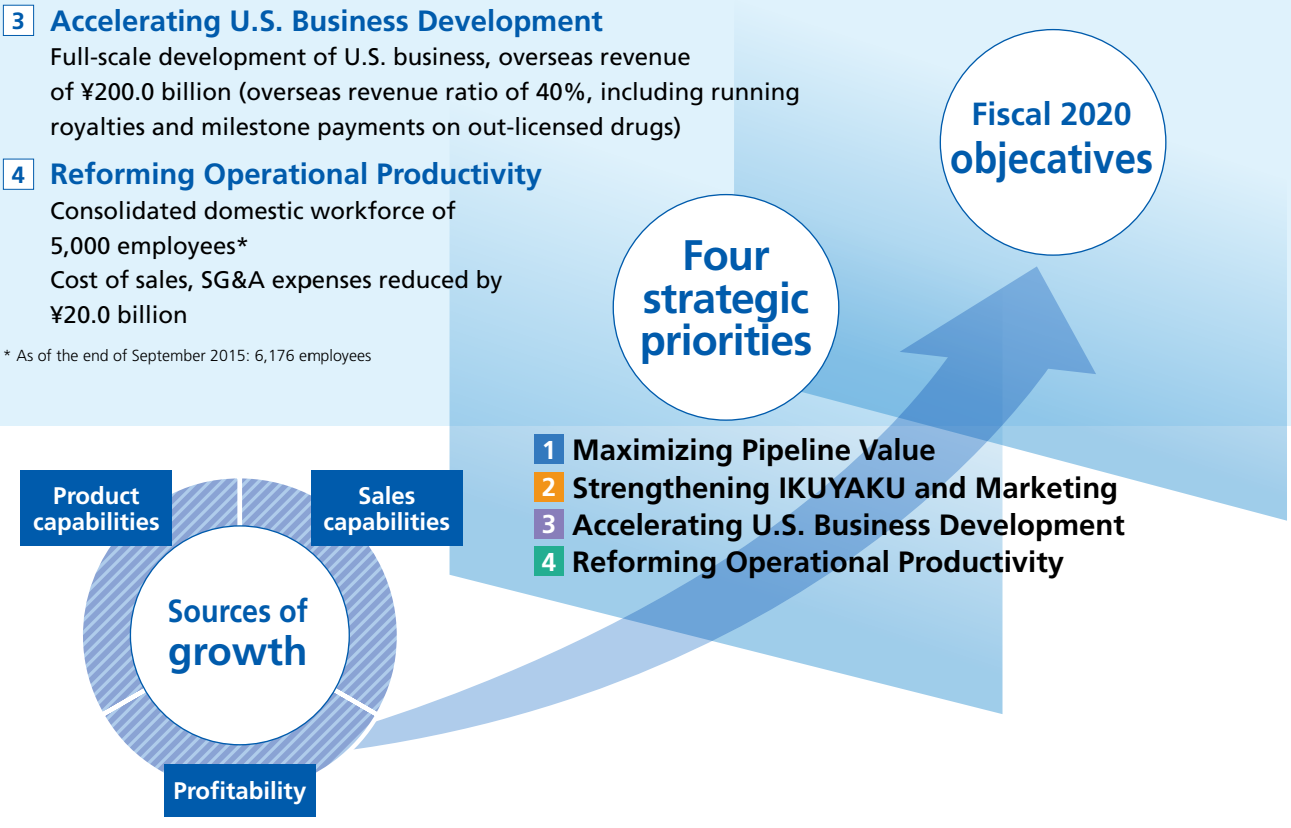
3 Accelerating U.S. Business Development
Full-scale development of U.S. business, overseas revenue of ¥200.0 billion (overseas revenue ratio of 40%, including running royalties and milestone payments on out-licensed drugs)

4 Reforming Operational Productivity
Consolidated domestic workforce of 5,000 employees*
Cost of sales, SG&A expenses reduced by ¥20.0 billion

* As of the end of September 2015: 6,176 employees

Fiscal 2020 Quantitative Plans

	Fiscal 2015 results (IFRS)	Fiscal 2020 objectives Announced Nov. 30, 2015
Revenue	¥425.7 billion	¥500.0 billion
Core operating profit	¥106.9 billion	¥100.0 billion
Profit attributable to owners of the Company	¥59.3 billion	¥70.0 billion
R&D expenses	¥64.6 billion	¥80.0 billion
Overseas revenue ratio	25.9%	40%



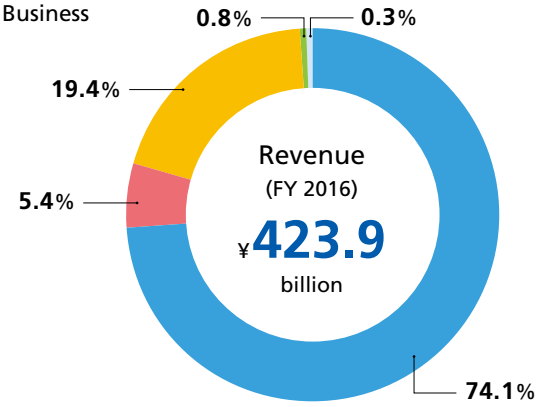
Business Strategy Section

This section explains the business strategies that play the central role in initiatives to create value.

Business Portfolio

Mitsubishi Tanabe Pharma provides distinctive ethical drugs, including drugs for autoimmune diseases, diabetes and kidney diseases, central nervous system diseases, and vaccines. We meet a wide range of medical needs through the sale of distinctive ethical drugs, including vaccines, as well as through the sale of generic drugs and OTC products.

Revenue by Business



- Domestic ethical drugs ¥314.2 billion
- Overseas ethical drugs ¥22.6 billion
- Royalty revenue, etc. ¥82.2 billion
- OTC drugs ¥3.4 billion
- Others ¥1.4 billion

1 2 3 4 5 6 7

Priority Products in Fiscal 2016

Remicade 1

Indications: RA (including the prevention of structural joint damage), Behcet's disease with refractory uveoretinitis, psoriasis vulgaris, psoriasis arthropathica, pustular psoriasis, erythrodermic psoriasis, ankylosing spondylitis, entero-Behcet's disease, neuro-Behcet's disease, vasculo-Behcet's disease, Kawasaki disease, Crohn's disease, ulcerative colitis
Domestic Revenue: ¥66.8 billion
Overseas Revenue: ¥30 million

Simponi 2

Indications: RA (including the prevention of structural joint damage), ulcerative colitis
Domestic Revenue: ¥24.9 billion
Overseas Revenue: ¥1.4 billion

Talion 3

Indications: Allergic rhinitis, urticaria, pruritus accompanying skin disease (eczema, dermatitis, prurigo, cutaneous pruritus)
Domestic Revenue: ¥18.9 billion
Overseas Revenue: ¥1.0 billion

Tenelia 4

Indication: Type 2 diabetes mellitus
Domestic Revenue: ¥16.5 billion
Overseas Revenue: ¥0.5 billion

Lexapro 5

Indications: Depression, depressive symptoms, social anxiety disorder
Domestic Revenue: ¥11.2 billion

Imusera 6

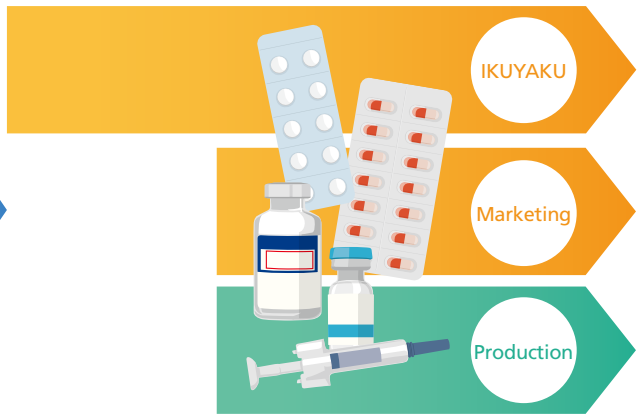
Indication: Multiple sclerosis (MS)
Domestic Revenue: ¥4.9 billion

Canaglu 7

Indication: Type 2 diabetes mellitus
Domestic Revenue: ¥3.4 billion

Business Processes

Through its initiatives in the business processes of drug discovery, IKUYAKU (drug fostering and evolution), marketing, and production, Mitsubishi Tanabe Pharma has built a system for the discovery of pharmaceuticals that have value for patients and can be used by patients with peace of mind.



For information about business strategies by process, please see page 32. P32

8 9 10 11 12

13

14

Vaccines

Influenza vaccine 8
Indication: Prevention of influenza
Domestic Revenue: ¥12.7 billion

Tetrabik 9
Indications: Prevention of pertussis, diphtheria, tetanus, and polio
Domestic Revenue: ¥9.9 billion

Mearubik 10
Indications: Prevention of attenuated measles and rubella
Domestic Revenue: ¥5.9 billion

Varicella vaccine 11
Indication: Prevention of chickenpox
Domestic Revenue: ¥5.4 billion

JEBIK V 12
Indication: Prevention of Japanese encephalitis
Domestic Revenue: ¥3.9 billion

Major Out-Licensed Products

Gilenya
Indication: Multiple sclerosis (MS)
Royalty Revenue: ¥53.7 billion

Invokana
Indication: Type 2 diabetes mellitus
Royalty Revenues: ¥18.8 billion

Generic Drugs 13

Tanabe Seiyaku Hanbai's products*
Domestic Revenue: ¥14.1billion

* Composed of generic drugs and the long-listed drugs (original drugs that have gone off patent and for which generic drugs are on sale) that were transferred from the Company

OTC Drugs 14

Domestic Revenue: ¥3.4 billion
Overseas Revenue: ¥0.1 billion

Financial and Non-Financial Highlights

Note: Figures for fiscal 2014 and previous fiscal years are presented in accordance with Japanese GAAP.

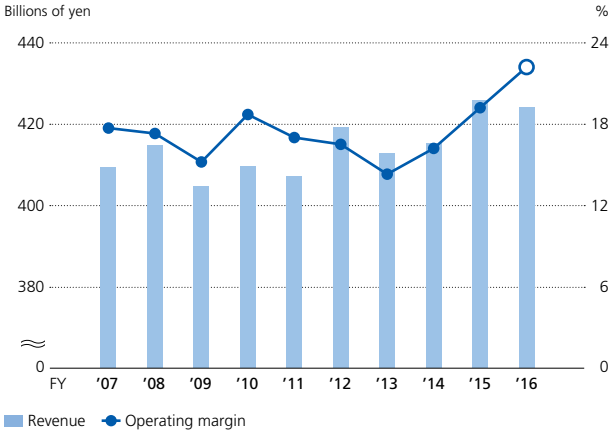
Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 (FY 2016), 2016 (FY 2015), and 2015 (FY 2014)

			Billions of yen	Millions of U.S. dollars[1]	% Change
	FY 2014	FY 2015	FY 2016	FY 2016	FY 2016 / 2015
Revenue	¥415.1	¥425.7	¥423.9	$3,778	– 0.4%
Core operating profit	—	106.9	94.5	842	– 11.7
Operating profit	67.1	81.8	94.0	838	+ 15.0
Profit attributable to owners of the Company	39.5	59.3	71.2	635	+ 20.2
R&D expenses	69.6	64.6	64.7	576	+ 0.3
Capital expenditures[2]	17.3	12.1	14.4	128	+ 19.0
Total assets	929.3	958.4	984.5	8,776	+ 2.7
Total equity	800.4	826.3	871.4	7,767	+ 5.5
Net cash provided by operating activities	68.1	80.8	59.7	532	—
Net cash used in investing activities	(59.8)	(42.2)	(10.5)	(93)	—
Net cash used in financing activities	(21.8)	(22.2)	(24.4)	(218)	—
Financial indicators			%		
Overseas revenue ratio	18.8	25.9	24.4	—	—
Operating margin	16.2	19.2	22.2	—	—
R&D expenses ratio	16.8	15.2	15.3	—	—
Ratio of equity attributable to owners of the Company to total assets	84.9	85.1	87.4	—	—
ROE	5.1	7.4	8.5	—	—
Dividend payout ratio	59.6	43.5	40.9	—	—
Per share amounts			Yen	U.S. dollars[1]	
Profit attributable to owners of the Company	¥70.41	¥105.72	¥127.03	$1.13	+ 20.2%
Cash dividends	42.00	46.00	52.00	0.46	—
Non-financial data					
Number of employees	8,457	8,125	7,280	—	– 10.4%
Number of new ethical drugs approved in Japan[3]	1	0	0	—	—
Energy used (TJ)[4]	2,064	1,857	1,725	—	–7.1
CO_2 emissions (thousands of tons-CO_2)[4]	117	108	98	—	–9.3
Amount of waste generated (domestic) (thousands of tons)	15	9	6	—	–32.8

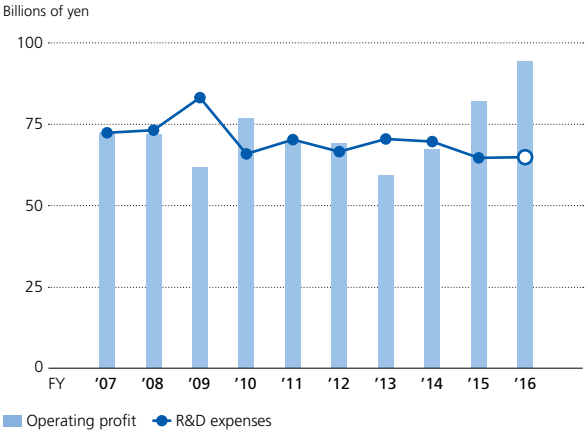
1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥112.19 to U.S.$1, the prevailing exchange rate as of March 31, 2017.
2. Property, plant and equipment and intangible assets on an accrual basis.
3. Number of new ethical drugs approved in Japan includes co-developed drugs.
4. Overseas and domestic production and research bases.

For further information about financial data, please refer to "10-Year Financial Summary." P72

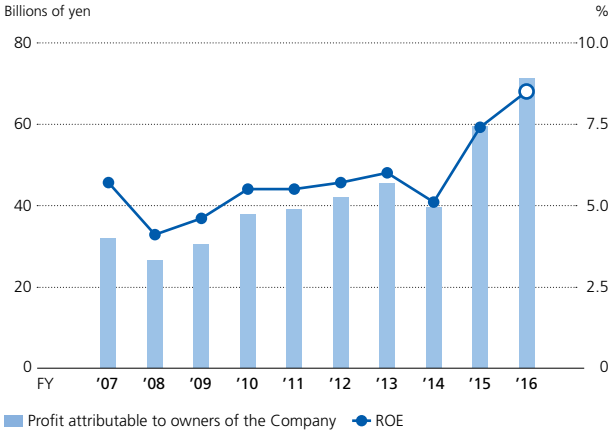
Revenue / Operating Margin



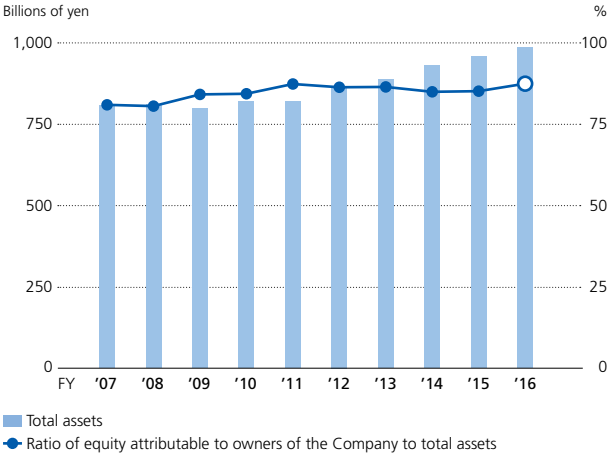
Operating Profit / R&D Expenses



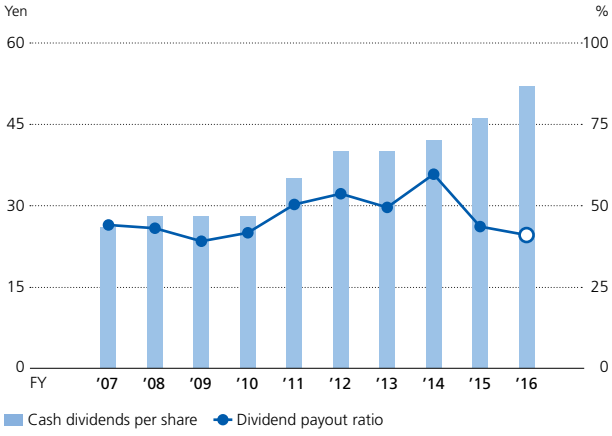
Profit Attributable to Owners of the Company / ROE



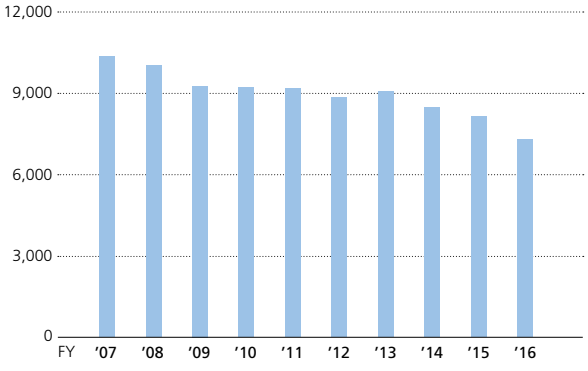
Total Assets / Ratio of Equity Attributable to Owners of the Company to Total Assets



Cash Dividends per Share / Dividend Payout Ratio



Number of Employees



Pipeline (Status of Drug Candidates)

As of July 31, 2017

Status of Drug Candidates

Disease area: Autoimmune diseases | Diabetes and kidney diseases | Central nervous system diseases | Vaccines | Other

New Drugs

Development code (Generic name)	Category	Expected indications	Region	Stage (Phase 1 / 2 / 3 / NDA filed)	Origin (Remarks)
MT-1303	S1P receptor functional antagonist	Multiple sclerosis	Europe	Phase 1–2	In-house
		Psoriasis	Europe	Phase 1–2	
		Crohn's disease	Japan, Europe	Phase 1–2	
		Inflammatory diseases, autoimmune diseases	Japan, Europe, US	Phase 1	
MT-7117	Dermatologicals, etc.	Inflammatory diseases, autoimmune diseases, etc.	Europe	Phase 1	In-house
MT-2990	Inflammatory diseases, autoimmune diseases, etc.		Europe	Phase 1	In-house
MP-513 (teneligliptin)	DPP-4 inhibitor	Type 2 diabetes mellitus	Indonesia	Phase 1–3, NDA filed (Apr. 2015)	In-house
			China	Phase 1–3	
			Europe	Phase 1–2	
			US	Phase 1	
MT-3995	Selective mineralocorticoid receptor antagonist	Diabetic nephropathy	Europe	Phase 1–2	In-house
			Japan	Phase 1–2	
			US	Phase 1	
		Non-alcoholic steatohepatitis (NASH)	Japan	Phase 1–2	
MT-6548	Hypoxia inducible factor prolyl hydroxylase inhibitor	Renal anemia	Japan	Phase 1–2	US: Akebia Therapeutics, Inc.
MP-214 (cariprazine)	Dopamine D3 / D2 receptor partial agonist	Schizophrenia	Japan, Asia	Phase 1–3, Phase 2/3	Hungary: Gedeon Richter plc
MP-124	Nervous system		US	Phase 1	In-house
MT-8554	Nervous system, etc.		Europe	Phase 1	In-house
MT-5199	Vesicular monoamine transporter type 2 inhibitor	Tardive dyskinesia	Japan	Phase 1	US: Neurocrine Biosciences, Inc.
MT-2355	Combined vaccine	Prophylaxis of pertussis, diphtheria, tetanus, poliomyelitis and Hib infection in infants	Japan	Phase 1–3	Japan: BIKEN Foundation (The Research Foundation for Microbial Diseases of Osaka University) (Co-developed with BIKEN Foundation)
Influenza vaccine	Plant-based VLP vaccine	Prophylaxis of H5N1 influenza	Canada	Phase 1–2	In-house
Influenza vaccine	Plant-based VLP vaccine	Prophylaxis of seasonal influenza	US, Canada	Phase 1–2	In-house
Influenza vaccine	Plant-based VLP vaccine	Prophylaxis of H7N9 influenza	Canada	Phase 1	In-house
GB-1057 (recombinant human serum albumin)	Blood and blood forming organs		US	Phase 1	In-house
MP-157	Cardiovascular system		Europe	Phase 1	In-house
MT-0814	Ophthalmologicals		Japan	Phase 1	In-house
MT-4129	Cardiovascular system, etc.		Europe	Phase 1	In-house

Additional Indications & Administration

Brand name (Generic name)	Category	Expected indications	Region	Stage (Phase 1 / 2 / 3 / NDA filed)	Origin (Remarks)
Imusera (fingolimod)	S1P receptor functional antagonist	Chronic inflammatory demyelinating polyradiculoneuropathy	Global clinical trial	1 / 2 / 3	In-house (Co-developed with Novartis Pharma K.K. in Japan, licensed to Novartis International AG overseas)
Canaglu (canagliflozin)	SGLT2 inhibitor	Diabetic nephropathy	Global clinical trial	1 / 2 / 3	In-house (Sponsor: Janssen Research & Development, LLC)
Novastan (argatroban)	Selective antithrombin agent	Acute cerebral infarction	China	NDA filed: Feb. 2017	In-house

Licensing-Out

Development code (Generic name)	Category	Expected indications	Region	Stage (Phase 1 / 2 / 3 / NDA filed)	Licensee (Remarks)
FTY720 (fingolimod)	S1P receptor functional antagonist	Chronic inflammatory demyelinating polyradiculoneuropathy	Global clinical trial	1 / 2 / 3	Switzerland: Novartis International AG (Co-developed with Novartis Pharma K.K. in Japan)
TA-7284 (canagliflozin)	SGLT2 inhibitor	Type 1 diabetes mellitus	US, Canada	1 / 2	US: Janssen Pharmaceuticals, Inc.
		Obesity / co-administration with phentermine	US	1 / 2	
MT-210	5-HT2A / Sigma 2 receptor antagonist	Schizophrenia	Europe	1 / 2	US: Minerva Neurosciences, Inc.
Wf-516	Multiple mechanisms on several receptors*	Depression	Europe	1 / 2	US: Minerva Neurosciences, Inc.
MT-4580 (evocalcet)	Ca sensing receptor agonist	Secondary hyperparathyroidism in chronic kidney disease patients on maintenance dialysis	Japan	NDA filed: Apr. 2017	Japan: Kyowa Hakko Kirin Co., Ltd.
Y-39983	ROCK (rho-kinase) inhibitor	Glaucoma	Japan	1	Japan: Senju Pharmaceutical Co., Ltd.
MCC-847 (masilukast)	Leukotriene D4 receptor antagonist	Asthma	Korea	1	Korea: SAMA Pharma Co., Ltd.
Y-803	Bromodomain inhibitor	Cancer	Europe, Canada	1	US: Merck & Co.
sTU-199 (tenatoprazole)	Alimentary tract and metabolism		Europe	1	France: Negma / Sidem

* SSRI, 5-HT1A, dopamine transporter, and alpha-1A and B

Transcending Limits On Our Thoughts and Our Actions

We will be a company that continues to take on the challenge of change to achieve results.




CONTENTS

Overview of Fiscal 2016

Profit attributable to owners of the Company set a record high for the second consecutive year. We got off to a solid start in the first year of the current medium-term management plan.

The first year of Medium-Term Management Plan 16–20 has been completed. In fiscal 2016, revenue was down 0.4%, to ¥423.9 billion, core operating profit declined 11.7%, to ¥94.5 billion, and operating profit was up 15.0%, to ¥94.0 billion. Net profit attributable to owners of the Company increased 20.2%, to ¥71.2 billion.

Looking at the factors affecting revenue, an increase of 2.0% was recorded in revenue from domestic ethical drugs, which reached ¥314.2 billion. The NHI drug price revision implemented in April 2016 had the effect of reducing revenue by ¥17.0 billion. However, Simponi recorded substantial growth in revenue, and gains were also recorded by Tenelia, Talion, and other products. Revenue from priority products and vaccines was ¥185.9 billion in fiscal 2016, a year-on-year increase of ¥19.2 billion. As a result, we were able to record an increase in revenue from domestic ethical drugs.

On the other hand, royalty revenue, etc., declined 5.1%, to ¥82.2 billion. The Company recorded favorable growth in royalty revenue from Gilenya, which is licensed to Novartis International AG, of Switzerland. However, royalty revenue from Invokana and its fixed-dose combination with metformin, which are licensed to Janssen Pharmaceuticals, Inc., of the U.S. declined due to the effect of foreign exchange rates. In addition, non-recurring revenue, such as lump-sum payments from out-licensing, declined.

Revenue was down year on year, but the initial forecasts (announced May 11, 2016) called for revenue of ¥406.5 billion, so our revenue exceeded that forecast by a significant margin. The principal reason was better than expected results with domestic ethical drugs. In addition, operating profit and profit attributable to owners of the Company both increased. This was due principally to the gain in revenue and to the shift of certain R&D expenses to the next fiscal year. In addition, in the previous fiscal year we recorded restructuring expenses of ¥16.3 billion as non-recurring items. Consequently, profit attributable to owners of the Company set a record high for the second consecutive year. Overall, we got off to a solid start in the first year of the current medium-term management plan.

Maximizing Pipeline Value

In fiscal 2017, we plan to advance five drug candidates to late-stage development. I believe that fiscal 2017 will be a year of significant progress toward the achievement of our objectives, and at the same time a year of taking on challenges.

During the period covered by the current management plan, the business environment in Japan is expected to become more difficult due to the reevaluation of the NHI drug price system and to further progress in measures to promote the use of generics. In addition, royalty revenues from Gilenya are expected to decline as it goes off patent in the U.S., and accordingly we do not anticipate substantial growth in results. The period of the current medium-term management plan is positioned as a time for steadily maintaining revenue and gathering our strength in preparation for dramatic growth in fiscal 2020 and thereafter.

As milestones toward that objective, we set specific numerical objectives for each of the four strategic priorities for opening up the future under the current medium-term management plan. If we can achieve each of these objectives, I believe that we will build our strength and be able to record dramatic growth.

First, under Maximizing Pipeline Value, we have set a numerical objective of discovering 10 late-stage drug candidates during the period of the current medium-term management plan. In fiscal 2016 we made only a moderate degree of progress, with one drug candidate advancing to late-stage development. That was MT-2355 (expected indications: prophylaxis of pertussis, diphtheria, tetanus, poliomyelitis, and Hib infection in infants).

However, in fiscal 2017 we plan to advance five drug candidates to late-stage development. I believe that fiscal 2017 will be a year of significant progress toward the achievement of our objectives, and at the same time a year of taking on challenges. The reason is that, while there is a quantitative challenge in the advancement of five candidates, we have projects for which there are high qualitative hurdles. These include drug candidates involving global business initiatives, centered on North America, and accordingly it will be necessary to implement clinical trials on a scale that we have not yet experienced. Furthermore, in regard to drug candidates for diseases with a high level of unmet medical needs, I think that we must take on challenges in thought and

action from the trial design stage so that the trials clearly demonstrate the merits for patients. By steadfastly implementing that approach, I believe that we will generate significant momentum toward the realization of the medium-term management plan.

Also, in July 2017 we announced the start of procedures for the acquisition of NeuroDerm Ltd., of Israel. As a result, we expect to enhance our pipeline in the area of neurological conditions, including both pharmaceuticals and devices.

In regard to specific initiatives for Maximizing Pipeline Value, please refer to "Messages from the Executives Responsible for the Four Strategic Priorities" on page 23.

Topic

Agreement to start procedures for the acquisition of NeuroDerm Ltd.

NeuroDerm Ltd. is a pharmaceutical company that conducts research into new formulations of drugs for Parkinson's disease and has strong technical development capabilities in the combination of drugs and devices. Currently, NeuroDerm Ltd. is advancing development of ND0612, a Parkinson's disease treatment agent that has moved to phase 3 in the U.S. and Europe and is expected to be launched in fiscal 2019.

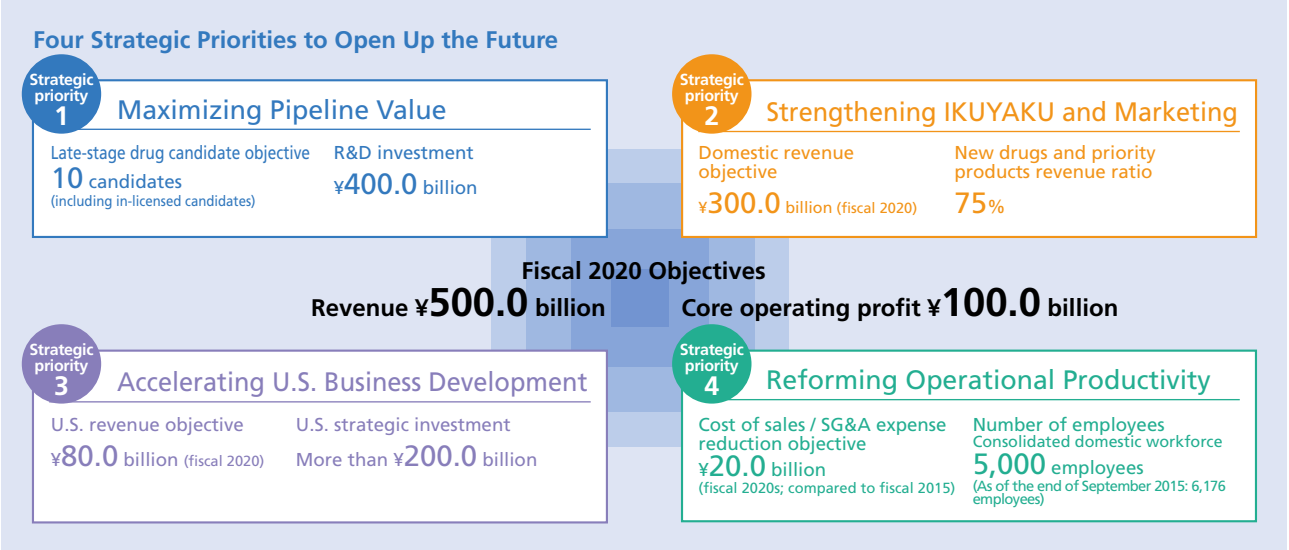
In the treatment of Parkinson's disease, as the disease progresses it is important to appropriately control the blood concentration of levodopa, a typical treatment agent. Through the use of its formulation technology, NeuroDerm Ltd. has achieved a world first with ND0612 through the successful creation of liquid formulations of levodopa and carbidopa, which are oral treatment agents. These formulations can be administered through subcutaneous injection in a sustained manner for 24 hours through the use of a mobile pump. In this way, the blood concentration of levodopa is controlled at a constant level, and this is expected to result in improvement in motor system symptoms, which are a problem for patients with advanced Parkinson's disease.

Strengthening IKUYAKU and Marketing

We were able to generate results, centered on autoimmune diseases as well as diabetes and kidney diseases, which are priority disease areas for our marketing activities.

In fiscal 2016, we were able to generate results, centered on autoimmune diseases as well as diabetes and kidney diseases, which are priority disease areas for our marketing activities. We have positioned the new drugs and priority products revenue ratio[1] as a numerical objective, and this ratio reached 62% in fiscal 2016, compared with 55% in fiscal 2015. We are making progress in line with our plan, and in fiscal 2017 we expect this ratio to reach 70%.

In autoimmune diseases, in April 2016 we changed the Simponi sales framework with Janssen Pharmaceutical K.K. Previously, the two companies had implemented joint sales. After the change, however, Mitsubishi Tanabe Pharma is engaging in solo sales while conducting joint promotion with Janssen Pharmaceutical K.K.



Accompanying the change in the sales framework, we stepped up joint promotion with Janssen Pharmaceutical K.K., leading to steady synergy effects. This was the major factor behind the increase in Simponi revenue in fiscal 2016. The combined share of Remicade and Simponi in the market for biologics used in the treatment of autoimmune diseases was approximately 40% in fiscal 2016. These drugs have built a dominant position as the top brand. Furthermore, in March 2017 Janssen Pharmaceutical K.K. received an additional indication of ulcerative colitis for Simponi. This makes it possible to offer patients two options—Remicade and Simponi—not just for RA but also for ulcerative colitis. Moreover, in May 2017 Janssen Pharmaceutical K.K. started sales of Stelara, a treatment agent for Crohn's disease, and Mitsubishi Tanabe Pharma and Janssen Pharmaceutical K.K. have signed a co-promotion agreement for Stelara. In this way, I believe that the Company has further enhanced its strengths in autoimmune diseases, such as inflammatory bowel disease (IBD).

Diabetes and kidney diseases are a priority disease area that will become the next pillar of our operations. In fiscal 2016, combined sales from Tenelia and Canaglu (NHI drug price basis) surpassed ¥30.0 billion, and in fiscal 2017 we will aim for a further increase. This is a field in which competition is intense, and this is not an objective that will be easy to accomplish. The results will be determined in the second half of fiscal 2017. First, the Canaglu evidence has been strengthened by the results of the CANVAS[2] trials, which were announced in June 2017. Furthermore, in July approval was received for Canalia Combination Tablets, Japan's first combination drug that includes a DPP-4 inhibitor an SGLT2 inhibitor. With this asset, we will work to achieve our fiscal 2017 objectives.

1. Ratio of revenue from new products and priority products to revenue from domestic ethical drugs
2. Large-scale clinical trials with approximately 10,000 participants to assess the safety of an SGLT2 inhibitor with regard to the cardiovascular system and kidneys, implemented by Janssen Pharmaceuticals, Inc., of the U.S.

In regard to specific initiatives for Strengthening IKUYAKU and Marketing, please refer to "Messages from the Executives Responsible for the Four Strategic Priorities" on page 24 and 25.

Accelerating U.S. Business Development

We began sales of Radicava, the first new ALS treatment agent in the U.S. in 22 years. For patients in the U.S. and for the Company, this represents the fulfillment of a dream that we have had for 20 years.

In the U.S., we filed an application for MCI-186 (Japan product name: Radicut) for an indication of ALS in June 2016, and approval was received from the U.S. FDA in May 2017. In addition, we moved ahead with preparations for the start of sales, centered on Mitsubishi Tanabe Pharma America, Inc., a pharmaceutical sales company. In August 2017, we started sales under the product name Radicava.

This is the first new ALS treatment agent in the U.S. in 22 years, and we were strongly aware that patients were waiting for the launch of Radicava. Accordingly, we are very pleased that we were able to take this step forward. Moreover, we were finally able to produce results after many years of aiming to launch new drugs in the U.S. and continuing to take on a variety of challenges. For patients in the U.S. and for the Company, this represents the fulfillment of a dream that we have had for 20 years.

However, the start of sales is not the goal. What is important is that Radicava be delivered to patients and contribute to their treatment. Pharmaceutical accessibility—how to appropriately provide drugs to patients—has become a social issue, and I will make this issue my highest priority. In particular, Radicava, which requires intravenous (IV) administration at a medical facility, is a drug that places a comparatively high burden on ALS patients. Accordingly, providing support for accessibility is extremely important, and as the provider of this new drug we recognize that this is our obligation to society.

As one specific initiative, we established a patient support service called Searchlight Support and set up a portal website. This name incorporates the meaning of shining a light on patients. For example, through this website, we are implementing initiatives to reduce as much as possible the physical limitations and economic limitations faced by patients. For example, we are providing introductions to the medical institutions that can offer treatment in a manner that is most convenient for the patient, responding to questions about insurance coverage, and providing introductions to support programs for low-income patients. In addition, we are also actively offering support for academic conferences and patient organizations. I believe that working hard to implement these types of initiatives will support true contributions to the treatment of patients and will consequently lead to higher sales of Radicava.

We were able to make a major step forward toward the achievement of U.S. revenue of ¥80.0 billion. However, it will be difficult to achieve this objective with only Radicava. Accordingly, we have implemented initiatives to secure drug candidates and products that match our business strategies. As I mentioned, we reached agreement with NeuroDerm Ltd. regarding the start of acquisition procedures. We expect this to become the second pillar of our U.S. business, and I believe that we have made progress toward the achievement of our objectives.

The launch of Radicava in the U.S. has been widely covered in the media, due in part to its impact as the first new ALS drug in 22 years. As a result, recognition of Mitsubishi Tanabe Pharma in the U.S. is increasing. This drug truly has value for patients and for the Company, and I want to ensure that we increase its sales in the U.S., contribute to many patients, and expand our U.S. business.

In regard to specific initiatives for Accelerating U.S. Business Development, please refer to "Messages from the Executives Responsible for the Four Strategic Priorities" on page 26.

Reforming Operational Productivity

We are steadily generating results by reducing cost of sales, but I believe that the key to achieving our objectives will be further working-style reforms.

Our objective is to reduce the total of cost of sales and SG&A expenses by ¥20.0 billion by fiscal 2020 (in comparison with fiscal 2015). In fiscal 2016, we achieved a reduction of ¥8.0 billion, and in fiscal 2017 we are forecasting that the amount of the reduction will reach ¥10.0 billion. We are making progress in line with our plan. In particular, we have steadily reduced the cost of sales, but I believe that the key to achieving our objectives will be further working-style reforms.

Currently, society is increasingly critical of long work hours, and there is a call for enhancing the quality of work without expanding the work hours. Accordingly, we must raise the productivity of each employee through working-style reforms.

We have implemented rigorous initiatives to increase productivity in plants, but I believe that there is still substantial room for improvement on a Companywide basis. First, we are establishing a range of measures so that employees, in the midst of their daily work activities, reevaluate work that has a low priority and work that will not lead to improvements in operational quality. For example, to reduce the volume of work at the head office, we have instituted a system under which employees leave the office at a fixed time each Friday. In addition, in the Sales and Marketing Division, we are taking steps to increase operational efficiency on the front lines by reducing across-the-board directions from the head office and delegating authority to branches. I have asked all employees to advance these types of initiatives while taking on the new tasks that we need to commence in order to achieve sustained growth.

In regard to specific initiatives for Reforming Operational Productivity, please refer to "Messages from the Executives Responsible for the Four Strategic Priorities" on page 27.

Opening Up the Future of Medicine

Moving forward, Mitsubishi Tanabe Pharma will strive to open up the future of medicine by transcending limits on our thoughts and our actions.

Under the current medium-term management plan, our key concept is to open up the future of "medicine" rather than "pharmaceuticals." The reason we chose this key concept is that we are not simply providing a product in the form of pharmaceuticals. Rather, we are contributing to medicine, including through the provision of information related to appropriate usage, efficacy, and safety, and we want all officers and employees to be aware of this point of view.

In addition, I believe that pharmaceutical companies will not be able to survive in the future if they limit themselves to the traditional concept of pharmaceuticals. Currently, we are focusing on the establishment of an R&D system for the acquisition of POC in the U.S. As one facet of those initiatives, we are creating regular opportunities for the exchange of opinions between researchers in Japan and employees in the U.S. who are MDs. On the medical front lines in the U.S., there are unmet medical needs that are entirely different from those in Japan. In addition, I have personally been surprised many times at the extremely diverse range of ways in which diseases are approached in the U.S. I think that the traditional "pharmaceutical" framework will never generate these types of concepts. I want our researchers to experience the medical front lines in the U.S. and to take on the challenge of drug discovery from the higher viewpoint of "contributing to medicine" rather than simply "discovering drugs."

From the standpoint of marketing, the role of MRs is currently undergoing significant change. One is the urgent need to address digital marketing using ICT in a setting marked by limited opportunities to meet face to face with doctors. In fiscal 2016, we took steps to increase the use of our information website for health care professionals, and the number of new members recorded a significant gain. In regard to the role of MRs, we believe that the priority will shift from the simple provision of pharmaceutical information to the provision of information that health care professionals cannot obtain from this type of website when they are treating patients.

Next, progress is being made in the government-led move to establish comprehensive community care systems, and in this environment the importance of area marketing is increasing. In fiscal 2016, we established a foundation for area marketing by assigning area marketing planners to each sales office. To realize comprehensive community care systems, in addition to collaboration among medical facilities, it will also be necessary to enhance collaboration among people involved with patients, such as doctors, pharmacists, and care managers. I believe that one important role of MRs will be to support that collaboration and see that patients can receive the best treatment. In other words, MRs will work to enhance access to medical treatment in each region.

In this way, in the diverse venues in which we implement our business activities, we need to transcend the previous limits on our thoughts and our actions. Transcending limits on our thoughts refers to accepting diverse ways of thinking without being restricted by previous values and experience, leading to better proposals and decisions. Transcending limits on our actions refers to taking action to generate more-significant results, including not only internal limits but also building relationships outside the Company, including with other industries. With everyone at Mitsubishi Tanabe Pharma transcending limits on our thoughts and our actions, we can open up the future of medicine.

Initiatives in ESG (Environment, Society, Governance)

It will be increasingly necessary to strive to increase corporate value and secure the understanding of stakeholders.

There has been an increasingly clear trend toward the consideration of non-financial elements, such as ESG (Environment, Society, Governance), in making decisions about investing in companies. The MCHC Group, of which Mitsubishi Tanabe Pharma is a member, believes that, through our business activities, we must address environmental and social issues and contribute to increases in people's health and the sustainability of society. Accordingly, the MCHC Group has established the *KAITEKI* concept and the MOS (Management of Sustainability) Indexes, which are *KAITEKI* indexes. The MOS Indexes are divided into three groups—sustainability indexes, for contributions to the sustainability of the natural environment; health indexes, for contributions to people's health; and comfort indexes, for contributions to people's comfort.

In independently formulating and disclosing quantitative indexes regarding non-financial elements, the MCHC Group is ahead of the times, and this is a source of pride for us. It will be increasingly necessary to strive to increase corporate value and secure the understanding of stakeholders through these types of initiatives. Mitsubishi Tanabe Pharma is aggressively moving forward with initiatives related to ESG, and we are disclosing the details of these initiatives in a variety of ways, including on pages 53 to 70 of this report and on our CSR website. Future issues will include achieving wide-ranging recognition of these initiatives among stakeholders.

Among the MOS Indexes, we play a central role in contributing through the health indexes. In regard to the health indexes, quantitative objectives have been set for the categories of "contribute to medical treatment," "contribute to improvements of QOL," and "contribute to early detection and prevention of disease." In fiscal 2016, we made steady progress in regard to these three quantitative objectives. Currently, elements related to product sales are a significant part of the basis for the calculation of these indexes, but moving forward I would like to see consideration given to incorporating the viewpoint of "contribute to medicine" into the indexes, such as initiatives related to medical accessibility, as discussed above.

To strengthen corporate governance, in June 2016 the Company established the Nomination Committee and the Compensation Committee as voluntary advisory committees under the Board of Directors. This step was taken to further enhance corporate governance by strengthening the independence, objectivity, and accountability of the functions of the Board of Directors with respect to the nomination and compensation of its executives. Each of these committees is chaired by an independent outside director and has independent officers as a majority of its members. Also, to enhance the effectiveness of the Board of Directors and increase corporate value, since fiscal 2015 we conduct evaluations of the effectiveness of the Board of Directors. In consideration of the results, we increased the number of outside directors by one director in June 2017. Furthermore, we introduced a performance-linked stock compensation plan that has both a high degree of linkage with the performance of the Company and high levels of

transparency and objectivity. The objective of the plan is to clarify the linkage between the compensation for directors and officers and the performance of the Group, and to share with the Company's shareholders not only the benefits of increases in the Company's stock price but also the risks associated with decreases, thereby boosting the motivation and morale of the directors for the sustainable growth of the Group and the expansion of corporate value over the medium- to long-term.

Future issues regarding the administration of meetings of the Board of Directors will include strengthening the function of monitoring our progress with business strategies, including the medium-term management plan. Another issue will be bolstering the function of rationally evaluating the suitability of such matters as large-scale investment projects that require rapid decisions. We are now conducting deliberations in regard to these issues.

WEB For further information about *KAITEKI* and the MOS Indexes, please see the MCHC website.
http://www.mitsubishichem-hd.co.jp/english/kaiteki_management/
http://www.mitsubishichem-hd.co.jp/english/sustainability/mos/

Shareholder Return

Under the current medium-term management plan, we will work to enhance shareholder return, with a basic aim of a dividend payout ratio of 50%. In addition, in fiscal 2017 the Company will mark the 10th anniversary of its founding, and we plan to implement a commemorative dividend.

Our basic policy calls for providing a stable and continuous return to shareholders while striving to increase enterprise value by aggressively implementing strategic investment and R&D investment to achieve sustained growth.

Under the current medium-term management plan, we will work to enhance shareholder return, with a basic aim of a dividend payout ratio of 50%. In fiscal 2016, the Company achieved an increase in operating profit and set a new record high for profit attributable to owners of the Company. Consequently, in accordance with the basic policy on shareholder return, the Company set annual dividends at ¥52.0 per share, an increase of ¥6.0 per share. The dividend payout ratio was 40.9%, compared with 43.5% in the previous fiscal year.

In fiscal 2017, we are planning ordinary dividends of ¥56.0 per share, and to commemorate the 10th anniversary of the Company's founding on October 1, 2017, we plan to implement a commemorative dividend of ¥10.0 per share at the time of the interim dividend. Consequently, for fiscal 2017 we are planning annual dividends of ¥66.0 per share, and forecasting a consolidated dividend payout ratio of 51.8%.

Forecasts for Fiscal 2017 (Announced on May 10, 2017)

	Fiscal 2017 (forecasts)	Fiscal 2016	% Change
Revenue	¥441.0 billion	¥423.9 billion	+ 4.0%
Core operating profit	¥90.0 billion	¥94.5 billion	– 4.8%
Profit attributable to owners of the Company	¥71.5 billion	¥71.2 billion	+ 0.3%

Looking back at the Company's progress to date, under Medium-Term Management Plan 08–10 we set an objective of sales of ¥50.0 billion for Remicade, which was our growth driver in the initial period after the Company's founding. However, we were able to grow Remicade to the point where sales surpassed ¥60.0 billion in the final fiscal year of the plan. Next, under Medium-Term Management Plan 11–15, we launched a number of new products that became our new growth drivers in Japan. Overseas, two products—Gilenya and Invokana—became major drugs, and the resulting royalty revenue became a pillar of our earnings. Under the current medium-term management plan, we have launched Radicava in the U.S., and we have made significant progress toward opening up doors for Accelerating U.S. Business Development, which is positioned as the next pillar of our earnings.

In this regard, I think that it is clear that Mitsubishi Tanabe Pharma is a company that can take on the challenge of change to achieve results. Moving forward, we will continue this progress and strive to transcend limits on our thoughts and our actions. In this way, we will continue to be a company that can take on the challenge of change to achieve results. I would like to ask our shareholders and investors for their support of Mitsubishi Tanabe Pharma in the years ahead.

September 2017

Masayuki Mitsuka
President & Representative Director

Focus

Establishment of the Future Design Department

I believe that the driving force behind the creation of the future will be the challenge and innovation of individuals.

Takashi Kobayashi
Representative Director, Senior Managing Executive Officer

Taking the Lead in Challenge and Innovation

Looking at the history of Mitsubishi Tanabe Pharma, which extends back more than 300 years, it is clear that when we reached turning points marking significant changes in the times, we responded by boldly taking on the challenge of changing ourselves. This is the reason why we have been able to remain in business for so many years.

Moving forward, I believe that the Company cannot survive without challenge and innovation. Looking ahead 10 years, 20 years, or even further into the future, we asked ourselves what challenges we need to take on, and what innovation we should pursue. As a result, in April 2017 we established the Future Design Department as the Company's core unit for moving ideas to implementation. The department will take the lead in challenge and innovation.

Drawing On In-House Assets and External Collaboration to Create New Value

New technologies such as AI[1] and IoT[2] are rapidly changing all types of businesses, and the phrase fourth industrial revolution has become widely used. The Future Design Department will leverage collaboration with external resources and take steps to link these technologies with the Company's assets. In this way, the department will advance initiatives to create new value. The term "assets" includes not only tangible assets but also intangible assets, such as human resources, networks, know-how, and the trust of medical institutions.

For example, the Company has prepared a large number of clinical trial protocols. By combining the data and know-how that we accumulated in this way with the AI technologies of other companies, we are working to build a support system for the preparation of clinical trial protocols. In addition, we are combining the assets that we have acquired in business processes—such as drug discovery, IKUYAKU and marketing, and production—with AI technologies, and we are moving ahead with tests that link these combinations to new business creation and to business process innovation. In addition, we have started initiatives in the field of digital health[3], including the use of medical treatment data. Furthermore, we are working with a variety of themes. These include leveraging collaboration with external partners to make effective use of assets that have not yet been fully utilized.

Moreover, in July 2017 we introduced an in-house venture system called the Future Design Laboratory. Within the Company, we are implementing wide-ranging measures to recruit proposals for the types of new businesses that cannot be created simply by continuing traditional approaches.

1. Abbreviation for artificial intelligence
2. Abbreviation for Internet of Things
3. Industry that makes use of IT and digital data for technical innovation in the fields of medicine, health, and nursing care

Creating the Future through the Challenge and Innovation of Individual Employees

I believe that the driving force behind the creation of the future will be the challenge and innovation of individuals. To that end, it is important that we have as many people as possible with a strong future orientation. We need employees who are eager to take on the task of creating the future for Mitsubishi Tanabe Pharma.

Members of the Future Design Department have experience working in a variety of departments, and they are enthusiastic about taking on the challenge of innovation while sharing their wide-ranging experience and networks. Through the activities of the Future Design Department, we will develop human resources who personally change their environment rather than simply adapting to it. We expect that atmosphere and culture to spread throughout the entire Company.

Messages from the Executives Responsible for **the Four Strategic Priorities**

In the new medium-term management plan, the Group has identified four strategic priorities to open up the future of medicine—Maximizing Pipeline Value, Strengthening IKUYAKU and Marketing, Accelerating U.S. Business Development, and Reforming Operational Productivity. We also established the numerical objectives shown on the right. In this section, the executives who are leading the drive to take on these strategic priorities provide messages about the progress of initiatives and future issues.

Strategic priority 1 Maximizing Pipeline Value

Late-stage drug candidate objective

10 candidates
(including in-licensed candidates)

R&D investment

¥400.0 billion

Strategic priority 2 Strengthening IKUYAKU and Marketing

Domestic revenue objective

¥300.0 billion (fiscal 2020)

New drugs and priority products revenue ratio

75%

Priority disease areas: Autoimmune | Diabetes and kidney | Central nervous system | Vaccines

Strategic priority 3 Accelerating U.S. Business Development

U.S. revenue objective

¥80.0 billion (fiscal 2020)

U.S. strategic investment

More than ¥200.0 billion

Strategic priority 4 Reforming Operational Productivity

Cost of sales / SG&A expense reduction objective

¥20.0 billion
(fiscal 2020; compared to fiscal 2015)

Number of employees

Consolidated domestic workforce
5,000 employees
(As of the end of September 2015: 6,176 employees)

Strategic priority 1

Maximizing Pipeline Value

Open Up the Future of Pharmaceuticals

As we move forward, the true value of the Sohyaku. Innovative Research Division will be tested.

Hiroaki Ueno
Executive Officer, Division Manager of Sohyaku. Innovative Research Division

Acquiring POC as Rapidly As Possible

The "Sohyaku. Innovative Research Division (SIRD)" has been established through a reorganization of this company in October 2015. The principal mission of SIRD is to facilitate the acquisition of POC as rapidly as possible. Before the reorganization, the responsibilities of "drug discovery research" and "clinical development to obtain POC" were divided into the two organizations, "Research division" and "Development division," respectively, and this separation sometime caused delay of development.

Under this situation, the SIRD were started to conduct the task for drug discovery and clinical development in "one organization" in order to obtain POC as rapidly as possible. Moreover, we implemented a reorganization again in April 2017 in order to establish an advanced system for the acquisition of POC on a global basis. We are advancing initiatives to facilitate the input of viewpoints based on the global medical front lines from the early stage of discovery research. For example, we invited a medical doctor of Mitsubishi Tanabe Development America (MTDA) to stay in Japan in order to create opportunities for direct communication between the doctors and the scientists in the research center in Yokohama and Toda, regularly and frequently. Based on actions like this, I believe that we have been able to make significant progress from the standpoint of building bridges between the doctors and research scientists.

Taking On the Challenge of Overseas POC Acquisition

In the fiscal year of 2016, only one project advanced into late-stage of clinical development, but our plans call for five projects in 2017. In this way, we are making favorable progress towards numerous objectives. However, the most of these projects are in-licensed products and we should show the real contribution of the SIRD from now on.

In fiscal 2017, we plan to commence POC trials for two candidates, namely, MT-8554 and MT-7117, which were originally discovered in our research center. Clinical developments of these compounds are now conducting in the U.S. and Europe to acquire POC prior to in Japan. In addition, these compounds are first-in-class drugs and we anticipate a higher degree of difficulty in development. I believe that this will be a major challenge, so the global collaboration among MTDA, Mitsubishi Tanabe Pharma Europe, and Mitsubishi Tanabe Pharma should be strengthened much more to acquire POC as rapidly as possible.

Broadening the Horizons of Drug Discovery

We need to take on the challenge of drug discovery with broadened horizons in order to achieve sustained growth of our company in the future although the environment of drug discoveries based on small molecules is getting tougher. So, we are now working aggressively in the areas of nucleic acid drugs, mid-sized molecule drugs, and cell-mediated therapy.

As another important challenge, we are also working on the "designed pharmaceuticals" which definition is a pharmaceutical consisting of an existing drug substance and devices in order to increase effectiveness of original drug. In this challenge, we are collaborating with Mitsubishi Chemical Holdings for advancing a variety of initiatives targeting commercialization.

We have established the Global Open Innovation (GOI) division in the U.S. to acquire innovative research seeds and advanced technologies for drug discovery from academic institutions and venture companies worldwide. We are stationing young scientists at GOI from our research centers in Japan and these activities are also leading to educating society. In this way, we expect to deepen the potential of new open innovation, to broaden the horizons of our researchers, and to leverage this information in discovery research.

Strategic Priority 2

Strengthening IKUYAKU and Marketing

Open Up the Future for Patients

Moving forward, we will work to foster cooperation among units and to maximize product value.

Seiichi Murakami
Board Director, Managing Executive Officer,
Division Manager of Ikuyaku. Integrated Value Development Division

Aiming to Maximize Product Value

In Strengthening IKUYAKU and Marketing, we have set numerical objectives of domestic revenue of ¥300.0 billion and a new drugs and priority products revenue ratio of 75%. To achieve those objectives, the role of sales & marketing is to maximize product unit sales, while the role of IKUYAKU is to maximize product value. Accordingly, the "Ikuyaku. Integrated Value Development Division" is implementing initiatives in such areas as development that incorporates consideration for post-marketing activities, clarification of product profile, and additional indications.

In consideration of the newly published results of the CANVAS* trials, we plan to run the clinical research programs that can demonstrate the profile of Canagliflozin. In addition, MT-2412 (product name: Canalia Combination Tablets) was approved in July 2017.

* CANVAS (Canagliflozin Cardiovascular Assessment Study): Large-scale clinical trials with approximately 10,000 participants to assess the safety of an SGLT2 inhibitor with regard to the cardiovascular system and kidneys, implemented by Janssen Pharmaceuticals, Inc., of the U.S.

Collaboration Among Departments

There are limits to what a single department can do to maximize product value. There are also differences in the type of collaboration that is needed based on the product characteristics and stage. I believe that the role of the Ikuyaku. Integrated Value Development Division is to collaborate with other divisions and increase product value in a timely, appropriate manner. Under the reorganization implemented in April 2017, most of the unit in charge of implementation of clinical studies was transferred from the Sohyaku. Innovative Research Division to the Ikuyaku. Integrated Value Development Division. Consequently, the new organization can work to explore the measures to maximize product value from an early stage. Moving forward, we will aim for an organization that can leverage synergy effects based on the establishment of a collaborative system for development, medical affairs, and pharmacovigilance, etc.

Reforming Awareness Within the Division

The Ikuyaku. Integrated Value Development Division is a new unit that is less than two years old. The members of the division are always aware of moving ahead with the maximization of product value and are working to foster cooperation among the units in the division. We are still in a process of trial and error in regard to the promotion of collaborative initiatives, but I believe that we will be able to resolve this issue shortly. I think that the division should aim to foster discussions among all members, establish a system that encourages cooperation, and accumulate experiences, thereby leading them to work good and work effective and ensuring that the direction of the division is aligned with the objectives of individual members. The Company must address the dramatic change in Japan and overseas, and accordingly we need to continually enhance our strength. In this setting, we will leverage the spirit of competition so that the Ikuyaku. Integrated Value Development Division can properly implement the tasks it has been assigned.

We will work with a sense of speed and respond flexibly to changes in the market environment.

Yoshiaki Ishizaki
Board Director, Managing Executive Officer,
Division Manager of Sales & Marketing Division

Growing Faster than the Market

In fiscal 2016, conditions in the domestic ethical drugs market became increasingly challenging, including the implementation of an NHI drug price revision. In this setting, we were able to steadily realize results in our priority disease areas and achieve growth that surpassed the market.

In the field of autoimmune diseases, we maintained a No. 1 share in biologics with Remicade and Simponi, and in the field of diabetes and kidney diseases, Tenelia recorded the highest growth rate in the DPP-4 inhibitors market. In central nervous system diseases, Lexapro had the No. 1 share among SSRIs, and the Company secured the No. 1. share in vaccines among sales companies. Consequently, the new drugs and priority products revenue ratio was 62%, and we made smooth progress toward the achievement of our numerical objectives.

In fiscal 2017, in diabetes and kidney diseases, we will focus on building a framework for expanding revenue and securing the No. 1 presence (evaluations from doctors). For those initiatives, we have three assets. The first is Tenelia, which recorded substantial gains in fiscal 2016. Tenelia is well regarded for its ease of use for patients with kidney dysfunction and senior citizens, and we anticipate continued solid growth. The second asset is the results of the CANVAS trials, which were announced in June 2017. We expect these results to lead to expanded sales of Canaglu. The third asset is Canalia Combination Tablets, which were approved in July 2017. This product is Japan's first combination drug that includes a DPP-4 inhibitor and an SGLT2 inhibitor, and there are high expectations for Canalia Combination Tablets on the medical front lines.

Steadily Implementing Initiatives for Key Challenges

The key challenges of the Sales & Marketing Division are strengthening digital marketing, reforming MR activities through the utilization of digital marketing, and implementing full-scale operation of training plans to succeed against competitors.

In fiscal 2016, we moved forward with the establishment of systems for each of these key challenges. In strengthening area marketing, we assigned area marketing planners to all 116 sales offices. In the future, we will leverage the organizational system established to date, identify the distinctive characteristics of each area, and formulate marketing strategies that match each area.

Next, in reforming MR activities through the utilization of digital marketing, we settled our overall plan for digital marketing and started information provision activities combining digital and real elements. The MRs will provide information through the optimal channel in line with the characteristics of health care professionals. In this way, we are aiming to increase MR efficiency (qualitative and quantitative increases).

In implementing full-scale operation of training plans to succeed against competitors, we established a training system to strengthen our specialist capabilities, leadership, and basic strengths. In fiscal 2017, we started full-scale operation of a new training system to develop human resources who can succeed in the competition against other companies. Moving forward, we will work to enhance the knowledge, skills, and attitudes of our MRs.

The domestic market environment is undergoing dramatic change, and to respond flexibly to that change we will implement initiatives with a sense of speed. I believe that the key to achieving our objectives will be to further emphasize the customer's viewpoint in our thinking and to move rapidly while staying one step ahead of the competition.

Strategic Priority 3

Accelerating U.S. Business Development

Open Up the Future through U.S. Business

I think that the path toward the achievement of our objectives has taken shape.

Eiji Tanaka
Executive Officer, General Manager of U.S. Operations,
General Manager of Global Business Development
President of Mitsubishi Tanabe Pharma Holdings America, Inc.

Aiming to Achieve Our Goals in Three Steps

We anticipate three steps toward the achievement of our objective of U.S. revenue of ¥80.0 billion in fiscal 2020.

The first step is the achievement of in-house sales of Radicava. We filed the application in fiscal 2016, and we acquired approval from the U.S. FDA in May 2017. In August, we commenced in-house sales. Now, we will work to deliver Radicava to as many patients as possible.

The second step is acquiring products and development candidates from external partners and expanding our operations in order to strengthen our product lineup in the U.S. To that end, we plan to implement strategic investment of more than ¥200.0 billion. We did not make concrete progress in fiscal 2016, but in July 2017 we reached agreement with NeuroDerm Ltd., a pharmaceutical company based in Israel, about the start of procedures for the acquisition of that company. As a result, I believe that we have built a foundation in the U.S. for a lineup of products for neurological diseases, which will follow Radicava. Moving forward, we will focus on supporting progress, in accordance with plans, for NeuroDerm Ltd.'s clinical trials for development candidates.

The third step will be adding our in-house development candidates to our product lineup, centered on neurological and autoimmune diseases. In fiscal 2016, a number of candidates discovered in-house entered early-stage development. Moreover, in fiscal 2017, we are planning late-stage clinical trials for MT-1303 and a plant-based VLP vaccine. In this way, we are enhancing our pipeline in the U.S. market. To launch these products without delay, I think that we will need not only the ability to execute clinical development but also the marketing capabilities that will enable us to understand the characteristics of each product, identify trends in the U.S. market, and make business forecasts.

Sustained Expansion in U.S. Business

I believe that "change" has to be visible from the outside. Clearly, our first and second steps—the launch of Radicava and the start of procedures for the acquisition of NeuroDerm Ltd.—are changes that are visible from the outside. As a result, I think that the path toward the achievement of our fiscal 2020 objectives has taken shape.

However, this is not the ultimate goal. We must generate further change so that we can link this progress to continued expansion of our U.S. business and sustained growth for the Mitsubishi Tanabe Pharma Group,. One such change will be the acquisition of promising compounds from outside the Group. Currently, even on a global basis, there are fewer opportunities to in-license late-stage drug candidates or products. In this setting, to take the lead over other companies, I believe it will always be necessary to explore a wide range of business opportunities. First, we will visit potential partners and work to obtain firsthand information. This will enable us to rapidly and accurately ascertain the value of collaboration partners as well as to closely analyze their business strategies. On that basis, we will propose forms of collaboration for which both sides are in agreement, and we will link that collaboration to the acquisition of compounds.

Strategic Priority 4

Reforming Operational Productivity

Opening Up a Certain Future

We will aim to transition to a cost structure that is appropriate for our domestic business performance.

Eizo Tabaru
Board Director, Managing Executive Officer

Implementing Initiatives that Go One Step Further

In reforming operational productivity, we have set the numerical objective of reducing cost of sales by ¥8.0 billion and SG&A expenses by ¥12.0 billion, for a total of ¥20.0 billion in cost reductions by fiscal 2020 (in comparison with fiscal 2015). In fiscal 2016, the initial year of the current plan, we achieved an improvement of ¥8.0 billion, compared with the target for the year of ¥6.0 billion. However, this included a significant reduction in labor costs resulting from subscription for an early retirement program. Moving forward, over the remaining four years of the current plan, we will need to achieve further reductions of approximately ¥12.0 billion, in addition to the progress that we made in the initial year. In other words, we will need to achieve an average annual improvement in costs of approximately ¥3.0 billion per year. This is not an objective that will be easy to achieve. The current plan's objective was established after the achievement of ¥9.0 billion in cost improvements under the Structural Reform Project, which ran through fiscal 2015. Accordingly, it will be difficult to achieve the current plan's objective if we only utilize traditional approaches. I believe that we will need to implement initiatives that go one step further.

A Source of Sustained Growth

For the Company to generate sustained growth, we will need to achieve results in two areas—recording growth in overseas business and maintaining revenues in domestic business. Our efforts to reform operational productivity will support results in these two areas and will serve as one of the sources of sustained growth for the Company.

In overseas business, the major theme will be the launch of business in the U.S., with the start of sales of Radicava as the first step. Our plan for growth calls for the expansion of business through strategic investment in NeuroDerm Ltd., which we will acquire in accordance with an agreement reached in July 2017. An increase: our capacity for investment generated by reforming operational productivity will lead to investment in the next stage of growth.

On the other hand, in domestic business we face adverse factors in the revision of NHI drug prices and the promotion of the use of generics. Based on the 2016 internal government discussions regarding NHI drug prices, as well as the subsequent direction of those discussions, I think that we need to reevaluate the assumptions that have been incorporated into our current plan. In addition, in fiscal 2017 the plan calls for an increase in R&D investment as well as higher expenses for future growth, such as system investment. Cost improvement will be an urgent issue in regard to maintaining earnings from our domestic business.

Previously, we relied on a business model under which declines in profitability in domestic business were covered by higher sales of priority products and growth in royalty revenues. However, there are only about two years left until Gilenya goes off patent in the U.S. As soon as possible, we must transform to a cost structure that is appropriate for our domestic business. It is clear that if we postpone these changes, then the shifting of the burden will make future measures even more difficult. I would like the entire Company to share this fundamental awareness, face these issues with spirit and courage, and take on the challenge of change. It is my mission to clarify the direction of those initiatives.

Special Feature

Radicava—Opening Up Doors in U.S. Business Development

In May 2017, Radicava was approved in the U.S. as a treatment agent for ALS. This approval represents significant progress for the Company in "Accelerating U.S. Business Development," which is one of our four strategic priorities under Medium-Term Management Plan 16–20. By providing this innovative new drug to as many patients as possible, we will open up the future for patients as well as for Mitsubishi Tanabe Pharma.









Highly Anticipated New Drug

Amyotrophic lateral sclerosis (ALS) is an idiopathic neurodegenerative disease in which motor neurons degenerate and die. Muscle strength declines, including the extremities, respiration, articulation and swallowing; and muscular atrophy occurs. Disease progression is rapid. Respiratory muscle paralysis develops within two to five years after the onset of symptoms, leading to death. In the U.S., there are said to be approximately 20,000 patients, and about 5,000 to 6,000 patients are diagnosed with ALS each year.

However, until now there has been only one ALS treatment agent available, and that product was launched about 20 years ago. For patients, treatment options have been extremely limited. Accordingly, a new treatment agent has been highly anticipated.

Radicut Is Approved for ALS in Japan

Radicava (generic name: edaravone) is a free radical scavenger discovered by the Company. In Japan, it was launched in 2001 under the product name Radicut as a treatment agent for ischemic stroke. Subsequently, damage from oxidative stress caused by free radicals was raised as one cause of the onset and progress of ALS. Accordingly, in 2001 we started clinical trials in Japan for an additional indication of ALS.

Previously, clinical trials for drugs with different mechanisms of action had been conducted, but none of them were able to clearly demonstrate efficacy. The pattern and speed of ALS progression differ significantly from patient to patient, and this is one reason why clinical trials for ALS are difficult. To overcome that difficulty, we selected an appropriate patient group for which it was expected possible to clearly judge the efficacy of the drug. Using this method, we made progress with the clinical development of Radicut in Japan. In the first phase 3 clinical trials, we were unable to show a statistical difference from placebo. However, with additional analysis we were able to clearly see the drug's efficacy in a group of patients who had comparatively retained functionality of the body and respiration but who also had an ALS diagnosis with a high degree of certainty. In the next phase 3 clinical trials, with a group of these type of patients, the comparison of the Radicut group with the group that was administered placebo for six months showed that the progression of disability in activities of daily living was reduced by approximately 33% based on the ALS Functional Rating Scale-Revised (ALSFRS-R). Based on this data, Radicut was approved in Japan for an additional indication of ALS in 2015.

Aiming to Obtain Approval in the U.S.

Following approval of Radicut for ALS in Japan, ALS patient groups and others began asking the U.S. FDA for rapid approval in the U.S. In addition, the FDA also realized the importance of this drug, and accordingly agreed that the New Drug Application (NDA) would be submitted with the clinical data from Japan without requiring additional U.S. clinical trial data.

The Company filed the NDA for Radicava (development code: MCI-186) in June 2016 for the indication of ALS. Subsequently, the entire Company worked together to support the approval while conducting multiple dialogue with the FDA. As a result, we were able to obtain the approval in May 2017, more than one month earlier than the expected approval date. Radicava drew considerable attention and extensive media coverage as the first approval of an ALS treatment agent in approximately 20 years.

Establishing an In-House Sales System in the U.S.

Targeting the establishment of a business foundation in the U.S., Mitsubishi Tanabe Pharma reorganized Group companies in the U.S. in 2014. Under the new system, Mitsubishi Tanabe Pharma Holdings America, a holding company in the U.S., was given overall responsibility for U.S. operations and for overseeing other Group companies in the U.S. In addition, with consideration for in-house sales of Radicava in the

Everyone Working Together to Obtain Approval

For the Radicava New Drug Application, we used data from the Radicut clinical platform, which had been approved in Japan. We translated a large amount of research data and reports extending back 30 years, and this information was submitted to the FDA. However, the past data included items that were not in conformance with current development guidelines. In addition, the clinical development of Radicut was centered in Japan, and as a result the circumstances were different from typical clinical development in the U.S. We proceeded accordingly with explanations outlining the scientific rationale why this data met the conditions for approval. This required a substantial amount of work by members of teams extending from Japan to the U.S., as well as continuous work to overcome linguistic and cultural barriers.

I would like to once again express our appreciation for the team members who supported the approval of Radicava with high levels of motivation and enthusiasm, the key opinion leaders who provided extensive advice, the regulatory authorities who conducted the review from a practical viewpoint, and, most of all, the patients who participated in the clinical trials.

Hideki Kuki
President,
Mitsubishi Tanabe Pharma Development America, Inc.

U.S., in 2016 we established Mitsubishi Tanabe Pharma America, Inc. (MTPA), a pharmaceutical sales company, and we moved ahead with preparations for the start of sales. In that regard, we identified approximately 300 ALS specialists and approximately 130 ALS institutions as our highest priorities for sales. We decided to implement sales promotion activities focused on these doctors and medical institutions during the initial sales period.

Radicava is the first product to be sold through the Company's in-house sales system in the U.S. There are approximately 150 people on the Radicava team, which includes all of the employees at MTPA. To deliver this innovative drug, which has been eagerly awaited by many patients, the team has been working enthusiastically since sales started in August 2017.

U.S. Organizational System

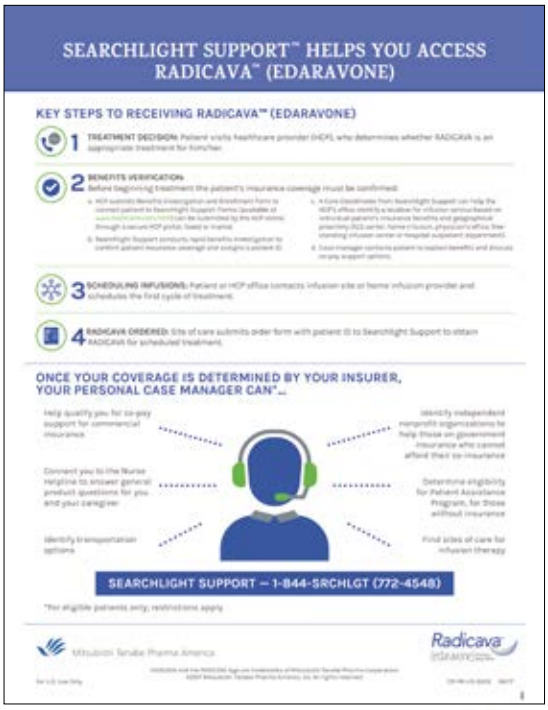
Company with overall responsibility for U.S. operations	Mitsubishi Tanabe Pharma Holdings America
Pharmaceutical research company	Tanabe Research Laboratories U.S.A.
Pharmaceutical development company	Mitsubishi Tanabe Pharma Development America
Bio-venture investment company	MP Healthcare Venture Management
Pharmaceutical sales company	Mitsubishi Tanabe Pharma America

Providing Radicava to as Many Patients as Possible

At MTPA, our goal is to help large numbers of patients. There are many patients who face difficulties in obtaining treatment with Radicava due to economic or physical limitations. The U.S. has a complicated insurance system that is different from the system in Japan. Public insurance (Medicare, Medicaid) and private insurance have different payment conditions. We are working to understand the situation for each type of insurance and to propose a variety of measures so that all patients can benefit from Radicava to the greatest extent possible.

As one part of those initiatives, prior to the launch of Radicava, MTPA established the Searchlight Support service and set up a portal website providing detailed support for patients. This includes answering questions from patients about insurance, offering a support program for patients with household income below a certain level, and providing information, such as introductions to institutions that can administer Radicava.

With the launch of Radicava, Mitsubishi Tanabe Pharma has opened a path toward contributing to medicine in the U.S. Moving forward, Mitsubishi Tanabe Pharma will continue to take on challenges so that we can provide Radicava to as many patients as possible.


SEARCHLIGHT SUPPORT™ HELPS YOU ACCESS RADICAVA™ (EDARAVONE)

KEY STEPS TO RECEIVING RADICAVA™ (EDARAVONE)

1 TREATMENT DECISION:

2 BENEFITS VERIFICATION:

3 SCHEDULING INFUSIONS:

4 RADICAVA ORDERED:

ONCE YOUR COVERAGE IS DETERMINED BY YOUR INSURER, YOUR PERSONAL CASE MANAGER CAN*...

SEARCHLIGHT SUPPORT – 1-844-SRCHLGT (772-4548)

Radicava

Searchlight Support Fact Sheet for patients

SEARCHLIGHT™ SUPPORT

Drug Discovery

This section explains our initiatives in the area of business processes leading to product launch, from clinical research and basic research to the identification of candidate compounds (discovery seeds) that will become pharmaceuticals and the demonstration of superior medical value through the conduct of a variety of pre-clinical trials and clinical trials.



Basic Policies

The Company strives to continually discover new drugs that address unmet medical needs around the world. Under Medium-Term Management Plan 16–20, we identified four strategic priorities to open up the future. One of those priorities is "Maximizing Pipeline Value." We have established the objective of discovering 10 late-stage drug candidates (including in-licensed candidates) during the period covered by the plan.

The Company's four priority disease areas are autoimmune diseases, diabetes and kidney diseases, central nervous system diseases, and vaccines. Centered on these areas, we are aiming to be a "pharmaceutical company that works with a sense of speed and is the first to deliver original value." On that basis, we are focusing on the discovery of pharmaceuticals. In addition, we will expand discovery resources by aggressively leveraging open shared business through the in-licensing of discovery seeds and the implementation of collaboration with other companies. We will also utilize the optimal discovery and development methods for each candidate, thereby shortening the period required until acquisition of POC.

For further information about the development status of 10 late-stage drug candidates, please see "Status of New Product Development." P36

Establishing Priority Disease Areas

Mitsubishi Tanabe Pharma is striving to implement effective, efficient R&D activities by focusing the allocation of management resources on four priority disease areas. In these priority disease areas, there are high expectations for the use of pharmaceuticals in treatment and the markets have growth potential. In addition, the sales results of existing products have enabled the Company to build a strong market foundation in these areas. Leveraging the know-how that we have accumulated in R&D and sales activities, we will rapidly launch drug candidates and achieve quick market uptake after launch.

R&D Process Reforms

We are accelerating the reform of the R&D process to increase the speed of R&D and to double the number of projects. In 2015, we established the "Sohyaku. Innovative Research Division" and reorganized the structure into a seamless system under which the Sohyaku. Innovative Research Division handles everything from basic research and the search for discovery seeds up to the acquisition of POC. This new system facilitates the fastest acquisition of POC. Subsequently, to thoroughly reevaluate the way projects are advanced, we established the Sohyaku Project Planning & Management Department, which succeeded and was developed from the Project Facilitation

Department in the Sohyaku. Innovative Research Division. The objective of these initiatives is to increase R&D speed and deepen the consideration of planned indications. In addition, we strengthened the Translational Research Department, which is working to strengthen the "crossing the bridge" function from pre-clinical trials to clinical trials. In addition, in April 2017 most of the employees of the unit in charge of the implementation of clinical studies in Japan were transferred from the Sohyaku. Innovative Research Division to the Ikuyaku. Integrated Value Development Division. In this way, we have established a system under which the Sohyaku. Innovative Research Division specializes in early-stage development with integrated initiatives up to the acquisition of POC, working in cooperation with our pharmaceutical development subsidiary in the U.S. (Mitsubishi Tanabe Pharma Development America (MTDA)) and our pharmaceutical development subsidiary in Europe (Mitsubishi Tanabe Pharma Europe).

In addition, we will advance the utilization of open shared business. We will increase the total number of research projects by aggressively bringing diverse discovery seeds from external sources into our discovery research. Furthermore, targeting the more-rapid acquisition of POC, we will work to introduce discovery themes and discovery technologies. Also, following the acquisition of POC we will implement out-licensing in line with the characteristics of drug candidates. In these ways, we will strive to collaborate with the optimal partner for all of the drug discovery processes. In 2015, with the objective of bolstering the driving force behind alliance activities, overall responsibility for global business development was assigned to Mitsubishi Tanabe Pharma Holdings America, of the U.S. Moreover, we have established a three-part business development structure, with business development departments in the U.S., Europe, and Asia.

Joint Research

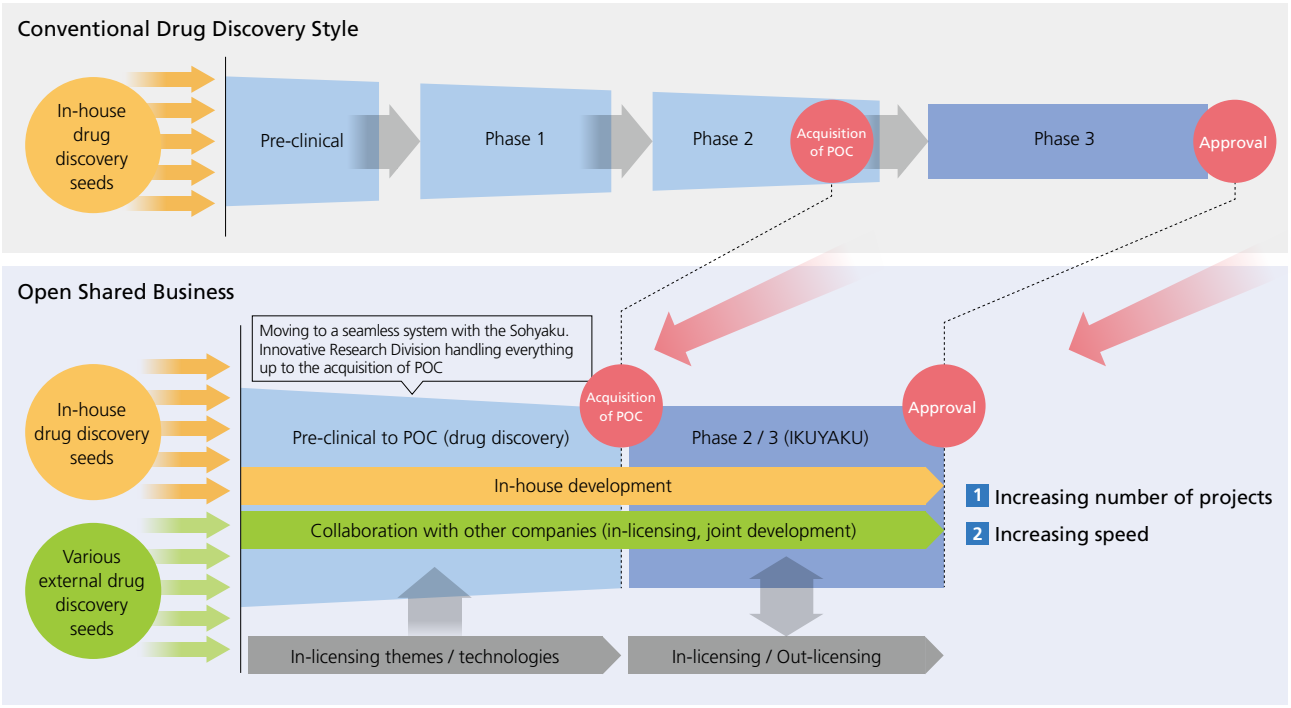
The difficulty of new drug discovery is increasing, and to expand discovery opportunities in this environment, we are not trying to do everything in-house. Rather, we are aggressively advancing open innovation to support the wide-ranging utilization of external resources through collaboration extending across industry, academia, and government. Our principal initiatives are as follows.

Searching for New Drug Discovery Target Molecules

Drug discovery target molecules that make a clear contribution to treating disease and are suitable for the drug discovery process are increasingly scarce. Accordingly, through joint research with clinical academic bases, we are aggressively searching for new drug discovery target molecules with a direct effect on the treatment of intractable diseases or diseases where the degree of satisfaction with treatments is not sufficient. Specific examples include basic and clinical research with Kyoto University directed at innovative treatment methods for chronic kidney disease; target exploration research through treatment / diagnosis data analysis with Hokkaido University and Johns Hopkins University, of the U.S.; and biological component advanced analysis research with samples from patients with autoimmune diseases at the Keio Research Park, School of Medicine, Keio University.

Strengthening the Foundation for Discovery Research and Development

We are implementing industry collaborative research programs with other pharmaceutical companies that leverage each company's individual strengths. For example, AstraZeneca plc and the Company are mutually utilizing research assets related to diabetic nephropathy, and Astellas Pharma Inc. and the Company are sharing their compound libraries. In these ways, we are working to strengthen our foundation in terms of know-how and other areas related to discovery technologies and R&D.



In addition, we are moving forward with steps to bring in diverse external discovery seeds and evaluation technologies. We are also aggressively participating in industry-academia-government collaboration through sharing of research resources. For example, we are providing our original compound library to the Drug-Discovery Innovation and Screening Consortium (DISC), an industry-academia collaborative project of the Japan Agency for Medical Research and Development (AMED), and to the University of Tokyo's Drug Discovery Initiative.

Securing a Global Drug Discovery Network and Innovative Drug Discovery Technologies

We have established the Global Open Innovation (GOI) division in the U.S., which draws innovative discovery seeds and advanced drug discovery technologies from around the world. At the GOI division, we are conducting scouting activities to strategically collect discovery seeds and innovative technologies that, combined with our drug discovery foundation, have the potential to be accepted globally.

In addition, Tanabe Research Laboratories U.S.A. (TRL), our drug discovery research base in North America, is carrying out discovery research with a focus on biologics, which have had a growing presence in pharmaceuticals markets in recent years. With a local system for rapid decision-making, these initiatives fully leverage the distinctive characteristics of the world-leading U.S. bioventure ecosystem. Currently, we are aggressively taking steps to form an open innovation hub that has a competitive edge and is accepted globally. These steps include joint research with Covagen AG, of Switzerland, regarding the discovery of bispecific antibodies using Covagen AG's proprietary Fynomer-antibody platform, an innovative drug discovery technology, as well as joint discovery research and clinical development preparations for antibody-drug conjugates (ADCs) that combine TRL's antibody discovery technology and a MedImmune LLC* anti-cancer agent (pyrrolobenzodiazepine).

* A subsidiary of AstraZeneca plc. Supports global biopharmaceutical research and development.

In-Licensing of Products and Technologies

To continually strengthen our pipeline, we are aggressively working to in-license products and technologies. Looking at in-licensing activities in fiscal 2016, in autoimmune diseases, a priority disease area, we acquired exclusive development and commercialization rights in Japan from Kolon Life Science, Inc., of South Korea, for Invossa, a cell therapy product. We plan to advance development for an indication of knee osteoarthritis, including evaluation of delaying the progression of cartilage damage. We are aiming to address unmet medical needs for patients with osteoarthritis through the use of Invossa together with MT-5547 (anti-NGF antibody, Fasinumab), which is currently under development.

Out-Licensing Drug Candidates

We are out-licensing drug candidates as one effective means of maximizing the value of drugs that we have discovered in-house. Through the out-licensing of drug candidates and collaboration with

The Power of Change

I would like to draw on the knowledge I gained in the U.S. in order to take on the challenge of new themes.

Yuriko Toriumi, Research Unit / Innovative Medical Science, Sohyaku. Innovative Research Division

The GOI division was established in the U.S. in 2015. I was sent from a laboratory in Japan to become the first member of the GOI division. In the U.S., I was involved in scouting activities. My role involved interviewing local universities and venture companies, introducing promising discovery seeds and innovative technologies to laboratories in Japan, and supporting joint research and in-licensing.

Previously, discovery research was primarily focused on small-molecule compounds, but in recent years the situation has undergone significant change. For example, there have been advances in the development of large-molecule and mid-sized molecule pharmaceuticals, and the realization of cell therapy is coming into view. However, in the U.S. I sensed that in the near future we are likely to see the arrival of drugs that transcend those concepts. In the U.S., drugs with entirely new platforms have started to appear, and I keenly realized that it will be necessary to clear away fixed concepts. Accordingly, I wanted the laboratories in Japan to take in as many things as possible, and I worked to aggressively introduce interesting possibilities.

It will require some time until the initiatives of the GOI division produce concrete results. However, the establishment of a unit with a strong awareness of external connections and of competitors represents significant progress in itself. I look forward to seeing this progress become a foundation supporting change at the Company.

In May 2017, I returned to a laboratory in Japan. Now, from the opposite viewpoint, I will strive to advance projects while working in collaboration with the U.S. Also, the group to which I am assigned has members who are highly capable in discovery research in a variety of forms. Accordingly, in the future I would like to draw on the knowledge I gained in the U.S. in order to take on the challenge of new themes.

other companies, we can further accelerate development.

We out-licensed FTY720 (indication: MS) to Novartis International AG, of Switzerland, and in 2010 it was launched in the U.S. under the name Gilenya. The royalty revenue from Gilenya have increased, reaching ¥53.7 billion in fiscal 2016. In addition, we out-licensed TA-7284 (indication: type 2 diabetes mellitus) to Janssen Pharmaceuticals, Inc., of the U.S. Under the brand name Invokana, TA-7284 was launched in 2013 by Janssen Pharmaceuticals, Inc., as the first SGLT2 inhibitor in the U.S. Royalty revenue from Invokana were ¥18.8 billion in fiscal 2016.

In fiscal 2016, there were no newly out-licensed drug candidates.

Expanding to the Drugs of the Future

Centered on our ability to discover drugs in-house, we will utilize new discovery technologies in such fields as next-generation therapeutic antibodies, protein pharmaceuticals, nucleic acid drugs, vaccines, and gas pharmaceuticals. In addition, we will extend our focus into new types of medicine and discovery fields, such as regenerative medicine and preemptive medicine. To that end, we will advance collaboration with companies in the Mitsubishi Chemical Holdings Group and utilize MP Healthcare Venture Management (MPH), of the U.S., a bio-venture investment subsidiary, as well as TRL. In addition, in 2015 we established the New Value Creation Office, which works to anticipate changes in the medical environment and find new business opportunities. In April 2017, we established the Future Design Department, which succeeded and was developed from the New Value Creation Office.

Establishment of Discovery Research Bases

When Mitsubishi Tanabe Pharma was established in 2007, the Company had five domestic discovery research bases. With the objective of increasing the efficiency and speed of discovery research activities, we subsequently made steady progress in the consolidation of functions. Currently, the research operations of the Sohyaku. Innovative Research Division have been consolidated into two bases—the Yokohama Office and the Toda Office. CMC research, which includes the manufacturing and formulation of pharmaceutical ingredients and the preparation for commercial production of new drugs, has been consolidated at the Kashima Office.

In regard to overseas research bases, TRL has the role of discovery research base focusing on biologics. In addition, Medicago Inc., of Canada, is a base for vaccine discovery research using innovative Virus-Like Particle (VLP). MPH, which handles the Group's corporate venture function in the research field, searches for companies to invest in, with a focus on development pipelines and technologies.

Enhancing Our Global Development System

We have established a project promotion system that advances global development for drug candidates with the same active ingredients, regardless of where development is being implemented. International drug development and review standards are being unified, and in this setting clinical trial data obtained outside of the country or region in which development is being conducted can now be used in application documents. Accordingly, we are working to manage projects by active ingredient, advance the utilization of clinical trial data that transcends national boundaries, and increase speed and efficiency in global development.

To be the first to deliver pharmaceuticals with original value to patients, it is important to accurately ascertain the potential of development candidate compounds and to be the first to acquire POC through clinical trials in the optimal country or region. To that end, in the U.S., which is the front lines for global medicine, we established MTDA, which has been designated the control center for global development. Medical specialists who are well versed in global medical needs, cooperating closely with the domestic control center for Japan / Asia development, will lead development planning and clinical testing operations. In this way, we have established a system for the fastest acquisition of POC that will be accepted in Japan and around the world. Currently, aiming for a global product to follow Radicava, we are aggressively advancing preparations for U.S. development for projects in the late research stage.

Consideration for Ethics in R&D Activities

Initiatives in Discovery Research

In discovery research using samples of human origin, it is essential to pay careful attention to ethical issues, such as a serious and careful approach to informed consent by the donors and the maintenance of their privacy. We have established ethics review committees, which include outside members and carefully examine the ethics and scientific validity of research plans.

For testing using animals, the Animal Experiment Committee strictly deliberates the necessity of tests and the validity of plans in accordance with international standards for animal testing. In addition, a third-party evaluation institution carries out inspection, evaluation, and certification to confirm the operation of a management system in accordance with laws, regulations, and guiding principles and the appropriate implementation of tests. In this way, we are working to show consideration for a higher level of ethics in animal tests.

Clinical Testing Initiatives

All of our clinical trials are conducted in strict compliance with the guidelines set by the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use / Good Clinical Practices (ICH-GCP) (standards for the implementation of clinical testing of pharmaceuticals). All participants give their voluntary informed consent. In addition, in clinical trials, to carefully ascertain ethical eligibility and scientific validity, advance discussions are conducted by the Clinical Trial Protocol Review Committee, which includes members from outside the Company and medical experts who are well-versed in clinical trial ethics.

WEB For further information about the ethical considerations in research, please refer to the Company's CSR website.

CSR Website
http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/index.html
CSR ACTIVITIES REPORT 2017 (PDF version)
http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/csr_pdf/index.html

Status of New Product Development

In fiscal 2016, we made the following progress with new drug candidates.

For information about additional indications for existing drugs in Japan, please see page 41. P41

Acquisition of Approval

TAU-284 (Japan product name: Talion)

Approval received in China for indications of pediatric allergic rhinitis and pediatric allergic dermatitis.

TA-7284 (Japan product name: Canaglu)

Received approval in Taiwan for an indication of type 2 diabetes mellitus.

Note: MCI-186 (Japan product name: Radicut) received approval in the U.S. in May 2017 for an indication of ALS. In addition, MT-2412 (Japan product name: Canalia Combination Tablets) received approval in Japan in July 2017 for an indication of type 2 diabetes mellitus.

Applications Filed

MCI-186 (Japan product name: Radicut)

Application submitted in the U.S. for an indication of ALS.

MT-2412

Application submitted in Japan for an indication of type 2 diabetes mellitus.

Clinical Trials Started

MT-6548

Started phase 2 clinical trials in Japan for an indication of renal anemia.

MT-2355

Started phase 3 clinical trials for an indication of prophylaxis of pertussis, diphtheria, tetanus, poliomyelitis, and Hib infection in infants jointly with The Research Foundation for Microbial Disease of Osaka University (BIKEN Foundation).

MP-513 (Japan product name: Tenelia)

Started phase 3 clinical trials in China for an indication of type 2 diabetes mellitus.

MT-3995

Started phase 2 clinical trials in Japan for an indication of non-alcoholic steatohepatitis (NASH).

Newly In-Licensed

Cell therapy product Invossa

Acquired exclusive development and commercialization rights in Japan from Kolon Life Science, Inc., of South Korea (expected indication: knee osteoarthritis).

Out-Licensed Products

Fixed-dose combination of TA-7284 (product name: Invokana) with metformin (extended release preparation)

Licensee Janssen Pharmaceuticals, Inc., of the U.S., received approval in the U.S. for an indication of type 2 diabetes mellitus.

Note: In April 2017, licensee Kyowa Hakko Kirin Co., Ltd., filed an application for an indication of secondary hyperparathyroidism on maintenance dialysis for MT-4580 in Japan.

Overview of 10 Candidates for Late-Stage Development

Under Medium-Term Management Plan 16–20 we have established the objective of discovering 10 late-stage drug candidates (including in-licensed compounds). The following provides an overview of those candidates.

Autoimmune Diseases

MT-1303

Like Imusera / Gilenya, MT-1303 is a sphingosine-1-phosphate (S1P) receptor functional antagonist. Based on the results of pre-clinical trials and clinical trials to date, it is expected to have milder cardiovascular system side effects than Imusera, and accordingly it is being developed not only for MS but also for inflammatory bowel disease and other autoimmune diseases. In January 2017, overseas licensee Biogen, Inc., of the U.S., halted development for strategic reasons, and the license agreement between the Company and Biogen, Inc., was terminated. However, the phase 2 clinical trials in Japan and Europe for an indication of Crohn's disease have been completed. The Company's policy will be to advance the development of MT-1303, either independently or with a new partner. Plans call for the start of late-stage trials for ulcerative colitis overseas in fiscal 2017.

MT-5547

MT-5547 is an NGF antibody licensed from Regeneron Pharmaceuticals, Inc., of the U.S. In phase 2 clinical trials conducted by Regeneron Pharmaceuticals, Inc., in the U.S. for osteoarthritis, rapid alleviation of moderate to severe pain was confirmed. Currently, phase 2/3 clinical trials are under way in the U.S. for osteoarthritis. The Company is advancing development in Japan for an indication of osteoarthritis, and plans call for the start of late-stage trials in fiscal 2017.

MT-7117

Plans call for clinical trials to start overseas in fiscal 2017 targeting the acquisition of POC for MT-7117 (expected indications: dermatologicals, etc.).

Diabetes and Kidney Diseases

MT-6548

MT-6548 is a hypoxia inducible factor prolyl hydroxylase (HIF-PH) inhibitor that was in-licensed from Akebia Therapeutics, Inc., of the U.S. In Japan, MT-6548 is under development as an oral treatment agent for anemia related to chronic kidney disease. Plans call for the start of late-stage trials in fiscal 2017.

MT-3995

MT-3995 is a selective mineralocorticoid receptor antagonist. It is expected that its use will reduce renal tissue damage and treat diabetic nephropathy. In pre-clinical studies, the anti-albuminuria effect was confirmed. In addition, because it has a nonsteroid structure, side effects related to sex hormones will be avoided.

Central Nervous System Diseases

MT-5199

MT-5199 is a vesicular monoamine transporter type 2 (VMAT2) inhibitor in-licensed from Neurocrine Biosciences, Inc., of the U.S. It has the action of normalizing dopamine nervous system functioning related to the occurrence of involuntary movement. The Company is advancing development in Japan for an indication of tardive dyskinesia, and plans call for the start of late-stage trials in fiscal 2017.

MT-8554

Plans call for the start of clinical trials for the acquisition of POC in fiscal 2017 for MT-8554 (nervous system, etc.) in Europe.

Vaccines

MT-2355

MT-2355 is a combined vaccine for five diseases that the Company is developing jointly with BIKEN Foundation. It was created by adding a Haemophilus influenza type b (Hib) vaccine in-licensed from Nuron Biotech Inc., of the U.S., to an existing combined vaccine for four diseases. The Hib vaccine is a liquid vaccine that includes avirulent mutated diptheria toxin to increase production of antibodies to Hib constituents. Since the second half of the 1980s, it has been used in more than 50 countries overseas.

Plant-based VLP vaccines

These vaccines use the plant-based VLP manufacturing technology of Medicago of Canada, a member of the Group. VLPs have the same external structure as viruses, so VLP vaccines are expected to offer a high level of immunization effectiveness. On the other hand, because they do not include virus genes, there is no virus replication in the body, and therefore this technology is drawing attention as a promising vaccine technology that offers superior safety. Plans call for the start of late-stage trials in the U.S. and Canada for an indication of prophylaxis of seasonal influenza.

MT-4129

MT-4129 (cardiovascular system, etc.) is in phase 1 trials in Europe.

10 Late-Stage Drug Candidates (as of May 10, 2017)

Late-stage drug candidates		Phase 1	Phase 2 / POC study	Late-stage study
Achievements in fiscal 2016		3 products	2 products	1 product
Plans in fiscal 2017		1 product	2 products	5 products
Autoimmune diseases	MT-1303	Japan: Inflammatory diseases, autoimmune diseases	Europe: MS, psoriasis, Crohn's disease Japan: Crohn's disease	
	MT-5547			
	MT-7117	Europe: Dermatologicals, etc.		
	New project in house			
Diabetes and kidney diseases	MT-6548		Japan: Renal anemia	
	MT-3995		Japan: NASH	
			Japan, Europe: Diabetic nephropathy	
Central nervous system diseases	MT-5199	Japan: Tardive dyskinesia		
	MT-8554	Europe: Nervous system, etc.		
Vaccines Other	MT-2355			Japan: Combined vaccine for four diseases + Hib
	Plant-based VLP vaccines		US, Canada: Seasonal influenza	
	MT-4129	Europe: Cardiovascular system, etc.		

Fiscal 2016 Achievements Fiscal 2017 Plans

IKUYAKU and Marketing

This section explains our initiatives in post-marketing business processes, such as sales promotion activities by the MRs and life-cycle management to increase product value.

Basic Policies

"Strengthening IKUYAKU (drug fostering and evolution) and Marketing" is one of the strategic priorities under Medium-Term Management Plan 16–20. With the objective of achieving annual domestic pharmaceutical revenue of ¥300.0 billion in fiscal 2020, we will work to increase the new drugs and priority products revenue ratio to 75%. To that end, we are strengthening initiatives to maximize product value as rapidly as possible, centered on our priority disease areas—autoimmune diseases, diabetes and kidney diseases, central nervous system diseases, and vaccines. In addition, to strengthen sales promotion activities, we are further enhancing our special expertise in our priority disease areas, and we are also promoting area marketing and digital marketing. As a result of these initiatives, in fiscal 2016 domestic pharmaceutical revenue reached ¥314.2 billion, and the new drugs and priority products revenue ratio was 62%.

Establishing Information Provision Systems

For efficacy to be provided safely and steadily, it is important that ethical drugs are used in an appropriate manner. If the usage of a drug, including administration and dosage, is inappropriate, then it is possible not only that sufficient effectiveness will not be obtained but also that risks, such as side effects, will increase. Mitsubishi Tanabe Pharma provides information regarding appropriate usage of ethical drugs to doctors, pharmacists, and other health care professionals. These information provision activities are centered on MRs.

To achieve increases in the quality and quantity of information provision, we have established a system under which generalist MRs, who are located throughout the country, are backed up by area-specialist MRs, who have deep levels of knowledge in specific areas. The generalist MRs conduct information provision activities for a wide range of products and disease areas. In contrast, the area-specialist MRs offer support with highly specialized, high-quality information in each disease area. This information has been gathered from inside and outside the Company. In this way, it is possible to accurately provide information about a wide range of products with only a limited number of MRs. In addition, to conduct information provision activities that meet regional needs, we will advance area marketing. The medical environment is diversifying, and in this setting we are conducting information provision that is appropriate to the characteristics of each region and moving ahead with initiatives to support regional collaborative treatment. In fiscal 2016, we took steps to build a foundation for the promotion of area marketing, establishing the Area Marketing

Management Department and assigning Area Marketing Planners (AMPs) at all sales offices in Japan. The AMPs will play a central role in the formulation of area marketing plans for their areas. Moving forward, we will continue to advance initiatives in line with the different characteristics and independence of the regions.

Furthermore, in our information provision and other sales promotion activities, we are working to strictly follow the Ethical Pharmaceutical Promotion Code of the Japan Pharmaceutical Manufacturers Association. Moreover, in accordance with our Corporate Behavior Charter, our MRs maintain high ethical standards and awareness as appropriate for employees of a life sciences company. They place priority on fairness and integrity in all activities, and conduct information provision activities with full consideration for the rights of patients.

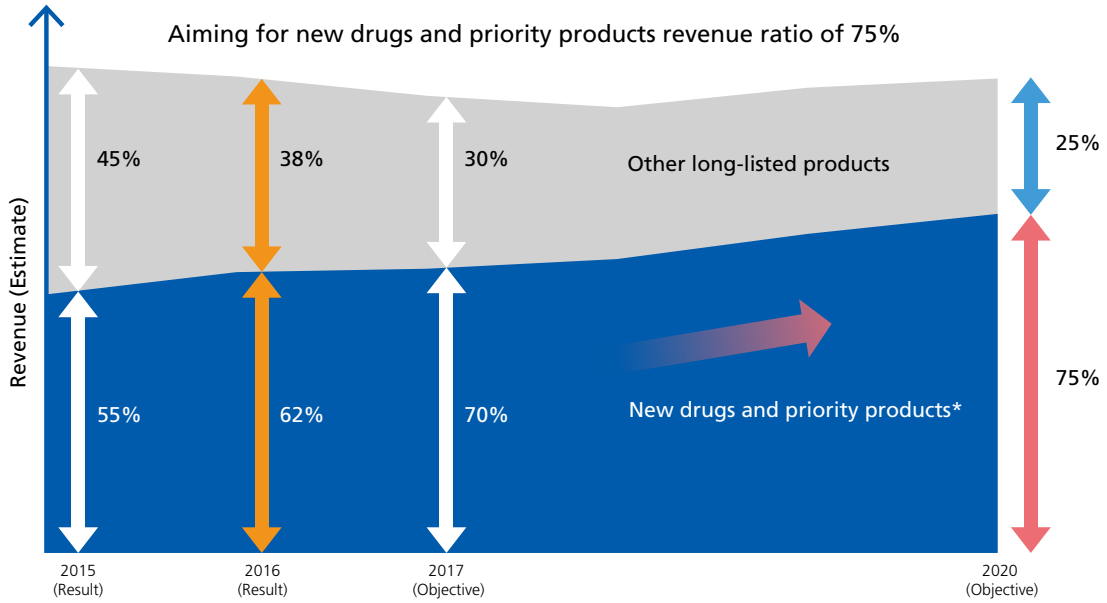
Marketing System Centered on Priority Areas

As with our R&D activities, the priority areas for our marketing activities are autoimmune diseases, diabetes and kidney diseases, central nervous system diseases, and vaccines. On that basis, we have built a marketing system that draws on collaboration with other companies.

In autoimmune diseases, we have built a strong marketing foundation based on relationships of trust with health care professionals that we developed through our core product Remicade. Under the current medium-term management plan, we will offset the influence of the reduction in the NHI drug price for Remicade by maximizing the synergies resulting from our ability to offer both Remicade and Simponi. In this way, we will work to maintain our No. 1 share in this area. For Remicade, we will continue working to increase product value through life-cycle management, and will also emphasize the product's distinctive features, such as rapid onset and the possibility of increasing the dosage. On the other hand, we will work to ensure that Simponi is widely recognized as a biologic with both efficacy and convenience. In this way, we plan to more than double revenue by fiscal 2020. In April 2016, we changed the sales framework with Janssen Pharmaceutical K.K. Previously, we implemented joint sales, but now Mitsubishi Tanabe Pharma has sole responsibility for sales. Both companies continue to implement information provision. This change in the sales framework will make it possible to provide information to a wider range of facilities. In February 2017, the Company and Janssen Pharmaceutical K.K. signed a co-promotion agreement for Stelara (generic name: ustekinumab) for an indication of Crohn's disease. Under this agreement, Janssen Pharmaceutical K.K. will handle sales and the Company and Janssen Pharmaceutical K.K. will jointly provide information to medical institutions. Going forward, in the field of inflammatory bowel disease (Crohn's disease, ulcerative colitis), Mitsubishi Tanabe Pharma will offer Remicade and Stelara for the indication of Crohn's disease and Remicade and Simponi for the indication of ulcerative colitis. In this way, the Company will strive to strategically reinforce its foundation in this field. In addition to these initiatives, we will also advance the launch of additional new products. In these ways, we will aim to achieve revenue of ¥150.0 billion in the autoimmune diseases area in the future.

In the area of diabetes and kidney diseases, we have a strategic sales tie-up with Daiichi Sankyo Co., Ltd., for Tenelia and Canaglu . For Tenelia, we had been conducting joint sales with Daiichi Sankyo Co., Ltd., but from 2015 Daiichi Sankyo Co., Ltd., is solely responsible for sales. The Company is handling sales of Canaglu. Moreover, both companies are providing information for both of

Priority Products Revenue Ratio



* Priority products in fiscal 2017 (Remicade, Talion, Tenelia, Simponi, Lexapro, Imusera, and Canaglu), vaccines, and new drugs

these drugs. By having the sales for each product centralized, while information provision is conducted jointly, we are working to increase sales efficiency and conduct rapid yet appropriate information provision activities. For Tenelia, we will work to achieve growth in sales and expansion of our share, aiming to be a first-line drug in diabetes treatment. To that end, we will advance differentiation through ease-of-use and effectiveness, such as for senior citizens and patients with impaired kidney function. For Canaglu, we will leverage the abundant evidence accumulated overseas and the results of the cardiovascular outcome trials that were implemented by licensee Janssen Pharmaceuticals, Inc., of the U.S. In this way, we will emphasize safety and efficacy and establish a position for Canaglu in diabetes treatment. In addition, in regard to Canalia Combination Tablets (development code: MT-2412), a Canaglu / Tenelia combination drug for which an application was filed in August 2016, approval was received in July 2017. We have concluded a joint sales agreement with Daiichi Sankyo Co., Ltd., thereby expanding strategic collaboration in the field of diabetes. Daiichi Sankyo Co., Ltd., will handle sales, and both companies will implement information provision activities for medical institutions. We aim to achieve revenue of ¥100.0 billion in this field by establishing a presence in the field for both of these drugs and by advancing the launch of additional new drugs.

Advancing Efficient Sales Promotion Activities

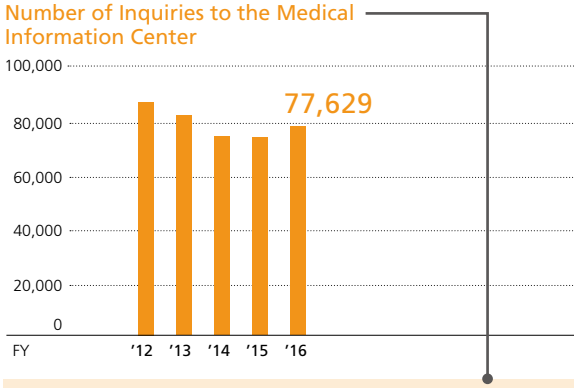
The influence of generics is increasing, and the revenues and profits from long-listed drugs are rapidly declining. However, these long-listed drugs include many drugs that make a strong contribution to medical treatment, such as highly evaluated drugs that are widely used on the medical front lines and drugs for which there are no substitutes. Accordingly, we are moving forward with initiatives to maintain earnings from these products.

Specifically, we are focusing on initiatives to strengthen digital marketing, and we are working to conduct information provision activities through a multichannel approach that does not rely on MRs. In these ways, we are striving to implement effective sales promotion activities for these long-listed drugs. In April 2016, we established the Digital Marketing Group in the Strategic Sales Planning Department. We have established a specialized medical website for the exclusive use of doctors, pharmacists, and other health care professionals. This website introduces pharmaceutical information, the latest pharmacotherapy evidence, and other information. In 2016, a substantial increase in the number of new members was recorded. In addition, through such measures as the use of IT and the establishment of two-way networks, we will strengthen our on-demand information provision system in line with the individual needs of health care professionals.

Establishing the Medical Information Center

We established the Medical Information Center to respond directly to inquiries from patients, consumers, and health care professionals. For patients and consumers, this is the only product information center, and we are working to provide information that is easy to understand while at the same time making certain not to dispense the type of medical advice that should only come from a physician. In response to more than 70,000 inquiries a year, we work to promote appropriate usage of our products by sharing objective facts and data based on drug approval documents and scientific evidence. Furthermore, the center tracks information about side effects and other safety- and quality-related information obtained through inquiries and then communicates that information to related departments. In this way, the center helps us to improve products and ensure reliability.

Number of Inquiries to the Medical Information Center



Principal Subjects of Inquiries

Product distribution	14.4%
Safety (precautions for use)	12.5%
Usage and dosage	11.7%
Insurance and prescriptions	9.4%
Stability	8.8%

Overseas Sales Promotion Activities

Mitsubishi Tanabe Pharma also has sales bases overseas. We have Group companies with sales functions in Europe (the U.K. and Germany) and in Asia (China, South Korea, Taiwan, and Indonesia). While drawing on alliances with other companies, we are conducting pharmaceutical information provision activities for local health care professionals. Specific activities include the implementation of initiatives that support the diagnosis and treatment activities of health care professionals, such as visiting medical institutions and doctors, participating in related academic conferences, exchanging opinions with opinion leaders, implementing academic research, and creating and distributing information materials. In addition, MRs involved in drug information provision activities need advanced levels of knowledge, information, and skills in order to conduct discussions with doctors and pharmacists. Accordingly, we

are working to enhance the quality of information provision activities through periodic training.

In 2016, in preparation for sales of MCI-186 (Japan product name: Radicut) in the U.S., we established Mitsubishi Tanabe Pharma America, a pharmaceutical sales company, as a subsidiary of Mitsubishi Tanabe Pharma Holdings America, which has overall responsibility for U.S. business. In May 2017, MCI-186 received approval in the U.S. for an indication of ALS, and in August sales were started under the product name Radicava. As the first steps in the sale of Radicava, we will advance collaboration with outside partners in a variety of forms, work to strengthen our product lineup, and build a business foundation in our fields of specialty in the U.S.

Advancing Product Life-Cycle Management

Product life-cycle management operations have been unified by the Sohyaku. Innovative Research Division, which was established in October 2015. Through integrated advancement, from the product development stage to post-marketing strategy, we aim to maximize post-marketing product value in a short period of time. In addition, in April 2017 the unit in charge of the implementation of clinical studies in Japan was transferred from the Ikuyaku. Integrated Value Development Division to the Sohyaku. Innovative Research Division. Under the new system, the Ikuyaku. Integrated Value Development Division will focus on late-stage development, centered on launches in Japan and Asia.

To maximize product value, we continue to implement development activities targeting additional indications. In fiscal 2016, Remicade was approved in Japan for changes in administration / dosage (increased dosage, shortened administration interval) for psoriasis. In addition, an application was filed in Japan for a change in administration / dosage (shortened administration interval) for Crohn's disease. Approval was received in May 2017. Moreover, Valixa has been approved in Japan for the prevention of cytomegalovirus (CMV) disease in organ transplant patients. Furthermore, our joint development partner Janssen Pharmaceutical K.K. acquired approval in Japan for ulcerative colitis and an additional formulation for Simponi. Overseas, an application was submitted in China for acute-phase cerebral thrombosis for Novastan.

Establishment of a Reliability Assurance System

To ensure that our pharmaceuticals can be used by health care professionals and patients with peace of mind, reliability is important in terms of quality, efficacy, and safety. We are working to secure quality, efficacy, and safety by strictly observing the appropriate standards for ensuring reliability, as stipulated by the "Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics." In addition, in consideration of the acquisition of approval for a product in the U.S. in May 2017, we plan to start sales of drugs with the same reliability in the U.S. Moreover, in line with international standards and the standards of each country, we will provide drugs with the same reliability to people around the world. To strictly observe laws and regulations and to meet the requests of society, we are working to maintain and enhance our quality assurance system.

Implementing Post-Marketing Surveillance

Based on the results of clinical trials and other trials, product sales begin after the receipt of manufacturing and sales approval from the regulatory authorities. Clinical trials are conducted with the number of patients that are needed to scientifically verify pharmaceutical efficacy and safety. However, clinical trials are implemented under restricted conditions, and consequently there are limits to the information that can be obtained in the period up to approval. Accordingly, adverse reactions that were not discovered in clinical

Status of Life-Cycle Management Strategy (As of July 31, 2017)

Disease area: Autoimmune diseases Diabetes and kidney diseases Other

Development code (Generic name)	Expected indications	Region	Stage: Phase 1	Phase 2	Phase 3	NDA filed	Approved		Origin (Remarks)
Remicade (infliximab [recombinant])	Psoriasis: Increased dosage, shortened administration interval	Japan						16.05	US: Janssen Biotech, Inc.
	Crohn's disease: Shortened administration interval							17.05	
Imusera (fingolimod)	Chronic inflammatory demyelinating polyradiculoneuropathy	Global clinical trial							In-house (Co-developed with Novartis Pharma K.K. in Japan, licensed to Novartis International AG overseas)
Canaglu (canagliflozin)	Diabetic nephropathy	Global clinical trial							In-house (Sponsor: Janssen Research & Development, LLC)
Valixa (valganciclovir)	Prevention of cytomegalovirus disease in organ transplant patients	Japan						16.08	Switzerland: F. Hoffmann-La Roche, Ltd.
Novastan (argatroban)	Acute cerebral infarction	China						17.02	In-house

trials are sometimes discovered after the drug is marketed. We start to collect safety information as soon as products are launched, and in addition we are implementing a variety of post-marketing surveillance activities. Through these surveillance activities, we gather data related to new products that are actually prescribed on the medical front lines. We repeatedly examine the safety and efficacy of drugs, and the resulting information is rapidly and accurately provided as feedback to the medical front lines. In this way, the Company is working to support the appropriate use of pharmaceuticals. The Company believes that by advancing these types of proactive safety management measures, the prevention of adverse reactions from new drugs and the promotion of appropriate usage will support the use of new drugs on the medical front lines.

Radicut, which was discovered by the Company, has been used in Japan since its launch in 2001 as a treatment agent for the acute stage of cerebral infarction. In 2015, it acquired an additional indication in Japan for ALS, and in May 2017 it was also approved by the U.S. FDA as a treatment agent for ALS (U.S. product name: Radicava). In the future, when Radicava is prescribed in the U.S. it will be used in a medical environment that is different from that in Japan, and accordingly it will be necessary to exercise caution in safe management.

Based on the abundant safety information that we have accumulated in regard to Radicut, we have valuable experience in promoting safe usage. Making full use of that experience, and giving consideration to the overseas regulatory and medical environments, we will work to collect and provide safety information to foster the appropriate, safe use of Radicut / Radicava and to contribute to improvement in the quality of life of ALS patients.

Product Quality Assurance

Our policy is to contribute to the health and well-being of people around the world by building a quality system that meets global standards and providing a stable supply of high-quality, reliable drugs. On that basis, we are strictly observing the government regulations on GMP (regulations regarding pharmaceutical manufacturing control and quality control) and on GQP (regulations regarding pharmaceutical quality control).

Patient safety is the first priority of every employee, and we are implementing initiatives targeting further quality assurance with a focus not only on results but also on processes. Through management, supervision, and guidance of manufacturing plants in Japan and overseas, we are working to improve the quality of the products that we deliver to the market.

WEB For further information about the reliability assurance system, please refer to the Company's CSR website.
CSR Website
http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/index.html
CSR ACTIVITIES REPORT 2017 (PDF version)
http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/csr_pdf/index.html

The Power of Change

MRs and Teams that Continue to Earn Trust

Kotomi Jimoto, Kobe Office I, Kobe Branch, Sales & Marketing Division

The Company entered the diabetes field with the sale of Tenelia, which marked a major change for those of us working as MRs. The environment in the field of diabetes is highly competitive, and it was very difficult to determine how to differentiate Tenelia. However, the fact that we worked steadily to make treatment proposals from the patient's point of view began to generate results, and we were happy when doctors told us that patients were pleased.

Major changes that are currently under way include digital marketing and area marketing. We have just begun to implement initiatives to address these changes, but these initiatives are certain to become even more important in the future. We are independently implementing study sessions and other measures to deepen our understanding of these issues as we move toward implementation.

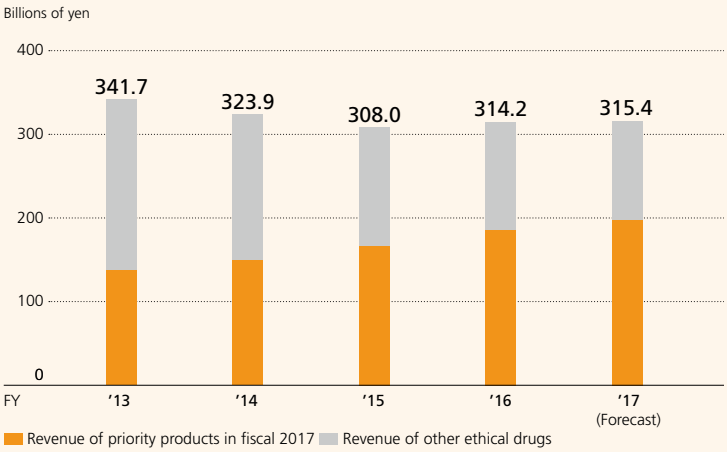
In addition, another positive change has been a reduction in the number of female MRs who resign due to life events, such as marriage and childbirth. Every year there is an opportunity for female MRs to meet together, and I always receive very positive encouragement when I go to this meeting.

I think that the environment for MRs will continue to change in the future. However, there will be no change in the fact that our relationships of trust with doctors and other health care professionals are more important than anything else. Today, our sales offices have cultures that make it easy to communicate and help one another. Rather than simply relying on others, we will aim to improve through competition, and we will work to adapt to future changes as we continue to change ourselves. In this way, as MRs and teams, we will strive to continue to earn the trust of health care professionals.

Overview and Sales Trends of Priority Products in Fiscal 2017

The sales forecasts in this section were announced on May 10, 2017.

Domestic Revenue of Ethical Drugs



Revenue of Priority Products in Fiscal 2017

Billions of yen	'13	'14	'15	'16	Forecast '17
Remicade	76.3	70.6	69.4	66.8	64.7
Simponi	9.3	10.4	12.9	24.9	29.0
Talion	13.6	15.9	16.8	18.9	20.8
Tenelia	0.7	6.2	14.1	16.5	19.1
Lexapro	6.4	7.9	9.5	11.2	12.9
Imusera	2.2	3.2	4.1	4.9	5.1
Canaglu	—	1.1	0.5	3.4	6.9
Vaccines:					
Influenza vaccine	7.2	7.3	13.7	12.7	14.1
Tetrabik	6.7	7.5	9.5	9.9	9.2
Mearubik	6.0	3.9	4.9	5.9	5.2
Varicella vaccine	3.5	7.1	6.3	5.4	5.7
JEBIK V	4.0	3.5	3.6	3.9	3.9

Note: From fiscal 2016, the Company has voluntarily applied IFRS instead of Japanese GAAP. Figures for fiscal 2015 are also presented in accordance with IFRS, but figures before fiscal 2014 are before the application.

Overview and Sales Trends of Priority Products in Fiscal 2017

Remicade Infliximab

Domestic Revenue
¥66.8 billion

Indications
RA (including the prevention of structural joint damage), Behcet's disease with refractory uveoretinitis, psoriasis vulgaris, psoriasis arthropathica, pustular psoriasis, erythrodermic psoriasis, ankylosing spondylitis, entero-Behcet's disease, neuro-Behcet's disease, vasculo-Behcet's disease, Kawasaki disease, Crohn's disease, ulcerative colitis

Launch	May 2002
Origin	Janssen Biotech, Inc. (U.S.)
Development	Mitsubishi Tanabe Pharma

Overview

Remicade is the world's first anti-TNFα monoclonal antibody. It targets TNFα, an inflammatory cytokine. Administered through IV infusion, it is very fast-acting and its efficacy is sustained for eight weeks with a single administration. In Japan, it was launched as a treatment agent for Crohn's disease in 2002 and received an additional indication for RA in 2003. In 2009, approval was received for a change of dosage / administration for RA (increased dosage, shortened administration interval). Furthermore, additional indications for a wide range of inflammatory autoimmune diseases, such as psoriasis and ulcerative colitis, have contributed to growth in sales. In 2012, it became possible to shorten the IV infusion time from the 4th administration if there are no problems with safety. In fiscal 2016, approval was received for a change in administration / dosage (increased dosage and shortened administration interval) for psoriasis, and an application was filed for a change in administration / dosage (shortened administration interval) for Crohn's disease. Approval was received in May 2017.

Sales Trend

In fiscal 2016, revenue was down 3.7%, to ¥66.8 billion. NHI drug prices were revised in April 2016, and the second biosimilar is expected to be launched during fiscal 2017. The circumstances will remain difficult, including competing products, but we will emphasize Remicade's ability to contribute to RA and a wide range of other diseases. In particular, we will support education about its significance and effectiveness in the treatment of ulcerative colitis, Crohn's disease, and psoriasis. The forecast for revenue in fiscal 2017 is ¥64.7 billion, a decline of 3.2%.

Simponi Golimumab

Domestic Revenue
¥24.9 billion

Indications
RA (including the prevention of structural joint damage), ulcerative colitis

Launch	September 2011
Origin	Janssen Biotech, Inc. (U.S.)
Development	Co-development with Janssen Pharmaceutical K.K.

Overview

Simponi is a human TNFα monoclonal antibody that targets TNFα, an inflammatory cytokine. With simple administration—subcutaneous injection once every four weeks—it has superior efficacy that continues for an extended period of time. Its efficacy and safety are higher than other subcutaneous injections, and it is expected to contribute to raising the percentage of patients who continue treatment. In fiscal 2016, Janssen Pharmaceutical K.K., with which we are conducting joint development, received approval for an additional indication for ulcerative colitis and an additional formulation.

Sales Trend

In fiscal 2016, revenue rose 92.9%, to ¥24.9 billion. In April 2016, we changed the sales framework with Janssen Pharmaceutical K.K., transitioning from the previous joint sales to solo marketing by the Company. We conduct joint promotions with Janssen Pharmaceutical K.K. In the RA market, subcutaneous injections are recording growth. Leveraging the strengthened collaboration system, we will work to achieve further market uptake. We have transitioned to solo marketing by the Company, and the forecast for revenue in fiscal 2017 is ¥29.0 billion, an increase of 16.5%.

Talion Bepotastine

Domestic Revenue
¥18.9 billion

Indications
Allergic rhinitis, urticaria, pruritus accompanying skin disease (eczema, dermatitis, prurigo, cutaneous pruritus)

Launch	October 2000
Origin	Ube Industries, Ltd.
Development	Co-development with Ube Industries, Ltd.

Overview

Talion has rapid onset of histamine H1 receptor antagonist effects and quickly displays a high degree of effectiveness for allergic rhinitis, urticaria, and pruritus accompanying dermatitis. It has a low frequency of sedation, which is a side effect of anti-histamines. An orally disintegrating tablet formulation, which makes it easier for patients to take the drug, has been sold since 2007, and a pediatric indication (ages 7 to 15) was approved in 2015.

Sales Trend

In fiscal 2016, revenue rose 12.3%, to ¥18.9 billion. In regard to competing products, generic drugs have already been launched and sales are on a declining trend. However, Talion continues to record growth and the Company is aiming for it to achieve a position as the most-prescribed drug in specialty fields, such as dermatology and otolaryngology, including pediatric prescriptions. The forecast for revenue in fiscal 2017 is ¥20.8 billion, an increase of 9.7%.

Tenelia Teneligliptin

Domestic Revenue
¥16.5 billion

Indication
Type 2 diabetes mellitus

Launch	September 2012
Origin	Mitsubishi Tanabe Pharma
Development	Mitsubishi Tanabe Pharma

Overview

Tenelia is the first dipeptidyl peptidase-4 (DPP-4) inhibitor originating in Japan that has ever been launched. DPP-4 is an enzyme that selectively breaks down glucagon-like peptide-1 (GLP-1), a hormone secreted from the gastrointestinal tract in response to food intake. By inhibiting the function of DPP-4, Tenelia promotes insulin secretion and suppresses glucagon secretion, thereby demonstrating blood glucose lowering action. In addition, in monotherapy it is less likely to cause problems associated with conventional diabetes treatments, such as hypoglycemia and weight gain. Due to the strength and duration of its action, it can improve post-prandial blood glucose, after three meals, with once-a-day oral administration. Furthermore, because it is eliminated from the body via two routes—through the kidneys and the liver—it is not necessary to adjust the dosage for patients with impaired kidney function. In 2013, approval was received for an indication of additional combination for type 2 diabetes mellitus, making it possible to use Tenelia in combination with all oral diabetes mellitus treatment agents and insulin.

Sales Trend

In fiscal 2016, revenue rose 17.1%, to ¥16.5 billion. Competition in the DPP-4 inhibitors market is intense, but we have implemented joint promotional activities with Daiichi Sankyo Co., Ltd., and achieved solid increases in the number of administrations. From October 2015, to increase efficiency, we changed from the previous joint sales scheme to solo marketing by Daiichi Sankyo Co., Ltd. We continue to implement joint promotions, and we will emphasize ease-of-use, such as for senior citizens and patients with impaired kidney function. Accompanying the change in the sales scheme, the total of the amount of the Company's sales to Daiichi Sankyo Co., Ltd., and the amount of promotion fees received from Daiichi Sankyo Co., Ltd., is disclosed as the amount of Tenelia sales. The forecast for revenue in fiscal 2017 is ¥19.1 billion, an increase of 15.4%.

Overview and Sales Trends of Priority Products in Fiscal 2017

Lexapro Escitalopram

Domestic Revenue
¥11.2 billion

Indications
Depression, depressive symptoms, social anxiety disorder

Launch	August 2011
Origin	H. Lundbeck A/S (Denmark)
Development	Mochida Pharmaceutical Co., Ltd.

Overview

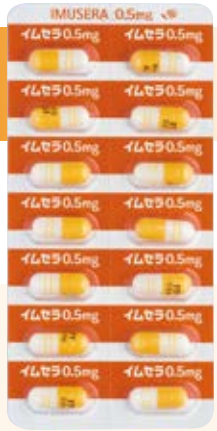
Lexapro is a selective serotonin reuptake inhibitor (SSRI). It was launched in 2002 in Europe and the U.S., and is currently approved in 98 countries and regions. Among SSRIs, it has the highest serotonin transporter selectivity. Its superior efficacy for depression and depressive symptoms and good tolerability have been confirmed. In addition, it has simple administration, and as a result it is expected to contribute to the improvement of medication adherence, which is especially important in patients with depression. We have been conducting joint sales activities with Mochida Pharmaceutical Co., Ltd., since 2011. In 2015, it received an additional indication for social anxiety disorder (SAD).

Sales Trend

In fiscal 2016, revenue rose 18.6%, to ¥11.2 billion. Recognition of Lexapro's efficacy and tolerability has begun to achieve further market uptake, and Lexapro has the top share in the SSRI market. With an additional indication for SAD, we will work to promote its use by patients with anxious depression. The forecast for revenue in fiscal 2017 is ¥12.9 billion, an increase of 14.6%.

Imusera Fingolimod

Domestic Revenue
¥4.9 billion



Indication
Multiple sclerosis (MS)

Launch	November 2011
Origin	Mitsubishi Tanabe Pharma
Development	Co-development with Novartis Pharma K.K.

Overview

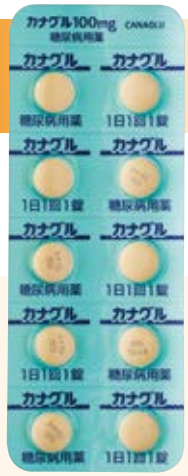
Imusera is a first-in-class drug that controls inflammation in the brain and spinal cord in MS. It inhibits the receptor function of the sphingosine-1-phosphate (S1P) receptor on the lymphocyte, and prevents auto-aggressive lymphocytes from invading the central nervous system. Unlike previous drug treatments for MS, which are limited to injections, it can be administered orally (once daily), thereby lowering the burden on patients. Imusera was discovered by Mitsubishi Tanabe Pharma and developed jointly by Mitsubishi Tanabe Pharma and Novartis Pharma K.K. in Japan. We are marketing this product under the name Imusera, while Novartis Pharma K.K. is marketing it under the name Gilenya. Overseas, Novartis International AG, of Switzerland, which licensed the product, has obtained approval in more than 80 countries, including countries in Europe and the U.S. It has been administered to more than 200,000 patients.

Sales Trend

In fiscal 2016, revenue was up 19.3%, to ¥4.9 billion. New competing products have been launched, but based on their combined results Imusera and Gilenya have maintained the No. 1 share in the market. Moving forward, there will be a shift from injections toward oral drugs, and we will offer a choice of two oral drugs in accordance with the condition of patients. The forecast for revenue in fiscal 2017 is ¥5.1 billion, an increase of 4.1%.

Canaglu Canagliflozin

Domestic Revenue
¥3.4 billion



Indication
Type 2 diabetes mellitus

Launch	September 2014
Origin	Mitsubishi Tanabe Pharma
Development	Mitsubishi Tanabe Pharma

Overview

Canaglu is an SGLT2 inhibitor that originated in Japan. As of May 2017, it had been approved in more than 70 countries around the world, including the U.S., European countries, and Australia. It is based on the SGLT inhibitor T-1095, which was discovered by the Company and is the world's first orally administered SGLT inhibitor. SGLT2 is a type of protein that contributes to the reabsorption into the blood of glucose from the urine in the renal tubules. By inhibiting this action, urinary glucose excretion and blood glucose reduction are promoted. Canaglu has a new mechanism of action that was not previously available and does not work through insulin. In addition to a strong blood glucose lowering effect, Canaglu is expected to have a low hypoglycemia risk in monotherapy. It also has a weight reduction effect that is not seen with other oral diabetes treatment drugs. In overseas markets excluding Asia, licensee Janssen Pharmaceuticals, Inc., of the U.S., received approval in the U.S. in 2013, making this drug the first SGLT2 inhibitor approved in the U.S., and this drug is sold under the brand name Invokana.

Sales Trend

In fiscal 2016, revenue was up 515.8%, to ¥3.4 billion. Moving forward, we will work to see that Canaglu rapidly catches up to SGLT2 inhibitors that were launched earlier by securing accounts at hospitals and by differentiating it from other drugs in the private practitioner and small hospital market. On a base of abundant safety information for Canaglu, which is the world's most prescribed SGLT2 inhibitor, we will advance appropriate information provision activities and work to promote the appropriate use of SGLT2 inhibitors while fostering an understanding of the usefulness of this drug. The forecast for revenue in fiscal 2017 is ¥6.9 billion, an increase of 99.0%.

Vaccines

Domestic Revenue
¥38.9 billion

The Company sells vaccines developed and produced by The Research Foundation for Microbial Diseases of Osaka University (BIKEN Foundation). In fiscal 2016, revenue of Tetrabik, Mearubik, and JEBIK V increased, but sales of the influenza vaccine and the varicella vaccine declined, and overall revenue of vaccines was down 0.3%, to ¥38.9 billion. In addition, in May 2017, aiming for a stable supply of high-quality vaccines that are competitive in Japan and overseas, the BIKEN Foundation and the Company reached final agreement on the establishment of a joint venture company, BIKEN CO., Ltd., based on the BIKEN Foundation's vaccine manufacturing business. In accordance with this agreement, BIKEN CO., Ltd., was established as a company wholly owned by the BIKEN Foundation. Plans call for the sale of 33.4% of BIKEN CO., Ltd.'s stock to Mitsubishi Tanabe Pharma and for the new company to start operations as a joint venture between the BIKEN Foundation and Mitsubishi Tanabe Pharma in September 2017. The Company had a top share of the domestic vaccine market in fiscal 2016. For the seasonal influenza vaccine, which accounts for the largest share of the Company's sales of vaccines, intradermal and cell-culture vaccines have been developed, but their influence on the market is not clear and it is not possible to make specific market forecasts. For the varicella vaccine, the number of children receiving periodic vaccination and the supply both stabilized. Accordingly, from fiscal 2016 we started promotions to prevent shingles in people 50 or older. The forecast for overall revenue of vaccines in fiscal 2017 is ¥39.1 billion, an increase of 0.5%.

Production

Basic Policy

To securely deliver drugs to patients, even in the event of a disaster or other unforeseen problem, we have built a system for the stable supply of drugs. In addition, to build an even more efficient supply system while maintaining the highest priority on quality, we are working to further strengthen a range of qualities, such as procurement, manufacturing, and distribution. Under Medium-Term Management Plan 16–20, we identified four strategic priorities to open up the future. One of those issues is "Reforming Operational Productivity." As one facet of those initiatives, we are working to strengthen production technologies and supply chain management (SCM). In this way, we aim to reduce cost of sales by ¥8.0 billion under the current medium-term management plan.

Promoting CSR Procurement

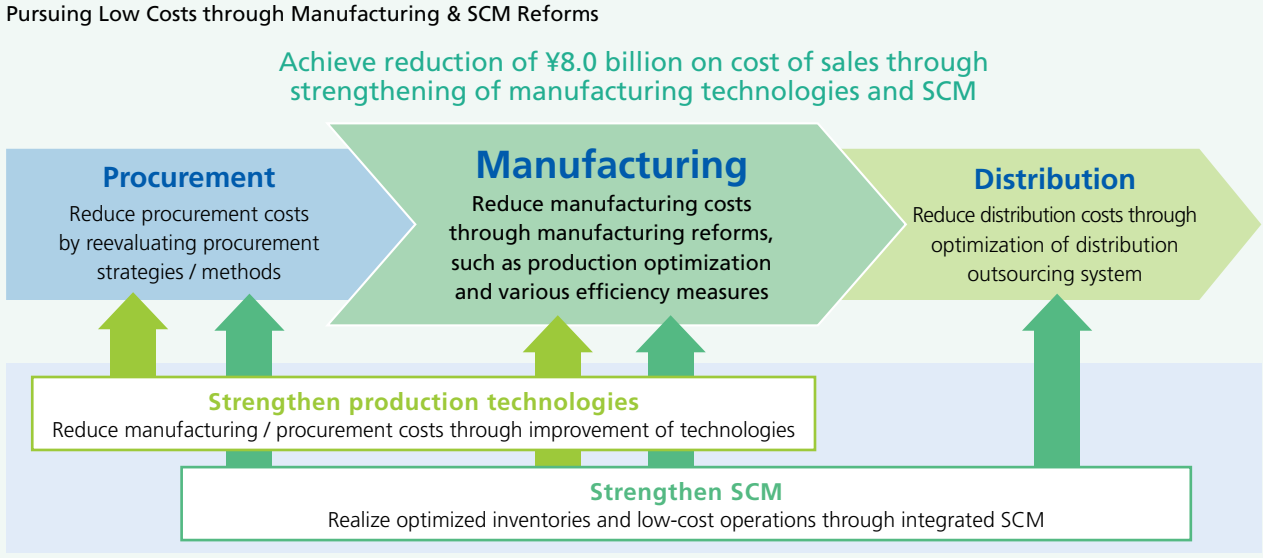
In procuring the raw materials for pharmaceuticals, we are committed to engaging in fair, transparent activities with our suppliers. To fulfill our social responsibilities throughout the entire supply chain, up to and including our suppliers, we are implementing a range of initiatives while formulating action principles for procurement departments.

Employees involved in procurement are working to implement CSR procurement while following various internal regulations, such as the Global Purchasing Policy (formulated July 2017) and the Purchasing Compliance Code of Conduct. In addition, we regularly conduct training related to laws and regulations regarding procurement. In this way, we are working to support a rigorous approach to the observance of related laws and regulations.

In selecting suppliers related to the production of pharmaceuticals, we first confirm that they do not have any relationship with anti-social forces. We then select suppliers in accordance with supplier selection standards developed in-house, which include such areas as quality assurance, technical capabilities, customer focus (ability to respond flexibly), and management capabilities (continuity). In addition, for existing suppliers we continually implement reevaluation initiatives with consideration for our evaluation standards.

Furthermore, in regard to CSR-related areas in which we wish to work together with suppliers, such as the environment, human rights, and labor, we distribute a guidebook prepared by the MCHC Group that covers matters that the MCHC Group would like to share with suppliers. In this way, we are working to establish and strengthen a sustainable supply chain. In addition, we utilize a questionnaire and implement presentations in order to deepen mutual understanding, and we are working to facilitate the exchange of opinions.

Pursuing Low Costs through Manufacturing & SCM Reforms



Production System

To manufacture drugs that can be used with peace of mind by patients, Mitsubishi Tanabe Pharma is implementing initiatives to ensure quality. We act in accordance with Good Manufacturing Practice (GMP) in all manufacturing processes—acceptance testing of raw materials procured from Japan or overseas, manufacturing of pharmaceutical ingredients, manufacturing of pharmaceutical products, and testing / inspection. The CMC Division, which conducts CMC research, works together with the Group's production plants to develop production technologies designed to support the stable, low-cost manufacturing of high-quality products from the new drug development stage.

Currently, our global manufacturing system has five production plants in Japan and four overseas, as well as subcontracted manufacturers. Through this system, we provide a stable supply of pharmaceuticals to patients around the world. Overseas, we have manufacturing and sales bases in Asia, with Tianjin Tanabe Seiyaku manufacturing oral agents in China and Mitsubishi Tanabe Pharma Korea and Taiwan Tanabe Seiyaku handling products for their respective markets as well as products for Japan. Also, Tanabe Indonesia serves as a manufacturing base for its domestic market and other markets in Southeast Asia.

Reorganization of Production Bases

We are moving ahead with initiatives targeting the establishment of a new-drug supply system that meets global standards and a shift to a flexible, efficient manufacturing system that is less susceptible to the influence of changes in the operating environment. We decided on a policy of consolidating the manufacturing bases of Mitsubishi Tanabe Pharma Factory, a domestic production subsidiary, into two bases, the Onoda Plant and the Yoshitomi Plant. In accordance with this policy, in 2014 we transferred the Ashikaga Plant to CMIC HOLDINGS Co., Ltd. and in 2015 we transferred the Kashima Plant to Sawai Pharmaceutical Co., Ltd.. We plan to close the Osaka Plant by the end of fiscal 2017, and are moving forward with the transfer of the plant's products and other preparations. In June 2016, we completed the construction of a solid dosage formulation production building at the Yoshitomi Plant. This facility can supply pharmaceuticals in accordance with global standards and offers high productivity.

In addition, we are working to increase production capacity to address growth in demand in China and ASEAN markets. In fiscal 2015, we completed new production facilities at Tianjin Tanabe Seiyaku and Tanabe Indonesia, and these facilities have already been placed into operation. In the future, through the steady implementation of a range of initiatives, we will build a global system that meets QCD (quality, cost, stable delivery) standards.

Distribution System

We have developed a dual-base supply system that ships drugs from distribution centers in eastern and western Japan. To reduce a variety of risks that could adversely affect a stable supply, both of these centers have earthquake isolation systems, in-house power generators, and redundant installations of important equipment. In this way, they will be able to maintain a supply of important drugs even in a crisis situation, such as a major disaster. In addition, if either distribution center becomes inoperable at any time, the other center will be able to provide backup distribution, thereby facilitating a continued supply of pharmaceuticals.

Furthermore, each distribution center employs an inventory control system that carefully monitors product inventory and other items. As a result, we can appropriately control products in a variety of categories, such as by product characteristics and storage temperatures, and can accurately and rapidly conduct operation in response to orders. In addition, we periodically conduct training for the employees who use these types of facilities and equipment. In this way, we aim to enhance the skills of each employee and to reduce human error. At the same time, we are heightening awareness of pharmaceutical distribution extending all the way to the patient.

Quality Control in Distribution

In addition to conducting operations in accordance with the various conditions related to structural facilities and administrative operation as required by the Pharmaceuticals and Medical Devices Law* and other related laws and regulations, the distribution centers prepare guidelines and procedure manuals that reflect the distinctive characteristics of the products being handled. By implementing operations in strict conformance with the content of these guidelines and procedure manuals, we are maintaining both the operational and physical aspects of distribution quality. The Company is particularly vigilant about regulating the temperature at which cold storage products are stored. In addition to measures such as periodic temperature validation and thermometer calibration in cold warehouses, the Company has introduced an emergency response system, including an emergency contact system for unusual conditions and in-house power generators to maintain the power supply. In this way, it is possible to maintain an appropriate temperature 24 hours a day, seven days a week.

Products are shipped from the distribution centers by transport companies that are in compliance with transport quality standards. These companies strictly supervise the transport of this cargo in a manner that reflects the importance of pharmaceuticals. The Company takes steps to minimize any loss of quality during the distribution process, such as inspecting transport companies, conducting temperature validation of transport vehicles, and using special insulated boxes. In these ways, we have built a transport system that can supply high-quality pharmaceuticals.

* The formal name is the "Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics."

Activating Human Resources

Fundamental Approach to Human Resources

Mitsubishi Tanabe Pharma is working to further enhance its competitiveness by focusing on its people as a management resource and giving individual employees the opportunity to demonstrate their full potential. To further enhance its competitiveness and achieve sustained growth, the Company operates the Comprehensive Management System for Human Resources. In addition, under the Medium-Term Management Plan 16–20, we are aiming to implement reforms to become a "pharmaceutical company that works with a sense of speed and is the first to deliver original value," and on that basis we are working to "realize a corporate culture with a sense of speed and profit structure."

We are implementing a range of human resources development initiatives that address the ongoing globalization of our business. To that end, we are implementing not only on-the-job training but also various off-the-job measures to help employees learn about foreign cultures and develop business English skills. These measures include a variety of group training and language study programs. In fiscal 2017, we began to recruit volunteers for overseas training and to assign them to work at overseas bases.

Enhancing Personnel Training

To strengthen our corporate vitality and competitiveness, we must work to enhance the capabilities of our human resources, who are the source of that vitality and competitiveness. Aiming to develop people with key attributes, we support the development and demonstration of the capabilities of employees through the smooth coordination of four frameworks: employing diverse human resources, on-the-job and off-the-job training through management by objectives (MBO), transfers and rotations, and fair evaluations.

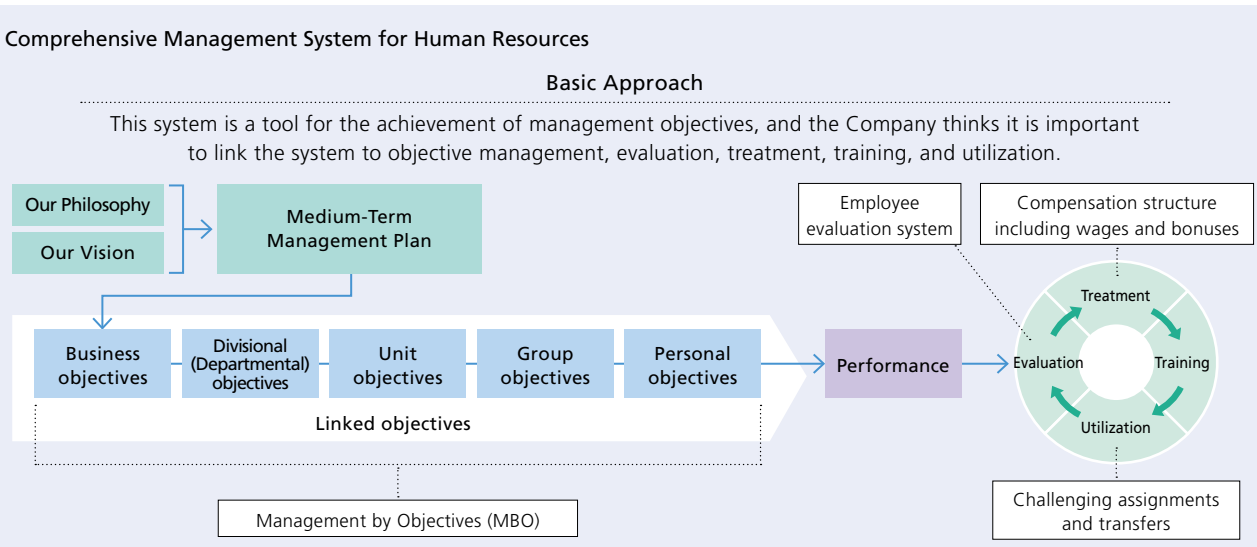
To that end, we are enhancing individual capabilities through daily on-the-job and in-house training programs and through the assignment of the right person to the right place. The Company is also working to provide support for autonomous employee career management and individual skill development and to develop next-generation leaders and global human resources who will be future managers. In fiscal 2016, we commenced MT-VIVID, a management rapid development program. From the viewpoint of achieving the sustained generation and increase of corporate value, through this program we are working to build a framework for the development of successors to management leaders. As a management issue, we are strategically formulating measures for the development of the next-generation of managers in 5 to 10 years.

Actively Utilizing Diverse Human Resources

The Group has positioned its approach to diversity and inclusion as one of its management strategies and is working to establish a work environment that provides opportunities for active careers for diverse human resources, including women, senior citizens, non-Japanese employees, and people with disabilities.

Among other things, the enhancement of career opportunities for women plays one of the central roles in these initiatives. We identified key issues for the Company—delays in career development accompanying life events and the further promotion of corporate culture formation. We have announced the following two points for our action plan in regard to the Act on Promotion of Women's Participation and

Comprehensive Management System for Human Resources



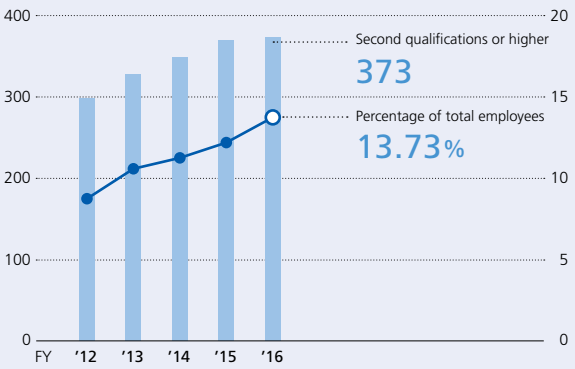
Advancement in the Workplace, which came into effect in April 2016.

- Increase the ratio of female managers (group manager and above) to more than double.
- Introduce one or more measures to increase choices in working styles.

In fiscal 2016, we introduced telecommuting as a system to facilitate diverse working styles. In addition, we implemented training for women who have not yet experienced life events, such as marriage and childbirth, to help them develop an awareness of how they can become role models in the future.

In regard to the employment of people with disabilities, we have taken steps to expand the range of duties of these positions from the many types of work that are available throughout the Group. Consequently, we employ people with disabilities at a rate that is higher than the legally required rate of 2.0% (2.09% as of the end of March 2017). Moreover, with the objective of establishing an environment for the further promotion of the employment of people with disabilities, in April 2017 we established Tanabe Palm Service Co., Ltd., which will be accredited as a special subsidiary. Moving forward, we will strive to establish workplaces with enhanced career opportunities for people with disabilities and to establish environments in which people with disabilities can work with even greater enthusiasm.

Number of Female Employees with Second Qualifications* or Higher and Percentage of Total Employees



* Employees who serve in specialist and leadership roles, considered equivalent to subsection managers.

Initiatives to Raise Human Rights Awareness

The Mitsubishi Chemical Holdings Corporation (MCHC) Group signed the United Nations Global Compact (UNGC) in May 2006. As a member of the MCHC Group, the Mitsubishi Tanabe Pharma Group also respects the 10 principles of the UNGC, which address human rights, labor, the environment, and anticorruption, and upholds these principles in its business activities in line with its Corporate Behavior Charter. In addition, the Company's Human Rights Awareness Promotion Committee, chaired by the president, plays a key role in both training for officers and employees and other Groupwide human rights training programs, which include collaborating with outside experts and promoting employee participation in outside lectures.

Securing Occupational Health and Safety

Aiming to promote environmentally friendly activities and to realize workplaces where employees can work in a healthy, enthusiastic, and comfortable manner, the Group is strengthening its initiatives in the areas of Environment, Health, and Safety (EHS).

Securing the safety of employees in business activities is our highest priority, and to that end we are implementing a range of initiatives. In particular, in regard to the prevention of disasters, we are maintaining and strengthening our environmental management capabilities. In addition, it is important to enhance the risk sensitivity of all employees in regard to safety in their work, and accordingly we are implementing a wide range of safety training. To eliminate workplace disasters, we will continue to implement highly effective training and activities to reduce risks related to facilities and operations. We will work to realize *KAITEKI*, which is being advanced by the entire Mitsubishi Chemical Holdings Group.

WEB For further information about *KAITEKI*, please see the MCHC website.
http://www.mitsubishichem-hd.co.jp/english/kaiteki_management/kaiteki/

Employee Health Management

The Group considers health management to be an important issue for corporate management. In April 2016, to effectively and appropriately advance activities related to employee health, we formulated the MTPC Group Health Policy in accordance with our Philosophy, Vision, and Corporate Behavior Charter. We are striving to promote awareness of work–life balance, improve mental and physical health, and implement varied working styles.

We are implementing a variety of health examinations so that employees do not have any physical or mental disorders. In addition, we are advancing initiatives targeting the prevention of health problems from working long hours. We have also formulated the MTPC Group Mental Health Promotion Plan, and we are working to strengthen measures for mental health through the PDCA process.

Surveying Employee Attitudes

Since fiscal 2011, the Mitsubishi Tanabe Pharma Group has implemented employee attitude surveys to provide a comprehensive understanding of employee attitudes toward their jobs and of the Company's workplace environments in order to improve management initiatives.

In fiscal 2016, many items recorded year-on-year gains, and in particular the overall indicator for motivation and a sense of accomplishment about work reached a record-high level. On the other hand, a number of issues have been clarified. In consideration of these issues, we will strive to establish a work environment that facilitates dynamic managers, career formation measures for professionals, enhanced career opportunities for diverse human resources, reformed awareness about health, and energetic work.

Close Up

Going forward, we will establish systems that support working-style reforms and health management and communicate the significance of each system.

Eriko Kotani
HR Development and Diversity Promotion Group Manager,
Human Resources Department

In April 2017, I started my new position as Manager of the HR Development and Diversity Promotion Group, where I am responsible for advancing human resources development and diversity as well as organizational activation on a Companywide basis.

Currently, working-style reforms and health management are issues of social concern that are drawing increasing attention. The Company is moving forward with the establishment of systems to address these issues, and in particular we have started to enhance our systems for supporting flexible working styles. In the past year, we introduced a flextime system that has no core time and a telecommuting system.

In introducing the telecommuting system, we implemented a half-year trial in advance. We decided to discard fixed ideas and test new working styles for all jobs and all employees. There were some cases in which it was thought that it would be difficult to introduce this system due to such factors as the circumstances in each workplace. However, when we actually tested it, there were no significant problems, and we received a substantial amount of feedback that people were able to personally experience the effectiveness of telecommuting. Based on these results, we introduced the system for all jobs and all employees, with the exception of employees in their first year at the Company.

In this way, our systems are being established, but at this point we cannot say that their significance is sufficiently understood. For example, in regard to telecommuting, I think that there is a strongly-rooted idea that the system is only for employees who have time restrictions, such as those due to childcare. However, the use of telecommuting makes it possible to increase results by personally selecting the optimal location and time in accordance with the content of the work, and that applies to all employees.

In addition, we expect that the number of employees who have time restrictions will increase further in the future. It is now common for women to continue to work even after such life events as marriage and childbirth. Moreover, we have reached a period in which people must continue to work while they provide nursing care for family members. I think that in order to prepare for such events as the sudden need to provide nursing care, all employees should be aware of how they can produce results in a limited amount of time by skillfully handling working styles through the use of the Company's telecommuting and other systems.

Furthermore, I also believe that working-style reforms and health management will become a source of strength for the generation of new ideas by employees. For people who are tired, faced with the requirements of daily work, and have little time, it can be difficult to generate good ideas.

While we work to establish the systems that will be needed in the years ahead, I will step up my focus on initiatives to communicate to employees the significance of these systems and strive to see that they are used more effectively.

ESG Section

This section includes ESG-related information as initiatives to support value creation

Corporate Governance (As of June 22, 2017)

Fundamental Approach

The Mitsubishi Tanabe Pharma corporate philosophy is to "contribute to the healthier lives of people around the world through the creation of pharmaceuticals," and our vision is "to be a global research-driven pharmaceutical company that is trusted by communities." To realize this philosophy and vision, the Mitsubishi Tanabe Pharma Group places the highest priority on fulfilling its responsibilities to all of its stakeholders, including shareholders, and working to achieve the sustainable growth of the Group and increases in its corporate value over the medium- to long-term. To that end, the Group works to ensure the transparency and objectivity of management by ensuring efficiency and promptness in management decision-making, enhancing monitoring and supervision through the outside directors, and enhancing the auditing system through the corporate auditors.

In accordance with this approach, the Group has formulated the Corporate Governance Policy of Mitsubishi Tanabe Pharma Corporation, and based on this policy the Group will continue working to realize an optimal corporate governance system.

In addition, although the Company is a consolidated subsidiary of Mitsubishi Chemical Holdings Corporation, the Company will continue its listing status and maintain independence in its management.

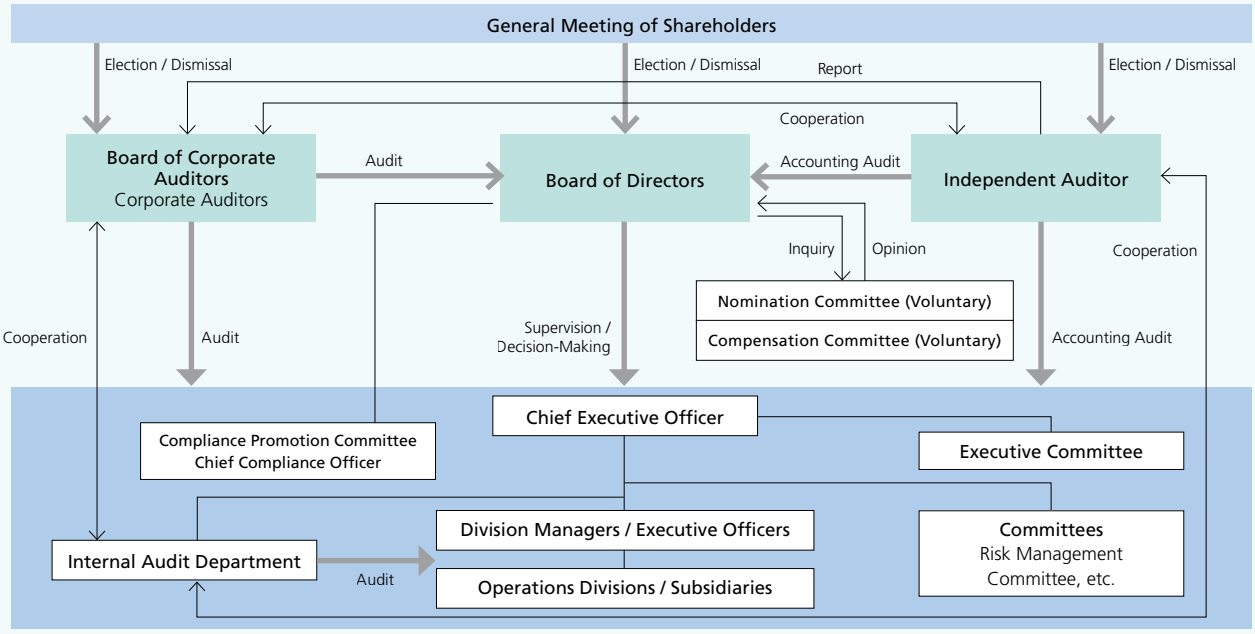
The following URL provides further information about the corporate governance policy.
http://www.mt-pharma.co.jp/e/company/pdf/cg_policy_e.pdf

Corporate Governance System

The Company has adopted the Company with Corporate Auditors system. In addition to the General Meeting of Shareholders and the Directors, the Company has established the Board of Directors, Corporate Auditors, and the Board of Corporate Auditors, and employs an independent auditor. In addition, as advisory bodies to the Board of Directors, the Company has established voluntary committees related to officer nomination and compensation.

Organizational form	Company with Corporate Auditors
Maximum number of directors stipulated in Articles of Incorporation	10
Term of office stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of directors	9
Appointment of outside directors	3

Corporate Governance System (As of June 22, 2017)



Overview

To secure transparency and objectivity in management decision-making and supervision, the Board of Directors has nine members (9 men, 0 women), including three outside directors. Regular meetings of the Board of Directors are held once a month, and additional meetings are held as needed. Decisions on important matters related to business execution are made in a flexible manner. In addition, the Company has adopted the executive officer system, thereby clarifying the division of roles between the decision-making / supervision function and the business execution function. In this way, management is conducted in a prompt and efficient manner. In regard to the business execution function, the Executive Committee, which includes the President and CEO and other managing executive officers, meets two or more times per month as a general rule. The committee discusses in advance the agenda of the meetings of the Board of Directors and deliberates on matters in order to assist in the decision-making of the President and CEO.

The Company implements an analysis and evaluation of the effectiveness of the Board of Directors once per year. In accordance with the results, we have implemented initiatives to increase the effectiveness of the Board of Directors. For example, at the 10th Ordinary General Meeting of Shareholders, held on June 21, 2017, the number of outside directors was increased by one, and in fiscal 2016, we formulated Board of Directors meeting material guidelines that take into consideration differences among the functions and roles of the Board of Directors´ and the Executive Committee. We also enhanced officer training programs, including expansion of training opportunities.

The Board of Corporate Auditors has four members (4 men, 0 women; of whom, 2 are outside corporate auditors). The Board of Corporate Auditors, as an entity independent from the Board of Directors, makes appropriate decisions from an objective standpoint in fulfilling its roles and responsibilities, which include the auditing of business execution of directors, accounting audits, and exercising its authority with respect to the selection and dismissal of independent auditors and audit compensation.

Furthermore, in an effort to strengthen the independence, objectivity, and accountability of the functions of the Board of Directors with respect to the nomination and compensation of its executives, the Company has established and operates voluntary committees that are chaired by an independent outside director and have independent outside officers (directors and corporate auditors) as a majority of the members. In line with inquiries from the Board of Directors, these committees hold discussions, with appropriate consideration for the opinions and advice of independent outside directors, and provide reports to the Board of Directors. The Nomination Committee holds discussions regarding candidates for director and executive officer, and the Compensation Committee holds discussions regarding revision of the compensation system for directors and executive officers, individual amounts of compensation for directors and executive officers, and other matters.

Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company has entered into liability limitation contracts with outside directors and outside corporate auditors that limit their liability for damages under Article 423, Paragraph 1 of the Companies Act, within the limits stipulated by laws and regulations.

Reasons for Adoption of the Current Corporate Governance System

The Company is a pharmaceutical company in an industry that is regulated based on the health care system. As such, management decision-making requires deep knowledge and experience related to pharmaceutical regulatory and business affairs. In this setting, the Board of Directors includes not only directors with abundant operational experience and knowledge in the pharmaceutical industry but also independent outside directors with abundant experience and wide-ranging knowledge as managers. In this way, the Company has established a system that secures transparency and objectivity in management decision-making and supervision. In addition, the Board of Corporate Auditors includes not only corporate auditors with experience and knowledge in pharmaceutical industry business and management but also independent outside corporate auditors with experience and expertise in such fields as finance, accounting, and law. In this way, the Company has established a system that facilitates appropriate auditing from an objective viewpoint by the Board of Corporate Auditors, as an institution independent from the Board of Directors.

Accordingly, Mitsubishi Tanabe Pharma believes that the Company with Corporate Auditors system is the most effective form of corporate governance for the Company at present.

Auditing System

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

The Corporate Auditors receive explanations from the independent auditor of audit plans and policies as well as quarterly reports on audit implementation and results. The Corporate Auditors also regularly exchange opinions with the independent auditor. When necessary, the Corporate Auditors witness on-site work and review work by the independent auditor. At the end of each period, the Corporate Auditors receive explanations concerning measures to ensure the proper execution of the independent auditor's duties. Also, in regard to the audit plans of the internal auditing divisions and the progress and results of those plans, the Corporate Auditors exchange opinions with internal auditing divisions on a regular monthly basis. At the same time, the Corporate Auditors receive reports on the results of the evaluation of internal control systems for financial reporting.

In addition, the Company is working to build an auditing system that is highly independent and specialized, and lawyers, who are legal specialists, and people with experience in the banking or securities industries are nominated to be outside Corporate Auditors.

Furthermore, to provide support for the Corporate Auditors in the execution of their duties, the Company has established the Corporate Auditors' Office, which is independent from business execution. The Corporate Auditors' Office has 3 full-time staff.

For internal auditing, the Company has established the Internal Audit Department, which is independent from the executive divisions and audits the internal control systems in operations divisions. The Internal Audit Department has 12 employees as of June 2017.

The Company has appointed Ernst & Young ShinNihon LLC as its independent auditor. There are 3 certified public accountants who are in charge of the account auditing activities. Assisting in the account auditing activities are 19 certified public accountants and 20 other people.

Nomination of Outside Officers

In selecting directors and corporate auditors, the fundamental requirements are superior character, knowledge, and ability; abundant experience; and high ethical standards as well as the ability to work proactively to help the Group achieve sustained growth and increases in corporate value over the medium- to long-term.

In regard to outside directors, in addition to the above requirements, to secure greater transparency and objectivity in management and to strengthen the Board of Directors' oversight function, the Company has three outside directors who are well-versed in corporate management. In selecting these outside directors, the Company selects people who meet the Company's Criteria for Independence of Outside Board Directors and Outside Corporate Auditors and who can secure the time needed to fulfill the functions and roles expected of outside directors. The specific reasons for the selection of each outside director are shown on page 59.

In regard to outside corporate auditors, the Company selects two people who meet the Company's Criteria for Independence of Outside Board Directors and Outside Corporate Auditors and who have knowledge in such fields as finance, accounting, and law for the purpose of conducting audits of the legality and appropriateness of management from an independent viewpoint. The table below shows the specific reasons for the selection of each outside corporate auditor.

Moreover, in addition to the Company's Criteria for Independence of Outside Board Directors and Outside Corporate Auditors, these five outside officers also meet the requirements of the Tokyo Stock Exchange (TSE) for independent Directors / Corporate Auditors, and the Company has reported these five officers as independent Directors / Corporate Auditors to the TSE.

In regard to the Company's Criteria for Independence of Outside Board Directors and Outside Corporate Auditors, please refer to the Mitsubishi Tanabe Pharma Corporate Governance Report.
http://www.mt-pharma.co.jp/e/company/pdf/gr_mtpc170622_e.pdf

Compensation of Directors and Corporate Auditors

In fiscal 2017, the Company introduced a performance-linked stock compensation plan. The objective of the plan is to clarify the linkage between the compensation for directors and the performance of the Group, and to share with the Company's shareholders not only the benefits of increases in the Company's stock price but also the risks associated with decreases, thereby boosting the motivation and morale of the directors for the sustainable growth of the Group and the expansion of corporate value over the medium- to long-term.

As a result, the compensation plan for inside directors comprises "base compensation," "bonuses," which are tied to short-term performance, and "stock compensation," which is tied to medium- to long-term performance. This has become a compensation plan with a greater degree of linkage with the Company's

Names of Outside Corporate Auditors, Relationships between Outside Officers and the Company, and Reason for Nomination

	Relationships between Outside Corporate Auditors and the Company	Reason for nomination
Takashi Nishida Outside Corporate Auditor	Up to March 31, 2017, Takashi Nishida worked as outside corporate auditor at Mitsubishi Chemical Corporation, a subsidiary of Mitsubishi Chemical Holdings Corporation, which is the parent company of Mitsubishi Tanabe Pharma. In the past, Takashi Nishida worked as an outside corporate auditor at The Bank of Tokyo-Mitsubishi UFJ, Ltd. with which the Company has a business transaction relationship, and subsequently he worked as an outside corporate auditor at Mitsubishi Chemical Holdings Corporation. There are no special conflicts of interest between the Company and Takashi Nishida.	Takashi Nishida has abundant experience in the banking and securities industries and wide-ranging knowledge in finance and accounting. The Company judged that he has used such experience and knowledge in appropriately executing his duties as Outside Corporate Auditor, and accordingly the Company nominated him as an Outside Corporate Auditor.
Tadashi Fukuda Outside Corporate Auditor	Tadashi Fukuda works as Executive Partner of Daiichi Law Office, as Outside Board Director of SHINYEI KAISHA, and as Outside Corporate Auditor of EXEDY Corporation. There are no special conflicts of interest between the Company and Tadashi Fukuda or these companies.	Tadashi Fukuda has abundant experience and highly sophisticated knowledge as an attorney. He is utilizing this experience and knowledge in appropriately executing his duties as Outside Corporate Auditor, and accordingly the Company nominated him as an Outside Corporate Auditor.

performance and stock value. On the other hand, the compensation plan for outside directors and corporate auditors (including outside corporate auditors), comprises "base compensation" only.

The compensation for directors is determined by resolution of the Board of Directors within the scope approved at the general meetings of shareholders upon hearing opinions of the Compensation Committee, a voluntary advisory committee of the Company's Board of Directors, as needed. The compensation for corporate auditors is determined within the scope approved at the general meetings of shareholders through mutual consultation among corporate auditors.

In fiscal 2016, basic compensation for directors and corporate auditors was as shown in the table below. The Company and consolidated subsidiaries paid ¥84 million and ¥8 million, respectively, to Ernst & Young ShinNihon LLC as compensation for auditing and verification.

	Basic compensation	Number of people
Directors (excluding outside directors)	¥368 million	6
Corporate auditors (excluding outside corporate auditors)	¥74 million	3
Outside officers	¥44 million	5

Note: Includes one corporate auditor (standing) who retired in fiscal 2016.

Guidelines Related to Measures to Protect Minority Shareholders in the Event of Transactions, etc., with Controlling Shareholder

Mitsubishi Chemical Holdings Corporation (MCHC), which is Mitsubishi Tanabe Pharma's parent company, is a holding company. To leverage the human and tangible resources held by the MCHC Group, MCHC and the Company share know-how; jointly use assets and facilities, including IT systems, and Group networks; and exchange human resources, and the Company deposits funds with MCHC. However, there are no transactions that have the potential to significantly influence the results of the Company, and there are no plans to engage in such transactions in the future. In regard to transactions between the Company and MCHC or other companies in the MCHC Group, in making decisions the highest priority is given to increasing the enterprise value of the Mitsubishi Tanabe Pharma Group in order to maximize the benefit to all of the Company's shareholders.

In regard to transactions between the Company and MCHC or other companies in the MCHC Group, the Company verifies the appropriateness and economic rationality of the transactions, such as whether the terms and conditions are equivalent to those of general transactions. Significant transactions are subject to sufficient deliberations and approval by the Board of Directors, which includes two or more independent outside directors, from the perspective of ensuring the common interests of the Mitsubishi Tanabe Pharma Group and shareholders.

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

In regard to the independence of the Company from its parent company, MCHC, both companies have agreed that the Company will remain listed and that, in principle, for 10 years from October 1, 2007, MCHC will maintain its shareholding ratio in the Company. Both companies have also agreed that the Company will be operated based on the principle of independent decisions and judgment as a publicly listed company. The abovementioned time limit will be reached at the end of September 2017, but at this point in time MCHC has no plans to increase or decrease the shareholding ratio. The Company believes that it has secured its independence from its parent company.

Disclosure of Information to Stakeholders

In order to promote understanding of the Company and to obtain fair evaluations of the Company, Mitsubishi Tanabe Pharma strives to disclose in a fair, timely, and appropriate manner important Company information related to its activities, such as its management policies, management objectives, and financial situation, to all of its stakeholders, including shareholders, investors, patients and health care workers, and local communities. We adhere to the Financial Instruments and Exchange Law and other Japanese laws and regulations relating to information disclosure and stock exchange regulations for listed securities. Also, based on our information disclosure regulations, and in accordance with the relevant internal systems, we are working to ensure that both the content and timing of our information disclosure are fair to all stakeholders.

We give a range of presentations to explain the Company's financial situation, describe the development of new products, and explain important management policies and business developments. These presentations include results briefings for institutional investors and business presentations. To enable individual and overseas investors to access presentations, the audio and video for presentations are distributed via the Company's website, and the content of Q&A sessions is also released. In addition, in fiscal 2016 we held 12 presentations for individual investors. Furthermore, as an initiative related to corporate social responsibility, the Company has established a CSR website on the corporate website, where the Company's CSR activities are published and updated in a timely manner, and the CSR ACTIVITIES REPORT for fiscal 2016 (PDF version) is also published.

Messages from Outside Directors

> The Company worked energetically to address the issues identified by the evaluation of the effectiveness of the Board of Directors.

Shigehiko Hattori, Outside Director

Fiscal 2016 was a period of strong growth for Mitsubishi Tanabe Pharma. To enhance its presence in the U.S. in its specialty fields, the Company decided to implement in-house sales of its own products and took the first step toward a full-scale global system. In May 2017, ALS treatment agent Radicava was approved by the U.S. FDA, and from August the Company was ready to deliver it to patients as an innovative drug that addresses unmet medical needs.

In addition, during fiscal 2016 the Company worked energetically on governance reforms in conformance with the Corporate Governance Code. The Company implemented repeated discussions about how to improve the issues identified by the previous fiscal year's evaluation of the effectiveness of the Board of Directors. As a result, the Company established the Compensation Committee and the Nomination Committee, increased the number of outside directors, revised the compensation system, and implemented other measures. In these ways, the Company worked to secure management transparency.

Fiscal 2017 marks the 10th anniversary of the establishment of Mitsubishi Tanabe Pharma. Moving forward, I would like to see the employees working together and looking ahead to the next 25 or 50 years as they work in accordance with the key phrase "taking on the challenge of creating significant change."

> At meetings of the Board of Directors, dynamic deliberations are conducted and the Company has secured transparent, objective decision-making.

Shigeki Iwane, Outside Director

At meetings of Mitsubishi Tanabe Pharma's Board of Directors, dynamic deliberations are conducted, and the decision-making is transparent and objective. I think the Company is doing an excellent job at implementing meetings of the Board of Directors with attention to ensuring active discussions. For example, to provide outside directors with the information necessary for decision-making and to secure sufficient time for discussions, the Company creates multiple opportunities for timely deliberations in accordance with the issues under deliberation. One future issue will be the achievement of a balance between important items for which the Board of Directors makes decisions and items for which the Board of Directors entrusts to executives and then rigorously monitors the situation. I believe that this point will become increasingly important in the achievement of more flexible management while enhancing the rationality of decision-making.

It has been a year since I became an outside director. I have participated in serious deliberations at meetings of the Board of Directors and other venues. As my understanding of the Company's business has deepened, my sense of the importance of the Company's social mission has been enhanced. My commitment to achieving sustained growth for the Company has been reinforced. To that end, as an outside director, I am drawing on my own experience to actively offer advice regarding such matters as safety and organizational culture. In addition, in deliberations at meetings of the Board of Directors, I am working to ensure that the opinions of various stakeholders are reflected in a balanced manner and that, with attention paid to risks, individual decisions are consistent with the medium-term management plan.

Moving forward, I will continue to do my utmost to fulfill my duties as an outside director. In this way, I will work to help the Company further enhance safety and security in all of its business activities and to earn the trust of society and record further strong growth as an international pharmaceutical company.

Newly appointed outside director

Generating results and earning trust will lead to increases in corporate value.

Tsutomu Kamijo, Outside Director

Mitsubishi Tanabe Pharma has the longest history of any company in the domestic pharmaceutical industry, and that history is a sign of the Company's sustained efforts to earn trust since its founding. It is only natural that the steps that need to be taken for safety and security in the pharmaceutical industry are different from those in the food and beverage industry, where I work. In either case, safety and security are essential conditions that must continually be pursued as the foundation of business activities. It is because the Company's businesses involves consumption by people that safety and security comprise the first step in the implementation of corporate governance.

On the other hand, the expectations of society for pharmaceutical companies are increasing further due to the progress of technology and advances in telecommunications. To address those expectations, companies must take on challenges. It has been 10 years since the establishment of Mitsubishi Tanabe Pharma, and the Company is now at a major turning point with the start of full-fledged business operations in the U.S. and the direct contribution to the health of people around the world. The Company's business activities are full of challenge and innovation, and I believe that this will become the source of further growth. Generating results and earning trust will not only lead to increases in corporate value but also address the expectations of the Company's stakeholders.

Leveraging my experience and know-how, I will offer my opinion from a variety of viewpoints. In this way, I will strive to assist in the Company's management and business activities.

Name of Outside Directors, Relationships between Outside Directors and the Company, and Reason for Nomination

	Relationships between Outside Directors and the Company	Reason for nomination
Shigehiko Hattori Outside Director	Shigehiko Hattori is Senior Corporate Adviser of the Board of Shimadzu Corporation and Outside Director of Sapporo Holdings Ltd., BROTHER INDUSTRIES Ltd., and Meiji Yasuda Life Insurance Company. There are no special conflicts of interest between the Company and Shigehiko Hattori or these companies.	Shigehiko Hattori has abundant experience as a corporate manager and wide-ranging knowledge in science and technology. The Company judged that he has fulfilled his duties in the supervision of decision-making and business execution by the Board of Directors since his appointment in June 2011 by offering valuable advice and proposals from an objective perspective on important matters at the Board of Directors' meetings, and accordingly the Company nominated him as an Outside Director.
Shigeki Iwane Outside Director	Shigeki Iwane works as President and Director of The Kansai Electric Power Co., Inc. There are no special conflicts of interest between the Company and Shigeki Iwane or this company.	Shigeki Iwane has abundant experience as a corporate manager and wide-ranging knowledge in corporate governance. The Company judged that he has fulfilled his duties in the supervision of decision-making and business execution by the Board of Directors since his appointment in June 2016 by offering valuable advice and proposals from an objective perspective on important matters at the Board of Directors' meetings, and accordingly the Company nominated him as an Outside Director.
Tsutomu Kamijo Outside Director	Tsutomu Kamijo works as Chairman and Representative Director of Sapporo Holdings Ltd. There are no special conflicts of interest between the Company and Tsutomu Kamijo or this company.	Tsutomu Kamijo has abundant experience as a corporate manager and wide-ranging knowledge in global business development. The Company judged that he can utilize this experience and knowledge to fulfill his duties in the supervision of decision-making and business execution by the Board of Directors, and accordingly the Company nominated him as an Outside Director.

Risk Management and Compliance

Risk Management

Business Activity Risk Management

With the objective of appropriately managing the risks resulting from its business activities, the Company has formulated risk management regulations. We ascertain the areas and types of risks that we face in our business activities and ensure that the necessary countermeasures are implemented by the relevant department.

To handle risks at the Companywide level, we established the Risk Management Committee, which is led by the President and CEO and, as a general rule, meets twice per year. The committee has overall responsibility for risk management, such as consideration of the progress of the Group's risk reduction measures, and has established and operates a system to advance risk management.

Preparation for Large-Scale Disasters

To secure a stable supply of pharmaceuticals, which is the mission of a pharmaceutical manufacturing and sales company, we have formulated disaster regulations, such as Business Continuity Management Rules for Large-Scale Disaster. The Company is advancing a variety of countermeasures to large-scale disasters, such as an earthquake, tsunami, pandemic, or terrorist incident, and related risks. In this way, the Company is working to increase its disaster resilience. In an emergency, we will work to accomplish our mission with a Companywide system based on collaboration among the head office and each base, with our highest priority being the stable delivery of pharmaceuticals to patients.

Compliance

Compliance Promotion System

To ensure sound business activities, Mitsubishi Tanabe Pharma has formulated the Corporate Behavior Charter, which identifies the top priorities for directors and employees in the implementation of business activities, and the Mitsubishi Tanabe Pharma Group Declaration of Compliance, which provides specific behavioral guidelines. In accordance with the code, members of the Board of Directors and Board of Corporate Auditors take the lead in strictly adhering to laws, regulations, and the Company's Articles of Incorporation. Also, the Company is taking steps to create a Companywide compliance system, including Group companies, centered on the Compliance Promotion Committee, which is chaired by the Chief Compliance Officer. A total of 168 compliance implementation personnel, including managers and staff, meet semiannually (overall / individually). These meetings are held to facilitate coordination among individual workplaces, heighten sensitivity to risk associated with compliance and potential scandals, share information on related problems, and enhance the capacity of workplaces to address compliance issues.

Compliance Training

Once per year, we are implementing Companywide compliance training and department-level compliance training. The objectives of this training are to cultivate a high level of ethical standards and awareness of norms and to further foster compliance awareness. In addition, through e-learning we perform a compliance understanding check twice per year to confirm understanding of such matters as laws, regulations, and internal rules. This enables officers and employees to act in accordance with consistent evaluation standards.

Corporate Behavior Charter

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

Pride and Sense of Mission	As people involved in the creation of pharmaceuticals, we will work with pride and a sense of mission as we endeavor to research and develop pharmaceuticals that are needed by society and to ensure product safety and quality.
Challenge and Innovation	With acute sensitivity and a broad perspective, we will focus on our future direction, decisively take on the challenge of meeting higher goals, and strive to create innovative value.
Trust and Teamwork	Through free and open communication, we will promote mutual understanding and respect, and we will emphasize teamwork as we strive to maximize our results based on strong relationships of trust.
Harmonious Coexistence with Society	We will work to achieve harmonious coexistence with society by acting with consideration for local communities and the environment.

Establishment of Hotlines

The Company has established internal and external hotlines as systems for reports and consultation regarding violations of laws, regulations, and social rules. The purpose of these systems is to prevent or reduce the risk of inappropriate conduct by enabling employees to use familiar hotlines when they have concerns or doubts. Also, through compliance training and other means, we are reporting the most recent trends and examples worthy of special mention.

Compliance at Overseas Group Companies

The Company consults regularly with relevant departments in the Group concerning action programs to strengthen compliance and risk management systems at Group companies outside Japan. The Company has bases in North America, Europe, and Asia. We are sharing policies that are important in Group management while considering the values of each country, such as the cultures, laws, and business practices. In this way, we are advancing the compliance and risk management of Group companies.

Implementation of Employee Awareness Survey

We conduct an employee awareness survey once a year with the objective of tracking employee motivation. This survey includes compliance awareness. In this way, we are tracking and periodically observing awareness on a Companywide level. We are utilizing the results to advance compliance by providing them to each division as feedback. In addition, we will work to continue to increase compliance awareness among employees through such means as Companywide compliance training.

Prevention of Bribery and Corruption

In addition, with the objective of strengthening measures to prevent bribery and corruption in business, the Group has formulated the Mitsubishi Tanabe Pharma Group Global Anti-Bribery and Corruption Policy, which has been adopted by all Group companies. Moreover, to further clarify the content of this policy, we formulated corruption prevention guidelines in Japan, China, South Korea, Taiwan, and Indonesia, and we are implementing appropriate responses in line with the laws, regulations, and business practices of each country.

Exclusion of Antisocial Elements / Checking Of Suppliers for Relationships with Antisocial Forces

In regard to antisocial elements, as an organization, in the face of unreasonable demands the Group follows a resolute approach that is unyielding and uncompromising. Furthermore, in accordance with the Company's business conduct guidelines, all executives and employees are required to adhere strictly to relevant laws and ordinances in all of their day-to-day business activities, avoid relationships with antisocial elements, and act in accordance with social ethics. In addition, prior to starting transactions with new business partners, the Company checks for affiliations between the supplier and antisocial elements. In this way, the Company is working to exclude relationships with antisocial elements.

Personal Information Protection

In regard to the important personal information of customers, we have formulated and announced the Privacy Policy: Personal Information Protection Policies. In accordance with the basic policy of suitable and secure handling of personal information, we gather personal information through appropriate means and use personal information within the scope necessary to fulfill the purpose of use.

Appropriate Relationships with Medical Institutions and Patient Organizations

In accordance with guidelines formulated by the Japan Pharmaceutical Manufacturers Association (JPMA), in July 2011 the Company formulated its guidelines for transparency in relationships with medical institutions, etc. In accordance with these guidelines, from fiscal 2012 we have followed a policy of releasing related information on the Company's website. This information includes payments to medical institutions as research and development expenses, etc., academic research support expenses, manuscript / writing fees, etc., information provision-related expenses, and hospitality and other expenses. The purpose of these initiatives is to secure a broad understanding from society in regard to the contribution made by the Company's business activities to progress in medicine, pharmacology, and the other life sciences and in regard to the Company's high ethical standards in its business activities.

In addition, in August 2014 the Company formulated guidelines for managing conflicts of interest with medical and research institutions, etc. We have established principles for avoiding problems with conflicts of interest and a system for managing conflicts of interest, and we are working to operate this system in an appropriate manner.

In particular, in regard to scholarships and donations to domestic medical institutions, which are included in research and development expenses, to secure transparency in April 2016 the Company started a system of publicly inviting applications on the Internet. Funding is provided after screening is conducted by a third-party unit.

In addition, in regard to relationships with patient organizations, first it is important for corporate activities to be based on a high level of ethical standards and mutual understanding with respect for the independence of patient organizations. On that basis, to secure a broad understanding from society in regard to our contribution to the activities and development of patient organizations, in accordance with the guidelines of the JPMA, in April 2013 we formulated our guidelines for transparency in relationships with patient organizations. From fiscal 2013, information regarding the funds and labor provided to these patient organizations is provided on the Company's website.

WEB For further information about corporate governance and internal control, please refer to the Company's CSR website.
CSR Website
http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/index.html
CSR ACTIVITIES REPORT 2017 (PDF version)
http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/csr_pdf/index.html

Board of Directors and Auditors

As of August 1, 2017

Board of Directors

Masayuki Mitsuka

President & Representative Director, Chief Executive Officer

1982 Entered Mitsubishi Chemical Industries Ltd. (currently, Mitsubishi Chemical Corporation)
1999 General Manager of Pharmaceuticals Discovery Laboratory of Yokohama Research Center of Mitsubishi-Tokyo Pharmaceuticals Inc.
2004 President and Board Director of ZOEGENE Corporation
2007 Associate Director, General Manager of Product Strategy Department of Mitsubishi Pharma Corporation
2007 Associate Director, General Manager of Global Product Strategy Department of the Company
2008 Executive Officer, General Manager of Global Product Strategy Department of the Company
2009 Board Director, Executive Officer, General Manager of Global Product Strategy Department of the Company
2012 Board Director, Managing Executive Officer, Division Manager of Development Division of the Company
2014 Representative Director, Senior Managing Executive Officer of the Company
2014 President & Representative Director, Chief Executive Officer of the Company (current)
2014 Board Director of The KAITEKI Institute, Inc. (current)

Masayuki Mitsuka entered Mitsubishi Chemical Industries Ltd. (currently, Mitsubishi Chemical Corporation) in 1982. He worked as a researcher in the Pharmaceutical Research Department. After studying as a research student overseas, in 1999 he became General Manager of Pharmaceuticals Discovery Laboratory of Yokohama Research Center of Mitsubishi-Tokyo Pharmaceuticals Inc. In 2000, he became Assistant Manager of the Corporate Strategic Planning Office and the Life Science Business Promoting Office at Mitsubishi Chemical, and he was responsible for the reform of the R&D system. In addition, he worked on the merger of Mitsubishi-Tokyo Pharmaceuticals Inc. and Welfide Corporation. Subsequently, in 2002 he moved to ZOEGENE Corporation, a bio-related subsidiary established by Mitsubishi Chemical Corporation, and in 2004 he became President and Board Director of ZOEGENE Corporation. After Mitsubishi Tanabe Pharma was established, he worked in such positions as Board Director, Executive Officer, General Manager of Global Product Strategy Department, and Managing Executive Officer, Division Manager of Development Division. In 2014, he became President & Representative Director, Chief Executive Officer, and since then he has worked to speed up decision-making and reform the corporate constitution. Under Medium-Term Management Plan 16–20: Open Up the Future, which started from fiscal 2016, those policies have been continued, and the Company is implementing its four strategic priorities. In addition, he also works as Board Director of The KAITEKI Institute, Inc.

Takashi Kobayashi

Representative Director, Senior Managing Executive Officer, Division Manager of CMC Division

1980 Entered the Company
2003 General Manager of Secretary's Office of Administrative Division of the Company
2004 General Manager of Pharmaceuticals Sales & Marketing Department of Marketing Planning Division of the Company
2007 Executive Officer, General Manager of Corporate Management Department of the Company
2009 Board Director, Executive Officer, General Manager of Corporate Strategic Planning Department of the Company
2012 Board Director, Managing Executive Officer, in charge of Business Unit, responsible for Special Assignments from the President of the Company
2014 Board Director, Managing Executive Officer, Division Manager of Research Division of the Company
2015 Board Director, Managing Executive Officer, Division Manager of Sohyaku. Innovative Research Division of the Company
2016 Representative Director, Senior Managing Executive Officer, Division Manager of Sohyaku. Innovative Research Division of the Company
2017 Representative Director, Senior Managing Executive Officer, Division Manager of CMC Division of the Company (current)

Takashi Kobayashi entered Tanabe Seiyaku in 1980. He worked as a researcher in the Safety Research Laboratories. In 1997, he moved to the Human Resources Division, where he was engaged in the operation of the personnel system. He worked as General Manager of Secretary's Office of Administrative Division and as General Manager of Pharmaceuticals Sales & Marketing Department of Marketing Planning Division. After Mitsubishi Tanabe Pharma was established, he worked as Executive Officer, General Manager of Corporate Management Department, and in 2009 he became Board Director, Executive Officer, General Manager of Corporate Strategic Planning Department. Subsequently, he became Board Director, Managing Executive Officer, in charge of Business Unit, responsible for Special Assignments from the President, and he worked to implement structural reforms and to resolve quality control issues and other issues in sales and corporate divisions. Subsequently, as Division Manager of Research Division and as Division Manager of "Sohyaku. Innovative Research Division," he implemented reforms of the research system, and in 2016, he became Representative Director, Senior Managing Executive Officer, Division Manager of Sohyaku. Innovative Research Division. In 2017, he became Division Manager of CMC Division (Chemistry, Manufacturing, and Control), and he started up the Future Design Department. Together with employees, he is working to identify the form of the pharmaceuticals of the future.

Yoshiaki Ishizaki

Board Director, Managing Executive Officer, Division Manager of Sales & Marketing Division, in charge of Tokyo Head Office

1978 Entered Yoshitomi Pharmaceutical Industries, Ltd.
2006 General Manager of Distribution Management & Wholesalers Relations Department of Sales & Marketing Division of Mitsubishi Pharma Corporation
2007 General Manager of Tokyo Branch of Sales & Marketing Division of the Company
2008 Associate Director, General Manager of Tokyo Branch of Sales & Marketing Division of the Company
2009 Executive Officer, General Manager of Tokyo Branch of Sales & Marketing Division of the Company
2011 Executive Officer, Division Manager of Pharmacovigilance & Quality Assurance Division of the Company
2012 Managing Executive Officer, Division Manager of Pharmacovigilance & Quality Assurance Division of the Company
2014 Managing Executive Officer, Division Manager of Pharmacovigilance & Quality Assurance Division of the Company, Chief Compliance Officer of the Company
2014 Board Director, Managing Executive Officer, Division Manager of Pharmacovigilance & Quality Assurance Division of the Company
2015 Board Director, Managing Executive Officer, Division Manager of Sales & Marketing Division of the Company (current)

Yoshiaki Ishizaki entered Yoshitomi Pharmaceutical Industries Corporation in 1978. He worked in the sales and marketing department of Yoshitomi Pharmaceutical Industries Ltd., and in 1994 he became General Manager of Tokyo Johoku Office I. In 2006, he became General Manager of Distribution Management & Wholesalers Relations Department of Sales & Marketing Division of Mitsubishi Pharma Corporation. After Mitsubishi Tanabe Pharma was established, he became General Manager of Tokyo Branch of Sales & Marketing Division, and in 2009 he became Executive Officer, General Manager of Tokyo Branch of Sales & Marketing Division of the Company. After joining Yoshitomi Pharmaceutical Industries, he contributed to the Company's results on the front lines of sales. Subsequently, he worked in such positions as Managing Executive Officer, Division Manager of Pharmacovigilance & Quality Assurance Division. In 2014, he became Board Director, and in 2015 he became Division Manager of Sales & Marketing Division. Leveraging the wide-ranging experience he acquired through many years on the front lines of sales, he is taking steps to build a strong sales system suitable for the future market environment, such as strengthening area marketing and reforming MR activities through the use of digital marketing.

Seiichi Murakami

Board Director, Managing Executive Officer, Division Manager of Ikuyaku. Integrated Value Development Division

1980 Entered the Company
2003 General Manager of Remicade Department of Pharmaceuticals Sales & Marketing Division of the Company
2006 Executive Officer, Deputy Division Manager of Pharmaceuticals Sales & Marketing Division of the Company
2009 Executive Officer, Division Manager of Development Division of the Company
2012 Managing Executive Officer, in charge of Management Strategy of the Company
2014 Managing Executive Officer, Division Manager of Sales & Marketing Division of the Company
2015 Board Director, Managing Executive Officer, Division Manager of Sales & Marketing Division of the Company
2015 Board Director, Managing Executive Officer, Division Manager of Ikuyaku. Integrated Value Development Division of the Company (current)

Seiichi Murakami entered Tanabe Seiyaku in 1980. He worked in the area of in-licensing in the global development group at Tanabe Seiyaku. In 1983, he worked on the development of Maintate in the domestic development group, and subsequently he worked in sales and marketing on the launch of new products. After working as Manager in Corporate Strategic Planning Department, in 2003 he became General Manager of Remicade Department of Pharmaceuticals Sales & Marketing Division and Manager of Corporate Strategic Planning Department. He supported the development of Remicade and contributed to Remicade's growth into a major drug. In 2006, he became Executive Officer, Deputy Division Manager of Pharmaceuticals Sales & Marketing Division. After Mitsubishi Tanabe Pharma was established, he worked in such positions as Executive Officer, Division Manager of Development Division and Managing Executive Officer, Division Manager of Sales & Marketing Division. In 2015, he became a Board Director. Also in 2015, he became Division Manager of Ikuyaku. Integrated Value Development Division. Leveraging the experience that he acquired in nurturing products in the Sales & Marketing Division and the Development Division, he is working to strengthen IKUYAKU in order to maximize product value.

Eizo Tabaru

Board Director, Managing Executive Officer

1981 Entered Mitsubishi Chemical Industries Ltd. (currently, Mitsubishi Chemical Corporation)
2010 General Manager of Finance and Accounting Department of Mitsubishi Chemical (currently, Mitsubishi Chemical Corporation)
2010 Associate Director, General Manager of Finance and Accounting Department of Mitsubishi Chemical
2012 Executive Officer, General Manager of Finance and Accounting Department of Mitsubishi Chemical
2014 Executive Officer, General Manager of Finance & Accounting Department of the Company
2015 Board Director, Executive Officer, General Manager of Finance & Accounting Department of the Company
2016 Board Director, Managing Executive Officer, General Manager of Finance & Accounting Department of the Company
2017 Board Director, Managing Executive Officer, in charge of Corporate Strategic Planning Department, Finance & Accounting Department, Corporate Communications Department and ICT Management Department of the Company (current)

Eizo Tabaru entered Mitsubishi Chemical Industries (currently, Mitsubishi Chemical Corporation) in 1981. In the General Affairs Department at the Kurosaki Plant of Mitsubishi Chemical, he worked in finance and accounting. In 1985, he moved to the Accounting Department at Mitsubishi Chemical, and he worked on a companywide cost system unification project. Subsequently, he worked on overseas projects, and was in charge of local plant construction in such countries as Indonesia and Thailand. In 1998, he started a new job as CFO at MCC PTA India Corp. He worked in accounting, finance, and IT for a plant construction project in Calcutta. Subsequently, he became Associate Director, General Manager of Finance and Accounting Department of Mitsubishi Chemical in 2010, Executive Officer of Mitsubishi Chemical in 2012, and Executive Officer, General Manager of Finance & Accounting Department of the Company in 2014. Since he became a Board Director in 2015, he has contributed to increasing the corporate value of the Company as the person responsible for corporate strategic planning, finance and accounting, and other areas.

Takashi Tanaka

Board Director, Managing Executive Officer, Division Manager of Production Division

1985 Entered the Company
2002 General Manager of Production Planning Department of Production Division of the Company
2005 General Manager of Onoda Plant of Production Division of the Company
2005 Director of TANABE YAMAGUCHI SEIYAKU (currently, Mitsubishi Tanabe Pharma Factory Ltd.)
2008 General Manager of Production Strategy & Coordination Center of Production Division of the Company
2010 General Manager of Production Strategy & Coordination Department of Production Division of the Company
2010 President and Representative Director of Mitsubishi Tanabe Pharma Factory Ltd.
2013 Associate Director, Deputy Division Manager of CMC Division (Chemistry, Manufacturing and Control) of the Company
2014 Executive Officer, Deputy Division Manager of CMC Division (Chemistry, Manufacturing and Control) of the Company
2015 Executive Officer, Division Manager of Production Division of the Company
2017 Board Director, Managing Executive Officer, Division Manager of Production Division of the Company (current)

Takashi Tanaka entered the Company in 1985. He worked as a researcher in the Toda Research Center of the Company. After he became General Manager of Production Planning Department of Production Division in 2002, he worked in a variety of important manufacturing-related positions, including positions on the front-lines, such as in positions related to production, technology, and plants. These positions included General Manager of Onoda Plant of Production Division, Director of TANABE YAMAGUCHI SEIYAKU CO., LTD. (currently, Mitsubishi Tanabe Pharma Factory Ltd.), General Manager of Production Strategy & Coordination Center of Production Division, and Representative President and Director of Mitsubishi Tanabe Pharma Factory Ltd. In addition, he helped to resolve the quality-related problems that arose in 2011. In 2014, he became Executive Officer, Deputy Division Manager of CMC Division (Chemistry, Manufacturing, and Control) of the Company. Subsequently, in 2015 he became Division Manager of Production Division, and in 2017 he became a Board Director of the Company. Leveraging his experience and knowledge, he is leading initiatives in the area of Reforming Operational Productivity through manufacturing supply chain management reforms.

Board of Directors

Shigehiko Hattori
Board Director (Outside)

1964 Entered Shimadzu Corporation
1993 Board Director of Shimadzu Corporation
1997 Managing Board Director of Shimadzu Corporation
2003 President & Representative Director of Shimadzu Corporation
2009 Chairman of the Board and Representative Director of Shimadzu Corporation
2011 Outside Board Director of the Company (current)
2012 Outside Board Director of Sapporo Holdings Ltd. (current)
Outside Board Director of BROTHER INDUSTRIES Ltd. (current)
Outside Board Director of Meiji Yasuda Life Insurance Company (current)
2015 Senior Corporate Adviser of Shimadzu Corporation (current)

Shigeki Iwane
Board Director (Outside)

1976 Entered The Kansai Electric Power Co., Inc.
2005 Senior Officer and Office Head of Nuclear Power Maintenance and Innovation Promotion Office of The Kansai Electric Power Co., Inc.
2007 Executive Officer, General Manager of Corporate Planning Office of The Kansai Electric Power Co., Inc.
2010 Managing Director of The Kansai Electric Power Co., Inc.
2012 Representative Director, Executive Vice President & Director of The Kansai Electric Power Co., Inc.
2013 Representative Director, Executive Vice President of The Kansai Electric Power Co., Inc.
2013 Outside Corporate Auditor of Kinden Corporation
2016 Outside Board Director of the Company (current)
2016 President and Director of The Kansai Electric Power Co., Inc. (current)

Tsutomu Kamijo
Board Director (Outside)

1976 Entered Sapporo Breweries Limited (currently, Sapporo Holdings Ltd.)
2001 Board Director of Sapporo Beverage Co., Ltd.
2003 Board Director and Managing Executive Officer of Sapporo Beverage Co., Ltd.
2007 Board Director of Sapporo Holdings Ltd.
2009 Managing Director (Member of the Board) of Sapporo Holdings Ltd.
2011 President and Representative Director of Sapporo Holdings Limited and CEO of the Sapporo Holdings Group
2017 Chairman and Representative Director of Sapporo Holdings Ltd. (current)
2017 Outside Director of the Company (current)
Outside Director of Imperial Hotel, Ltd. (current)

Auditors

Koji Kudo
Corporate Auditor (Standing)

1981 Entered Mitsubishi Petrochemical Co., Ltd. (currently, Mitsubishi Chemical Corporation)
2006 General Manager of Finance & Accounting Department of Japan Polychem Corporation
2010 General Manager of Finance & Accounting Department of Mitsubishi Plastics, Inc. (currently, Mitsubishi Chemical Corporation)
2012 Associate Director, General Manager of Finance & Accounting Department of Mitsubishi Plastics, Inc.
2014 Executive Officer, General Manager of Finance & Accounting Department of Mitsubishi Plastics, Inc.
2016 Corporate Advisor of the Company
2016 Corporate Auditor (Standing) of the Company (current)

Matsuo Kikuchi
Corporate Auditor (Standing)

1984 Entered the Company
2010 General Manager of Development Quality Management Department of Development Division of the Company
2012 General Manager of Pharmacovigilance & Quality Planning and Coordination Department of Pharmacovigilance & Quality Assurance Division of the Company
2014 Associate Director, General Manager of Pharmacovigilance & Quality Planning and Coordination Department of Pharmacovigilance & Quality Assurance Division of the Company
2014 Associate Director, General Manager of Pharmacology Research Laboratories I of Research Division of the Company
2015 Executive Officer, General Manager of Pharmacology Research Laboratories I of Research Division of the Company
2016 Executive Officer, Division Deputy Manager of Ikuyaku, Integrated Value Development Division of the Company
2017 Corporate Auditor (Standing) of the Company (current)

Takashi Nishida
Corporate Auditor (Outside)

1976 Entered The Mitsubishi Bank (currently, The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
2004 Executive Officer, The Bank of Tokyo-Mitsubishi, Ltd. (currently, The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
2007 Outside Corporate Auditor (standing) , Mitsubishi Chemical Holdings Corporation
Outside Corporate Auditor, Mitsubishi Chemical Corporation (currently, Mitsubishi Chemical Corporation)
Outside Corporate Auditor, Mitsubishi Pharma Corporation
2007 Outside Corporate Auditor of the Company (current)

Tadashi Fukuda
Corporate Auditor (Outside)

1986 Entered Daiichi Law Office
2015 Outside Corporate Auditor of EXEDY Corporation (current)
2016 Executive Partner of Daiichi Law Office (current)
2016 Outside Corporate Auditor of the Company (current)

Corporate Citizenship Activities

Declaration on Corporate Citizenship

We have formulated the Mitsubishi Tanabe Pharma Group Declaration on Corporate Citizenship, and we are actively advancing corporate citizenship activities, targeting the realization of a "*KAITEKI* society."

WEB For further information about *KAITEKI*, please see the MCHC website.
http://www.mitsubishichem-hd.co.jp/english/kaiteki_management/kaiteki/

Support for Medical Treatment and Health

Implementing Donation and Assistance Activities

In 2012, we established the Mitsubishi Tanabe Pharma Tenohira Partnership Program, which provides aid for the activities of associations and support groups for patients with intractable diseases. These organizations work to improve patients' medical treatment, education, and career prospects and to enhance their quality of life. A meeting was held in October 2016 to report on the fiscal 2015 activities of organizations receiving assistance under the Tenohira Partnership Program (11 organizations, 15 people). At this meeting, participants shared know-how about enhancing lifestyles and engaged in lively exchanges of opinion. These discussions included such matters as problems with gaps in support systems that result in a large number of patients with incurable diseases who do not have disability certificates, as well as education and career prospects for patients with intractable diseases.

In addition, in June 2017 a total of 22 Group company employees and family members from Japan and the U.S. participated in walking events sponsored by the ALS Association, an organization for patients with ALS. The ALS Association is a leading ALS patient organization in the U.S., and it sponsors more than 150 charity events throughout the U.S. Mitsubishi Tanabe Pharma America, Inc., cooperated in the walking events. Donations that were raised through the events will be used for medical treatment, for research and development, and for patients and their families.

In addition, we are making donations to the SENSIN Medical Research Foundation and to the Japan Foundation for Applied Ezymology. In this way, through the activities of these foundations we are working to contribute to the promotion of research and the dissemination of knowledge in a broad range of fields, such as medicine, pharmacology, agriculture, and the physical sciences, as well as to the treatment and health of people. In fiscal 2016, we provided a total of approximately ¥200 million to these foundations.

Contributing to Developing Countries

The Global Health Innovative Technology Fund (GHIT Fund) is a public–private partnership, originating in Japan, that advances the discovery of new drugs for infectious diseases that afflict people in the developing world, such as malaria, tuberculosis, and neglected tropical diseases (NTDs). In 2015, through the GHIT Fund, the Company provided its pharmaceutical compound library (50,000 compounds) to Medicine for Malaria Venture, a research institution for anti-malaria drugs. Three types of promising compounds that have the potential to become pharmaceuticals have been identified. Moving forward, we will continue to advance joint research targeting the discovery of new anti-malaria drug candidate compounds.

In addition, we have introduced the TFT Program at the employee cafeterias of the Head Office, the Kashima Office, and Bipha Corporation. TFT is an abbreviation for Table for Two, a social contribution activity that originated in Japan. This activity is aimed at simultaneously resolving the problems of hunger in developing countries and the problems of obesity and lifestyle-related diseases in industrially developed countries. At the employee cafeterias, when employees eat low-calorie meals that help prevent obesity, ¥20 of the price is allocated to the cost of school meals in developing countries, such as in Africa.

Furthermore, since 2014 the Group has been participating in vaccine support activities for children in developing countries. Through this program, when unneeded books, CDs, DVDs, etc., are sent to BOOKOFF Online Corporation, 10% is added to the assessed

The Mitsubishi Tanabe Pharma Group Declaration on Corporate Citizenship

The Mitsubishi Tanabe Pharma Group will strive to contribute to society through its pharmaceutical operations in accordance with its Philosophy, Vision, and Corporate Behavior Charter. In addition, as a good corporate citizen, the Mitsubishi Tanabe Pharma Group will proactively implement the following activities to contribute to the resolution of problems related to health and living environments in the countries and regions where the Group conducts business.

Activities to Contribute to the Resolution of Problems Related to Health and Living Environments

1. Activities to promote medical research and nurture human resources
2. Activities to help patients and families find more joy and satisfaction in their lives
3. Activities to improve health and welfare in developing countries
4. Activities to activate communities and develop more-comfortable living environments
5. Other activities

For further information about corporate citizenship activities, please see the URLs on the right.

WEB **CSR Website** http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/index.html
CSR ACTIVITIES REPORT 2017 (PDF version) http://www.mt-pharma.co.jp/shared/show.php?url=../e/company/csr-report/csr_pdf/index.html

amount and the total is donated to Authorized NPO Japan Committee Vaccines for the World's Children. This international contribution activity uses those donations to deliver vaccines to children in developing countries, such as vaccines for six major infectious diseases. In fiscal 2016, we created an original poster to promote participation by more employees, and the entire Company worked together. As a result, the amount of the donation was ¥155,576, which was equivalent to 7,779 vials of polio vaccine.

Initiatives to Support Active Lifestyles for People with Disabilities

At the Kashima Office, as an activity to help patients and families find more joy and satisfaction in their lives, we have been supporting CP Soccer (soccer played by seven people with cerebral palsy) since fiscal 2013. The Kashima Office makes the office grounds available for the CP soccer tournament and other events.

Contributing to the Environment

The Group is aggressively implementing greening and beautification activities at each domestic worksite. Employees clean worksite surroundings and actively participate in neighborhood cleaning activities. In these ways, we are working to coexist in harmony with local communities.

Furthermore, we are also working to coexist harmoniously with local communities overseas, and we are implementing environmental activities at plants and surrounding areas.

Osaka Marathon Clean-Up Operation

Greening and beautification activities through planting in the area near the Bandung Plant (P.T. Tanabe Indonesia)

Contributing to Local Communities

Educational Activities at Schools and Company Tours

For students, we provide educational activities at schools. Through these activities, we offer lectures related to such topics as the pharmaceutical industry, the business of a pharmaceutical company, and new drug R&D. In fiscal 2016, employees visited one junior high school and two senior high schools as lecturers. In addition, Company worksites offer tours, such as for regional organizations and comprehensive learning initiatives for nearby schools and school excursions. In these ways, we are working to foster harmonious relationships with local communities.

Company tour

Mitsubishi Tanabe Pharma Historical Museum

In 2015, the Company has opened the Mitsubishi Tanabe Pharma Historical Museum on the second floor of the Head Office in Dosho-machi, Osaka, which is known as the "pharmaceutical district." More than 15,000 people have visited the museum since its opening. Through the Mitsubishi Tanabe Pharma Historical Museum, the Company is cooperating in regional events and contributing to the development of the next generation, such as with school off-campus learning activities.

WEB For further information about the Mitsubishi Tanabe Pharma Historical Museum, please visit the following website.
http://www.mtpc-shiryokan.jp/en/

Mitsubishi Tanabe Pharma Historical Museum

Support for Disaster Reconstruction

An earthquake struck Kumamoto Prefecture in April 2016, and to help people who were affected by the earthquake and assist in the reconstruction of the area, the Company made a donation of ¥10 million to the Japanese Red Cross Society. Also, the Company and a labor union jointly provided matching donations. The donations received from employees, which totaled ¥3.98 million, were matched with an equivalent amount, for a total of ¥7.96 million, which was donated to the Japanese Red Cross Society.

In regard to support for the reconstruction initiatives related to the Great East Japan Earthquake, which struck in March 2011, the Tokyo Head Office sponsored an exhibit for products from three prefectures in Tohoku (Miyagi, Fukushima, and Iwate). In the future, we will continue to provide support in the affected regions through our procurement activities.

Topic

Original Character *Tanamin*

Original Character *Tanamin*

By holding events related to local communities at Group plants and offices, we are deepening communication with members of local communities and making a contribution to regional society. The Company's original character *Tanamin*, which was created in 2016, makes appearances at events related to local communities and is contributing to regional activation.

Initiatives Related to Environmental Conservation

Environmental Management

In accordance with its environmental policy, in order to help protect the global environment and create a sustainable society, in every aspect of its business operations Mitsubishi Tanabe Pharma is working to reduce resource consumption, energy consumption, and waste and to achieve sustained reductions in the environmental burden.

Moreover, we work proactively to ensure that our operations are environmentally friendly. Furthermore, the Group appropriately discloses information related to the environment and promotes dialogue with the public in its initiatives aimed at contributing to the environment and society.

In addition, as a member of the Mitsubishi Chemical Holdings Group, we are striving to realize *KAITEKI* (comfort) for the world by aiming to increase sustainability and contributing to reductions in environmental burdens, such as reductions of greenhouse gas emissions.

In environmental information collection and disclosure, the Group collects and discloses information for all of the bases of Mitsubishi Tanabe Pharma and domestic consolidated subsidiaries and for the manufacturing and research facilities of overseas consolidated subsidiaries.

Establishment of an Environmental and Occupational Safety Management System

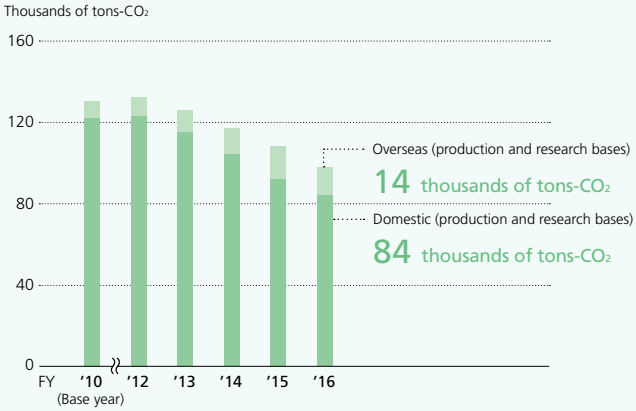
Mitsubishi Tanabe Pharma has established an environmental and occupational safety management system, overseen by the President and CEO. The Environmental Safety Committee serves as the consultative committee for this system, with members comprising representatives from the Executive Committee and others. The Environmental Safety Committee deliberates on environmental safety activities and plans, important measures, and other matters. We are working to appropriately and smoothly implement Groupwide environmental safety activities. Moreover, the Liaison Council for Environmental Safety has been established to further strengthen collaboration with Group companies in environmental safety activities. The council plans and

Environmental and Safety Policy

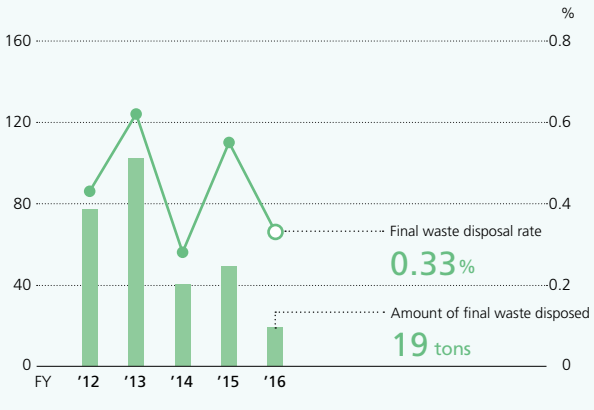
Mitsubishi Tanabe Pharma Corporation and its Group companies ("MTPC Group") aim to be global research-driven pharmaceutical companies that are trusted by communities, and actively strive to protect global environment and ensure people's safety.

1. We assess our corporate activities for their environmental impact in order to continuously reduce environmental burden.
2. We give priority to safety considerations for all of our workers to prevent occurrence of occupational accidents.
3. We set clear targets for our environmental and safety activities, and we effectively maintain and improve our system to achieve such targets.
4. We pursue activities in compliance with not only laws and regulations relating to environment and safety, but also more rigorous corporate management standards.
5. We systematically conduct training to enhance each and every employee's awareness on the environment and safety.
6. We proactively disclose information relating to environment and safety so that we can deepen communication with communities.
7. By proactively participating in and cooperating with environment management and disaster reduction activities organized by local communities, we prepare against unforeseen contingencies such as accidents and disasters, so as to minimize their impact.

CO_2 Emissions



Amount of Final Waste Disposed / Final Waste Disposal Rate



implements countermeasures for issues relating to the environmental safety of the Mitsubishi Tanabe Pharma Group. In this way, we are promoting the management of environmental issues both inside and outside Japan. In addition, the Company has established the Environmental Safety Division as a specialized unit with overall responsibility for environmental and safety management. Through close ties with the front lines, the division supports strengthened front-line capabilities and the development of a safety culture. In this way, the Company is working to prevent the occurrence or recurrence of accidents or problems related to the environment and safety of the Group.

Fiscal 2016 was the first year of the Group's Medium-Term Environmental Action Plan (2016–2020). In regard to "energy conservation and global warming mitigation," which is the Company's top priority, we achieved the target for CO_2 emission reductions by a significant margin. In addition, during the fiscal year we made suitable progress in addressing other themes with initiatives at each Group worksite.

Environmental Risk Management

The Group has formulated environmental safety risk management guidelines, and we are working to prevent environmental pollution due to harmful chemical substances, etc. In addition, to minimize pollution damage, we have established procedures for rapid, accurate responses in times of crisis, and we periodically plan and implement education and training.

In particular, the Group is concerned about any influence on local communities from an accidental discharge of chemical substances to public water bodies, and accordingly the Group has installed systems that can prevent environmental pollution, such as automation of emergency shutoff valves for wastewater and installation of water tanks for use in prevention of outflow. In this way, the Group is working to prevent pollution risk.

On the other hand, in recent years, climate change has become more apparent and there are growing calls around the world for measures to address climate change risk. In addition, water risk, such as water depletion, flooding, and water pollution, is susceptible to the influence of climate change. Moving forward, the Group will track and analyze the relationship between its business activities and climate risk and water risk. We will organize information regarding risks that affect operations and other aspects of management as well as available opportunities and move forward with initiatives.

Medium-Term Environmental Action Plan (2016–2020)

Area	Objectives	Principal initiatives and results in fiscal 2016
Energy conservation and global warming mitigation	• CO_2 emissions by fiscal 2020 Domestic group: Reduce by at least 25% compared to the fiscal 2010 level Global: Reduce by at least 20% compared to the fiscal 2010 level • Advance tracking of supply chain CO_2 emissions • Advance appropriate management of CFCs	• CO_2 emissions Domestic group: 31% reduction (vs. fiscal 2010) (9% reduction (vs. fiscal 2015)) Global: 25% reduction (vs. fiscal 2010) (9% reduction (vs. fiscal 2015)) • For supply chain CO_2 emissions, scope 3 emissions in categories 1, 2, 3, 4, 5, 6, 7, and 12 were tracked, calculated, and disclosed in the CSR website and CSR Activities Report 2017.
Reduction of waste, reuse and recycling of resources	• Reduce the amount of waste generated, maintain zero emissions (final waste disposal rate of less than 0.5%) • Fulfill the responsibility of a waste-discharging enterprise for handling waste correctly and ensuring proper treatment by contractors	• Amount of waste generated: 33% reduction (vs. fiscal 2015) • Final waste disposal rate: 0.33% • Advanced manifest digitalization • Improved internal evaluation standards for waste processing contractors and implemented rigorous evaluations
Chemical substance emissions reductions	• Properly manage chemical substances and continually reduce their discharge into the environment • Reduce emissions of toluene into the environment by 80% or more by fiscal 2020 in comparison with fiscal 2010	• Handling volumes PRTR substances: Reduction (4% reduction vs. fiscal 2015) VOC (excluding PRTR substances): Reduction (20% reduction vs. fiscal 2015) • Emissions into the environment (atmosphere or public water bodies) PRTR substances: Reduction (4% reduction vs. fiscal 2015) VOC (excluding PRTR substances): Reduction (1% reduction vs. fiscal 2015) • Emissions of toluene into the environment: Increase of 3% (vs. fiscal 2010) accompanying increase in handling volume and reevaluation of rate of emissions into public water bodies
Preservation of biodiversity	• Understand the relationship between business activities and biodiversity, advance initiatives for the preservation of biodiversity	• Advanced biodiversity preservation initiatives through planting at Ikoma Mountain (Osaka Prefecture) and natural woodland conservation in the Hachioji Takiyama Area (Tokyo Prefecture)
Enhancement of environmental management	• Rigorously implement environmental compliance, enhance environmental risk management • Maintain zero environmental accidents	• Environmental audits by environment-related departments Subject: 7 worksites of domestic Group companies, 3 overseas production bases • Improved environmental audit checklist for overseas bases • For people in charge at each base, environmental education and training related to overall environment-related laws and regulations as well as to waste • Zero environmental accidents / problems

Greenhouse Gas Emissions in the Supply Chain

Greenhouse gas emissions from business activities in the supply chain of a business comprise scope 1, scope 2, and scope 3 emissions.

Scope 1: Direct emissions of greenhouse gases from the business itself (use of fuel, industrial processes).
Scope 2: Indirect emissions from the consumption of electricity, heat, and steam supplied by other companies.
Scope 3: Indirect emissions other than those covered in scope 1 and scope 2 (emissions by other companies involved with the activities of the business).

Greenhouse Gas Emissions Calculation (Fiscal 2016)

Scope 1 (tons-CO_2)	Domestic:	31,493
	Overseas:	3,954
	Global:	35,447
Scope 2 (tons-CO_2)	Domestic:	61,594
	Overseas:	10,211
	Global:	71,805
Scope 3 (tons-CO_2)	Purchased goods and services:	530,753
	Capital goods:	40,959
	Fuel- and energy-related activities not included in Scope 1 and 2:	9,128
	Transportation and distribution (upstream):	3,466
	Waste generated from operations:	2,394
	Business travel:	946
	Employee commuting:	1,208
	Disposal of sold products:	984

Promoting Environmental Communications

The Group values communication with local communities as a good corporate citizen, and we are implementing environmental and social contribution activities, such as greening and beautification. The Ikoma Mountain Range "Folding Screen of Flowers" Project has been held since 2009. A group of employees and family members, totaling 65 people, enjoyed planting activities and hiking. In addition, since 2013 we have participated in Tokyo Greenship Action and have implemented activities to conserve and restore natural woodlands in the Hachioji Takiyama Satoyama Conservation Area, which is designated as a conservation area by Tokyo Prefecture. Through these types of activities and environmental education, we will work to raise the awareness of environmental issues among our employees.

Ikoma Mountain Range "Folding Screen of Flowers" Project (November 2016)

Participation in Environmental Information Disclosure Program

In evaluating companies, the importance of ESG (Environment, Society, Governance) information is increasing. In this setting, to advance the establishment of an environment in which investors and others can aggressively use environmental information from companies, the Ministry of the Environment is implementing an environmental information disclosure program. The Company has continually participated in this program since fiscal 2014. In fiscal 2016, we updated our environmental information and engaged in dialogue with investors using the communication tools that are available through this program.

Receipt of Merit Award at the *Stop! Global Warming Awards* for Second Consecutive Year

In December 2016, the Company received a merit award at the *Fiscal 2016 Stop! Global Warming Awards*, the second consecutive year in which it received this award. At the new Head Office building that was completed in February 2015, we have introduced advanced energy-saving equipment and systems, and we are working to efficiently and effectively prevent global warming. We have adopted countermeasures to the heat island effect by implementing greening of the rooftop and public spaces. In addition, at the Kashima Office we are transitioning to high-energy-efficiency equipment and improving utilization, and employees are conducting planting activities through continued participation in Osaka Prefecture's Ikoma Mountain Range "Folding Screen of Flowers" Project.

In accordance with the Osaka government's regulations related to the prevention of global warming, Osaka Prefecture presents awards to organizations with especially outstanding initiatives in their business activities. We received a high evaluation for our achievement of a 9.0% year-on-year reduction in greenhouse gas emissions at our worksites in Osaka Prefecture in fiscal 2015.

Awards ceremony

Financial Section

10-Year Financial Summary

Note: Figures for fiscal 2014 and previous fiscal years are presented in accordance with Japanese GAAP.

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31

	FY 2007[1]	FY 2008	FY 2009	FY 2010
Financial figures (billions of yen):				
Revenue	¥409.4	¥414.7	¥404.7	¥409.5
Cost of sales	150.5	158.1	147.8	154.5
SG&A expenses	186.4	184.8	195.4	178.3
Operating profit	72.4	71.6	61.4	76.5
Profit attributable to owners of the Company	31.9	26.5	30.2	37.7
R&D expenses	72.3	73.1	83.0	65.7
Capital expenditures[2]	11.9	13.8	9.1	11.0
Depreciation and amortization	15.0	15.6	13.2	12.4
Total assets	807.2	810.7	796.8	818.7
Total equity	667.8	666.2	676.8	695.9
Net cash provided by operating activities	46.4	50.5	23.9	59.0
Net cash used in investing activities	(8.9)	(74.5)	(61.2)	(7.6)
Net cash used in financing activities	(9.0)	(15.9)	(17.1)	(15.4)
Cash and cash equivalents at the end of the year	160.0	116.9	62.9	97.8
Per share amounts (yen):				
Profit attributable to owners of the Company	50.12	47.28	53.91	67.27
Equity attributable to owners of the Company	1,163.96	1,162.69	1,194.79	1,230.16
Cash dividends	26.00[3]	28.00	28.00	28.00
Financial indicators (%):				
Cost of sales ratio	36.8	38.1	36.5	37.7
SG&A expenses ratio	45.5	44.6	48.3	43.6
Operating margin	17.7	17.3	15.2	18.7
R&D expenses ratio	17.7	17.6	20.5	16.1
Ratio of equity attributable to owners of the Company to total assets	80.9	80.5	84.1	84.3
ROE	5.7	4.1	4.6	5.5
Dividend payout ratio	44.0[4]	43.0[5]	39.0[5]	41.6
Others:				
Number of employees	10,361	10,030	9,266	9,198
Number of common stock issued (thousands)	561,417	561,417	561,417	561,417

1. Figures are based on the simple sum of the results of the former Tanabe Seiyaku and the former Mitsubishi Pharma.
2. Property, plant and equipment and intangible fixed assets on an accrual basis.
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.

FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
¥407.1	¥419.1	¥412.6	¥415.1	¥425.7	**¥423.9**
152.2	166.4	169.3	169.5	155.8	**164.3**
185.8	183.8	184.1	178.3	96.3	**98.3**
69.0	68.9	59.1	67.1	81.8	**94.0**
39.0	41.8	45.3	39.5	59.3	**71.2**
70.2	66.5	70.4	69.6	64.6	**64.7**
8.3	11.4	14.7	17.3	12.1	**14.4**
12.4	8.4	9.1	9.0	10.3	**10.4**
819.9	866.7	886.4	929.3	958.4	**984.5**
721.4	752.9	777.8	800.4	826.3	**871.4**
37.2	60.5	69.8	68.1	80.8	**59.7**
(63.2)	(34.9)	(24.3)	(59.8)	(42.2)	**(10.5)**
(17.1)	(23.6)	(21.0)	(21.8)	(22.2)	**(24.4)**
54.3	58.7	84.9	73.3	88.9	**113.2**
69.54	74.67	80.92	70.41	105.72	**127.03**
1,275.85	1,333.22	1,365.52	1,406.41	1,453.71	**1,533.91**
35.00	40.00	40.00	42.00	46.00	**52.00**
37.4	39.7	41.0	40.9	36.6	**38.8**
45.6	43.9	44.6	43.0	22.6	**23.2**
17.0	16.5	14.3	16.2	19.2	**22.2**
17.3	15.9	17.1	16.8	15.2	**15.3**
87.3	86.3	86.4	84.9	85.1	**87.4**
5.5	5.7	6.0	5.1	7.4	**8.5**
50.3	53.6	49.4	59.6	43.5	**40.9**
9,180	8,835	9,065	8,457	8,125	**7,280**
561,417	561,417	561,417	561,417	561,417	**561,417**

Pharmaceutical Market Trends

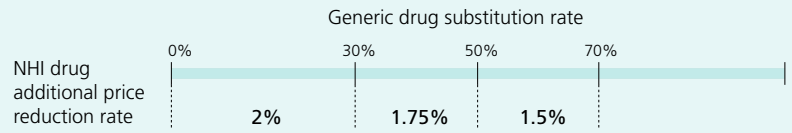
The global pharmaceutical market is recording ongoing expansion against a worldwide backdrop of growing populations, aging societies, and expanding economies in emerging countries. On the other hand, growth in Japan's pharmaceutical market is slowing. For many years, Japan held the No. 2 position, after the U.S., but Japan has been surpassed by China and is currently No. 3. This sluggish growth is occurring against a background of stepped up government measures to control health care expenditures. In general, the official national health insurance (NHI) prices for ethical drugs are revised once every two years, and measures to promote the use of generics are also being implemented. These factors have restrained growth in Japan's pharmaceutical market.

With the NHI drug price revisions implemented in April 2014, a new system was introduced to advance the substitution of generic drugs for long-listed drugs. When NHI drug prices are revised, the prices of long-listed drugs that have had competing generics for five years or more will be subject to additional reductions, in accordance with the substitution rate, if the generic drug substitution rate* is less than 60%. In addition, under the NHI drug price revisions that were implemented in April 2016, those standards have been made stricter for long-listed drugs for which the substitution rate is less than 70%. The government has announced targets for the generic drug substitution rate of 70% in mid fiscal 2017 and 80% as rapidly as possible during the period from fiscal 2018 to fiscal 2020. The substitution rate has already surpassed 60%. Accordingly, the business environment is expected to become increasingly challenging for manufacturers of new drugs.

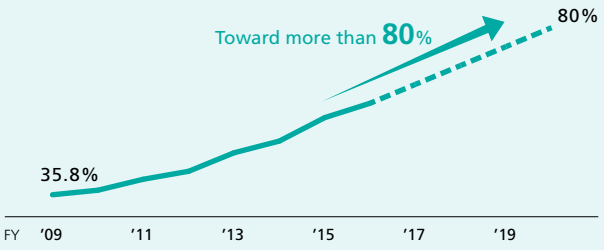
On the other hand, there is an increase in new drug development in the area of unmet medical needs, where the degree of satisfaction with existing treatments is low and new drugs are expected to drive progress in treatment. Furthermore, due to increasingly advanced drug discovery technologies and to stricter standards for drug approval, the success rate in new drug discovery is decreasing while the R&D expenses needed for new drug development are rising. As major ethical drugs go off patent, the earnings power of pharmaceutical companies declines. In this setting, companies are increasingly pursuing mergers and alliances (M&As) to expand their operational scale and reinforce their R&D capabilities.

* Substitution rate = Number of generic drugs / (Number of original drugs for which there are generic competitors + Number of generic drugs)

Change in the NHI Drug Price Additional Reductions for Long-Listed Drugs (2016)

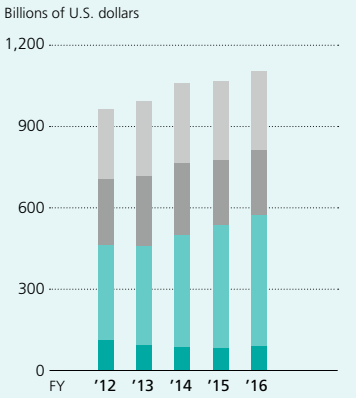


Rapid Growth in Market Share of Generic Drugs (Volume basis)



Source: Ministry of Health, Labour and Welfare

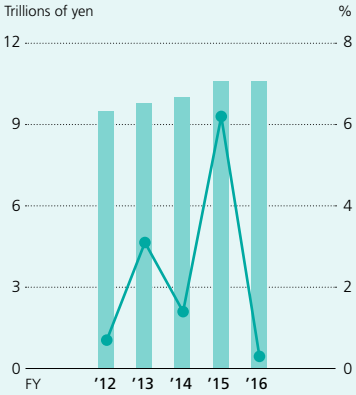
Worldwide Pharmaceutical Market



Note: OTC drugs are included.

Source: Quintiles IMS (World Review Analyst 2017) January 2012–December 2016, Reprinted with permission

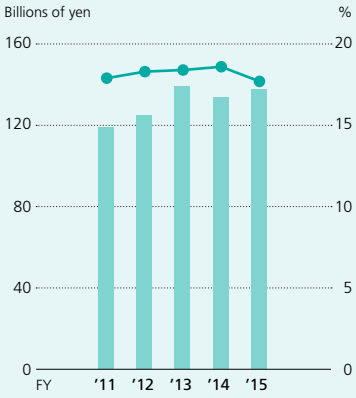
Domestic Ethical Drugs Market



Note: OTC drugs are not included.

Source: Quintiles IMS (Pharmaceutical Market) April 2012–March 2017, Reprinted with permission

Average R&D Expenses of 10 Leading Pharmaceutical Companies in Japan*



* Leading 10 companies
Source: Japan Pharmaceutical Manufacturers Association (JPMA), DATA BOOK 2017

Results of Operations (amounts less than ¥100 million are rounded down)

Revenue

In fiscal 2016, revenue declined by ¥1.7 billion year on year, to ¥423.9 billion. The pharmaceuticals segment, which is the Company's only segment, comprises domestic ethical drugs, overseas ethical drugs, royalty revenue, etc., OTC products, and others in pharmaceuticals.

Revenue from domestic ethical drugs increased by ¥6.1 billion year on year, to ¥314.2 billion. The NHI drug price revision implemented in April 2016 had the effect of reducing revenue by ¥17.0 billion. However, overall revenue from priority products in fiscal 2016 was up ¥19.2 billion year on year, to ¥185.9 billion. Excluding vaccines, seven priority products recorded revenue of ¥146.9 billion in fiscal 2016, a year-on-year increase of ¥19.3 billion. In autoimmune diseases, Simponi recorded substantial growth in revenue due to the integration of the domestic system for Simponi sales. In addition, in diabetes and kidney diseases, Tenelia and Canaglu registered gains in revenue. Revenue from five vaccines was ¥37.8 billion, a year-on-year decline of ¥0.2 billion. Overall revenue from vaccines decreased ¥0.1 billion, to ¥38.9 billion, while revenue from products handled by the Company's sales subsidiary, Tanabe Seiyaku Hanbai (including generic drugs and long-listed drugs transferred from the Company) increased ¥0.3 billion, to ¥14.1 billion. Revenue from overseas ethical drugs declined ¥2.0 billion, to ¥22.6 billion.

Royalty revenue, etc., was down ¥4.4 billion year on year, to ¥82.2 billion. The Company recorded favorable growth in royalty revenue from Gilenya, which is licensed to Novartis International AG, of Switzerland. However, royalty revenue from Invokana and its fixed-dose combination with metformin, which are licensed to Janssen Pharmaceuticals Inc., of the U.S., declined due to the effect of foreign exchange rates. Furthermore, in fiscal 2016 the license agreement with Biogen, Inc. related to MT-1303 (expected indication: autoimmune diseases) was terminated, and as a result the balance of the upfront payment, which had been recorded in liabilities as deferred revenue, was recognized as revenue in a lump sum. However, in the previous fiscal year the Company had recorded lump-sum revenue accompanying the patent and know-how transfer agreement with Amgen Inc., of the U.S., and Dezima Pharma B.V., of the Netherlands, regarding CETP inhibitor TA-8995 (expected indication: dyslipidemia). Consequently, non-recurring revenue declined.

In addition, revenue from OTC products was down ¥0.3 billion, to ¥3.4 billion, and revenue from the others category of pharmaceuticals operations declined ¥1.1 billion, to ¥1.4 billion.

As a result, revenue from pharmaceuticals decreased ¥1.7 billion year on year, to ¥423.9 billion.

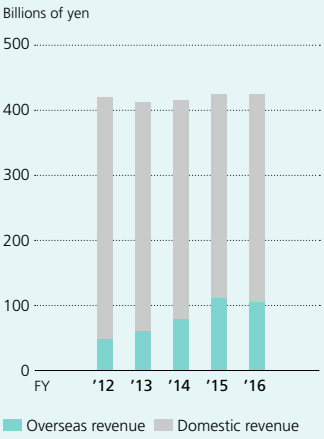
Overseas revenue declined ¥6.7 billion, to ¥103.6 billion, and the overseas revenue ratio was down 1.5 percentage points, to 24.4%.

Billions of yen

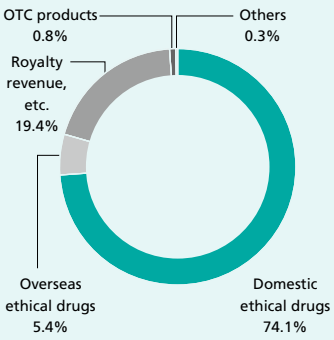
	FY 2016		FY 2015	Change	% Change
Revenue	¥423.9	(100.0%)	¥425.7	¥– 1.7	– 0.4%
Domestic ethical drugs	314.2	(74.1)	308.0	+ 6.1	+ 2.0
Overseas ethical drugs	22.6	(5.4)	24.7	– 2.0	– 8.2
Royalty revenue, etc.	82.2	(19.4)	86.6	– 4.4	– 5.1
OTC products	3.4	(0.8)	3.7	– 0.3	– 9.3
Others	1.4	(0.3)	2.5	– 1.1	– 44.8
Revenue by region:					
Domestic	320.3	(75.6)	315.4	+ 4.9	+ 1.6
Overseas	103.6	(24.4)	110.3	– 6.7	– 6.1

Note: Figures in parentheses are percentages of revenue.

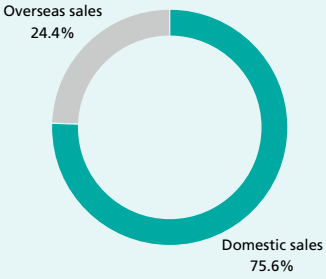
Revenue



Percentage of Revenue by Business



Percentage of Revenue by Region



Revenue of Major Ethical Drugs

Billions of yen

	FY 2016	FY 2015	Change	% Change
Priority Products in Fiscal 2016 (Domestic)	¥185.9	¥166.6	¥+ 19.2	+ 11.6%
Priority Products in Fiscal 2016 (Except vaccines)	146.9	127.5	+ 19.3	+ 15.2
Remicade	66.8	69.4	– 2.6	– 3.7
Simponi	24.9	12.9	+ 11.9	+ 92.9
Talion	18.9	16.8	+ 2.0	+ 12.3
Tenelia	16.5	14.1	+ 2.4	+ 17.1
Lexapro	11.2	9.5	+ 1.7	+ 18.6
Imusera	4.9	4.1	+ 0.7	+ 19.3
Canaglu	3.4	0.5	+ 2.9	+ 515.8
Vaccines (Total)	38.9	39.0	– 0.1	– 0.3
Influenza vaccine	12.7	13.7	– 0.9	– 7.1
Tetrabik	9.9	9.5	+ 0.4	+ 4.5
Mearubik	5.9	4.9	+ 0.9	+ 18.8
Varicella vaccine	5.4	6.3	– 0.8	– 14.0
JEBIK V	3.9	3.6	+ 0.3	+ 9.2
Royalty revenue, etc.	82.2	86.6	– 4.4	– 5.1
Royalty from Gilenya	53.7	51.7	+ 2.0	+ 3.9
Royalty from Invokana	18.8	20.6	– 1.7	– 8.5

Core Operating Profit

In applying IFRS, the Company has introduced "core operating profit" as a major profit item showing recurring profitability and has positioned it as an important management indicator. Core operating profit is operating profit after the deduction of non-recurring income and loss items (non-recurring items) as defined by the Company. The Company assumes that non-recurring items will include such items as income and losses associated with business transfers, restructuring expenses, impairment losses on intangible assets associated with products, and losses on disasters.

In fiscal 2016, core operating profit decreased by ¥12.4 billion year on year, to ¥94.5 billion. In addition to the decline in revenue, SG&A expenses increased ¥1.9 billion, to ¥98.3 billion, due in part to the establishment of a sales organization and preparations for the commencement of sales by Mitsubishi Tanabe Pharma America, a pharmaceutical sales company in the U.S. In addition, R&D expenses increased ¥0.1 billion, to ¥64.7 billion, and the R&D expenses ratio was up 0.1 percentage point year on year, to 15.3%.

The cost of sales ratio was up 2.2 percentage points, to 38.8%. Gross profit declined ¥10.3 billion, to ¥259.5 billion.

Operating Profit

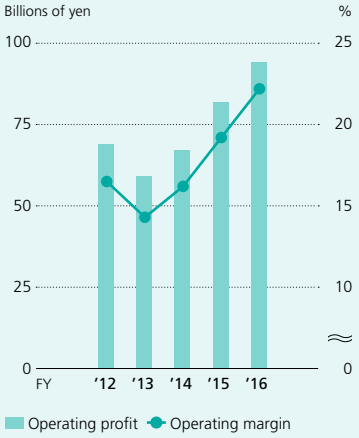
In fiscal 2016, operating profit was up ¥12.2 billion year on year, to ¥94.0 billion. Core operating profit declined, but non-recurring items improved substantially due to the completion of major structural reforms in the previous fiscal year. Non-recurring items in fiscal 2016 were a loss of ¥0.4 billion, compared with a loss of ¥25.1 billion in the previous fiscal year. The operating margin increased 3.0 percentage points, to 22.2%.

Billions of yen

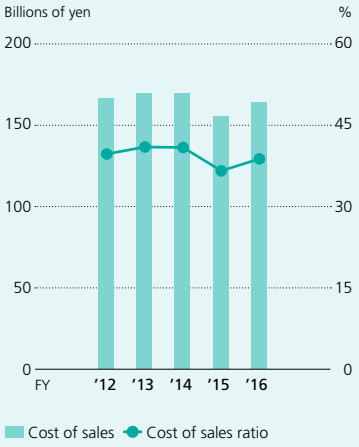
	FY 2016		FY 2015	Change	% Change
Cost of sales	¥164.3	(38.8%)	¥155.8	¥+ 8.5	+ 5.5%
Gross profit	259.5	(61.2)	269.9	– 10.3	– 3.8
SG&A expenses	98.3	(23.2)	96.3	+ 1.9	+ 2.0
R&D expenses	64.7	(15.3)	64.6	+ 0.1	+ 0.3
Core operating profit	94.5	(22.3)	106.9	– 12.4	– 11.7
Operating profit	94.0	(22.2)	81.8	+ 12.2	+ 15.0

Note: Figures in parentheses are percentages of revenue.

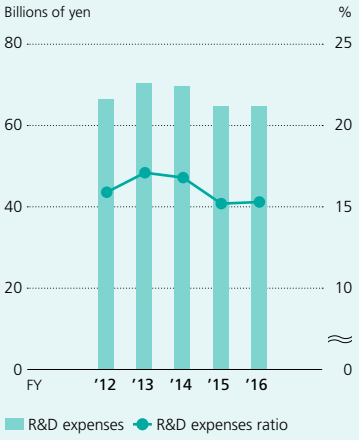
Operating Profit / Operating Margin



Cost of Sales / Cost of Sales Ratio



R&D Expenses / R&D Expenses Ratio



Profit Attributable to Owners of the Company

As a result of the significant increase in operating profit, in fiscal 2016 profit attributable to owners of the Company was up ¥11.9 billion year on year, to ¥71.2 billion, a new record high for the Company.

Financial Position (amounts less than ¥100 million are rounded down)

Total Assets, Total Liabilities, and Total Equity

Total assets at the end of the fiscal year were ¥984.5 billion, an increase of ¥26.0 billion from the previous fiscal year-end.

Total non-current assets declined ¥7.4 billion year on year, to ¥300.7 billion. Intangible assets increased ¥5.2 billion due to such factors as the influence of exchange rates and amortization on intangible assets associated with products. In addition, assets related to retirement benefits increased ¥6.5 billion due in part to the mark-to-market valuation of pension assets. However, other financial assets declined ¥13.8 billion due principally to transfer to current assets and to the mark-to-market valuation of shares.

Total current assets rose ¥33.5 billion year on year, to ¥683.7 billion. Cash and cash equivalents increased ¥24.2 billion due to such factors as transfer from non-current financial assets, and other financial assets rose ¥2.5 billion. In addition, inventories rose ¥3.4 billion due to increased inventories of certain products, including Remicade.

Total liabilities were down ¥19.0 billion from the end of the previous fiscal year, to ¥113.1 billion. Operating payables increased ¥3.0 billion, but income taxes payable decreased ¥11.5 billion, and other current liabilities were down ¥6.4 billion due in part to deferred income accompanying the out-licensing of products. Furthermore, other current liabilities declined ¥1.8 billion.

Total equity at the end of the period was up ¥45.1 billion from the end of the previous fiscal year, to ¥871.4 billion. Profit attributable to owners of the Company was ¥71.2 billion, while cash dividends paid was ¥26.9 billion. As a result, retained earnings increased ¥48.4 billion.

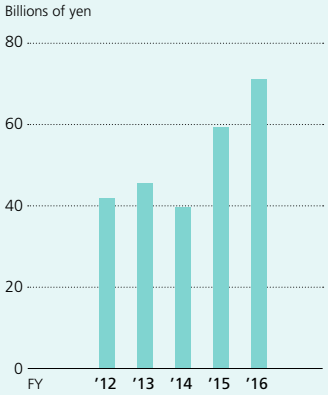
Consequently, the ratio of equity attributable to owners of the Company to total assets increased 2.3 percentage points, to 87.4%.

Billions of yen

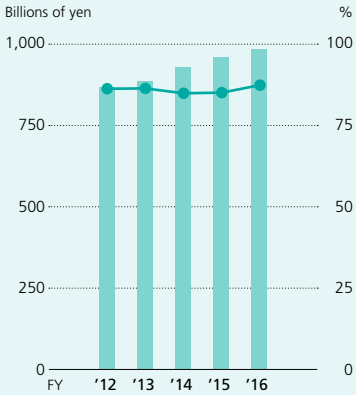
	FY 2016		FY 2015	Change	% Change
Total assets	¥984.5	(100.0%)	¥958.4	¥+ 26.0	+ 2.7%
Non-current assets	300.7	(30.6)	308.2	– 7.4	– 2.4
Current assets	683.7	(69.4)	650.1	+ 33.5	+ 5.2
Total Liabilities	113.1	(11.5)	132.1	– 19.0	– 14.4
Non-current liabilities	24.7	(2.5)	33.2	– 8.5	– 25.6
Current liabilities	88.4	(9.0)	98.9	– 10.5	– 10.7
Total equity	871.4	(88.5)	826.3	+ 45.1	+ 5.5

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

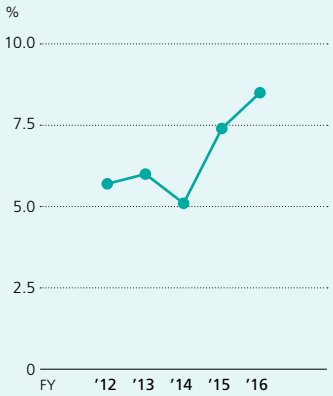
Profit Attributable to Owners of the Company



Total Assets / Ratio of Equity Attributable to Owners of the Company to Total Assets



ROE



Cash Flows

Net cash provided by operating activities was ¥59.7 billion. Inflows, which included profit before income tax of ¥96.0 billion, exceeded outflows, which included income taxes paid of ¥32.4 billion.

Net cash used in investing activities was ¥10.5 billion. Principal items included purchase of property, plant and equipment of ¥14.2 billion and purchase of intangible assets of ¥6.6 billion.

Net cash used in financing activities was ¥24.4 billion. Cash dividends paid was ¥26.9 billion.

As a result, net cash inflows for the fiscal year were ¥24.2 billion, and the balance of cash and cash equivalents at fiscal year-end was ¥113.2 billion.

Billions of yen

	FY 2016	FY 2015	Change
Net cash provided by operating activities	**¥59.7**	¥80.8	¥– 21.0
Net cash used in investing activities	**(10.5)**	(42.2)	+ 31.6
Net cash used in financing activities	**(24.4)**	(22.2)	– 2.1
Cash and cash equivalents at the end of the year	**113.2**	88.9	+ 24.2

Dividends

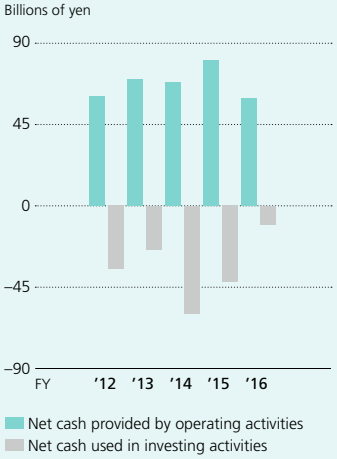
Mitsubishi Tanabe Pharma's basic policy calls for providing a stable and continuous return to shareholders while striving to increase enterprise value by aggressively implementing strategic investment and R&D investment to achieve sustained growth. In fiscal 2016, which was the first year of Medium-Term Management Plan 16–20, the Company worked to enhance return to shareholders, aiming for a dividend payout ratio of 50% under the application of IFRS.

In fiscal 2016, a contribution was made by the growth of priority products in Japan, but the revision of NHI drug prices had an influence and there was a decline in long-listed drugs. In addition, in the previous fiscal year, lump-sum payment revenue was recorded due to out-licensing. As a result, core operating profit declined in fiscal 2016. On the other hand, the Company completed major structural reforms in the previous fiscal year, and consequently non-recurring items improved substantially, operating profit improved, and profit attributable to owners of the Company reached a new record high.

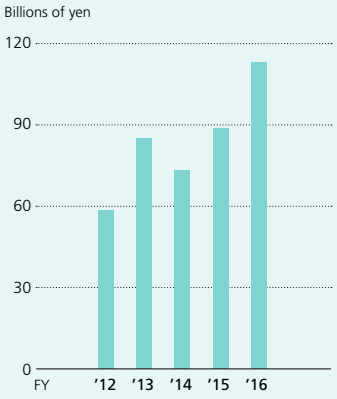
In accordance with this situation and the basic policy on shareholder return, the Company set annual dividends for fiscal 2016 at ¥52.0 per share, an increase of ¥6.0 per share. The dividend payout ratio was 40.9%, compared with 43.5% in the previous fiscal year.

Also, on October 1, 2017, the Company will mark the 10th anniversary of its founding. To commemorate this milestone, the Company plans to implement a commemorative dividend of ¥10 per share at the time of the interim dividend in fiscal 2017.

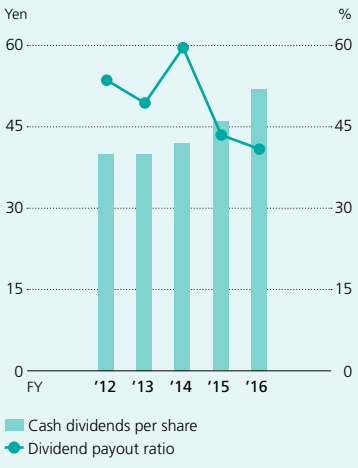
Net Cash Provided by Operating Activities / Net Cash Used in Investing Activities



Cash and Cash Equivalents at the End of the Year



Cash Dividends per Share / Dividend Payout Ratio



Operational Risks

The following are major risks that have the potential to significantly influence the financial position or performance of the Mitsubishi Tanabe Pharma Group. In recognition of the possibility that these events could occur, the Group works to prevent their occurrence and to implement countermeasures in the event of their occurrence. Items in this document relating to the future are based on the judgment of the Group as of the end of fiscal 2016 (ended March 31, 2017).

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 current drugs in development might be halted in the event that problems with effectiveness or safety are found in non-clinical trials, clinical trials, etc., or in the event that they are determined to lack economic value due to innovation in medical treatment techniques, the launch of other drugs, etc. 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 who meet certain standards, and even in the event that approval is acquired following a rigorous safety evaluation, it is not possible to predict all side effects in post-marketing use. Under the post-marketing use for the patients with backgrounds that are more diverse than those of the test subjects in the clinical trials, 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 a large amount of compensation to victims arises, 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 Domestic and Overseas Health Insurance System and the Revisions to National Health Insurance (NHI) Drug Price Standards

The sale of ethical drugs is significantly impacted by the various health insurance systems that relate to drug price standards as well as medical and other fees. Revisions to the drug price standard that is the official price of pharmaceuticals or its system; various health insurance systems, encompassing medical and other fees, that influence trends in the use of pharmaceuticals by medical institutions and similar revisions to the standards and systems employed overseas could substantially impact the Group's financial position and 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 the 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 use and to a decline in revenue, 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

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

7 Risks Related to Business Acquisitions, Etc.

The Group conducts business development activities for sustained growth, and business acquisitions are implemented as a means to that end. In regard to business activities in countries around the world, it is possible that the expected effects from an acquisition will not be achieved due to such factors as changes to laws or regulations, political instability, uncertainty of economic trends, differences in business practices, changes in the economic environment or businesses of acquired companies, etc. In that event, it is possible that the expected effects or profits from an acquisition will not be achieved and there could be a significant influence on the Group's financial position or results.

8 Risks Related to Production and Stable Supply

In the event of the emergence of technical or legal / regulatory problems in the Group's internal or external production and distribution facilities, or in the event of operational stoppages or disorder, etc., due to fires or other disasters, a suspension of or substantial delay in the supply of products, there could be an influence on the Group's financial position or results.

9 Risks Related to Legal Issues

In the research, development, manufacturing, distribution, and sale 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.

10 Risks Related to Product Liability

It is possible that the Group will be responsible for potential product liability stemming from product research, development, manufacturing, distribution, or sales activities. The Group is covered by product 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.

11 Risks Related to Financial Market Fluctuations

a) In fiscal 2016, overseas revenue accounted for 24.4% of the Group's consolidated revenue. Certain raw materials for products and finished goods handled by the Group are directly imported from overseas. Substantial fluctuations in exchange rates could lead to declines in revenue, 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) At the end of fiscal 2016, the Group held liquid stocks and bonds, etc. Events such as the recording of a loss on sale or loss on valuation due to declines in market prices could have a significant influence on the Group's financial position or results.

12 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.

13 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) 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 Special Law"). In regard to the expenses associated with the relief payments, 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 ¥28.5 billion, of which ¥24.6 billion had already been paid out as of the end of March 2017. However, due to changes in the expected number of benefits recipients or the revision of the Special Law, 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 Special 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 Special 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 Special Law, through the use of specific blood-coagulation factor IX products on or after January 1, 1984	100%

2. Lump-sum payment of ¥5.1 billion in addition to payments made in accordance with the portions in (1) above.

14 Risks Related to Information Management

The Group possesses large amounts of confidential information, including personal information, and in the event that information is leaked due to inappropriate handling, etc., there could be an influence on the Group's financial position or results, such as a decline in reputation.

15 Risks Related to Upfront Investment for the Purpose of Expanding Overseas Operations

Substantial 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, the worsening of diplomatic relations, or natural disaster, etc., operations under development might be affected and the opportunity to recover that investment might be lost. As a result of these actions, there could be an influence on the Group's financial position or results.

16 Major Assumptions Regarding Operational Activities

Pharmaceutical manufacturing and sales are the Group's principal business operations. In accordance with the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics, the Group has obtained licenses for pharmaceutical manufacturing and sales, pharmaceutical manufacturing and wholesale pharmaceutical sales, and conducts manufacturing and sales of ethical drugs, OTC switch products, and OTC products. These activities include activities that are subject to related laws, such as the Narcotics and Psychotropic Substances Control Law.

In addition, the Group also conducts pharmaceutical manufacturing and sales activities overseas and is subject to the regulations of each country, such as laws and regulations related to pharmaceuticals. The Group acquires permissions, etc., as necessary.

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. The Group is currently unaware of any reasons for the validity of its permissions, etc., to come into question. In the event that cancellation, etc., of permissions, etc., is ordered, because of the damage to the societal trust or the termination of contracts, there could be a significant influence on the Group's financial position or results.

17 Risks Related to Major Disasters and Other Events

In the event of a major disaster, pandemic, or secondary disaster that results in stoppages at the production or distribution bases of the Group or supplier, or damages and / or interruptions to the operations of raw material suppliers or outsourced manufacturers, the Group may be forced to suspend or incur significant delays in the supply of products. In each case, the potential exists for the Group's financial position and operating results to be substantially affected. In addition, the implementation of research and development plans may be impacted by damages to the Group's research facilities, or medical and other institutions at which clinical testing is conducted, or by secondary disaster such as blackouts. In addition, problems with communications with the Group's production and distribution bases or with the Group's research bases, or problems with the Group's computer bases, could have a similar impact.

18 Relationship with Parent Company and Other Group Companies

Transactions with the Mitsubishi Chemical Holdings Corporation Group

The Company's relationship with its parent company, Mitsubishi Chemical Holdings Corporation (MCHC), which is a holding company, and companies in that Group (the MCHC Group), includes the following transactions:

- deposition of money with MCHC.
- procurement of raw materials, etc.
- leases and consignment for the buildings of research facilities, etc., thereon, in Yokohama City, Kanagawa Prefecture.
- contracts and payment as consideration for exclusive rights to intellectual property held by the MCHC Group.
- research outsourcing and information disclosure.
- consignment with overseas subsidiaries.
- payment of operational expenses with MCHC.

There are no transactions that have the potential to significantly influence the results of the Company, and there are no plans to engage in such transactions in the future.

In regard to transactions between the Company and MCHC or other companies in the MCHC Group, in making decisions the highest priority is given to increasing the enterprise value of the Mitsubishi Tanabe Pharma Group in order to maximize the benefit to all of the Company's shareholders. The Company verifies the appropriateness and economic rationality of the transactions, such as whether the terms and conditions are equivalent to those of general transactions. Significant transactions are subject to sufficient deliberations and approval by the Board of Directors, which includes two or more independent outside directors, from the perspective of ensuring the common interests of the Mitsubishi Tanabe Pharma Group and shareholders.

Personnel Relationships with the MCHC Group

a) Concurrent service of directors and corporate auditors
As of July 31, 2017, Masayuki Mitsuka, who is the president & representative director of the Company, serves concurrently as a director (non-full time) of The KAITEKI Institute, Inc., which is a member of the MCHC Group. Mr. Mitsuka retired from the position of director of MCHC as of June 27, 2017.

b) Acceptance of reassigned personnel
The Group has accepted the reassignment of some people from the MCHC Group with such objectives as enhancing links among each division.

Capital Relationship with MCHC

Currently, MCHC 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 MCHC, the Company's parent company. Also, the percentage of the Company's stock held by MCHC 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 transactions or the capital relationship with the MCHC Group, the Company's financial position and results of operations could be affected.

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 Statement of Income

Year ended March 31, 2017

	Notes	Millions of yen		Thousands of U.S. dollars (Note 2)
		2016	2017	2017
Revenue	6	¥425,764	**¥423,977**	**$3,779,098**
Cost of sales		155,802	**164,397**	**1,465,345**
Gross profit		269,962	**259,580**	**2,313,753**
Selling, general and administrative expenses		96,344	**98,302**	**876,210**
Research and development expenses		64,613	**64,783**	**577,440**
Amortization of intangible assets associated with products	17	1,473	**1,528**	**13,620**
Other income	7	1,601	**974**	**8,682**
Other expenses	8	27,361	**1,882**	**16,775**
Share of profit of associates and joint ventures accounted for using equity method		31	**24**	**214**
Operating profit		81,803	**94,083**	**838,604**
Financial income	10	2,993	**2,212**	**19,717**
Financial expenses	11	1,541	**236**	**2,104**
Profit before income tax		83,255	**96,059**	**856,217**
Income tax expenses	12	26,221	**27,137**	**241,884**
Profit for the year		¥ 57,034	**¥ 68,922**	**$ 614,333**

Profit attributable to:				
Owners of the Company		¥59,306	**¥71,263**	**$635,199**
Non-controlling interests		(2,272)	**(2,341)**	**(20,866)**
Profit for the year		¥57,034	**¥68,922**	**$614,333**

			Yen	U.S. dollars (Note 2)
Earnings per share				
Basic earnings per share	13	¥105.72	**¥127.03**	**$1.13**
Diluted earnings per share	13	—	**—**	**—**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2017

	Notes	Millions of yen		Thousands of U.S. dollars (Note 2)
		2016	2017	2017
Profit for the year		¥57,034	¥68,922	$614,333
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Net changes in financial assets measured at fair value through other comprehensive income	14	6,521	(2,229)	(19,868)
Remeasurements of defined benefit plans	14	(6,111)	3,658	32,605
Subtotal		410	1,429	12,737
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations	14	(4,977)	(1,020)	(9,092)
Effective portion of changes in fair value of cash flow hedges	14	(101)	(4)	(36)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	14	(30)	(18)	(160)
Subtotal		(5,108)	(1,042)	(9,288)
Other comprehensive income (loss), net of tax		(4,698)	387	3,449
Comprehensive income		52,336	69,309	617,782
Comprehensive income (loss) attributable to:				
Owners of the Company		55,674	71,915	641,011
Non-controlling interests		(3,338)	(2,606)	(23,229)
Comprehensive income		¥52,336	¥69,309	$617,782

See accompanying notes to consolidated financial statements.

Consolidated Statement of Financial Position

March 31, 2017

	Notes	Millions of yen 2015	2016	2017	Thousands of U.S. dollars (Note 2) 2017
Assets					
Non-current assets					
Property, plant and equipment	15	¥ 87,271	¥ 84,077	**¥ 85,836**	**$ 765,095**
Goodwill	16	81,041	80,511	**80,328**	**716,000**
Intangible assets	17	51,290	55,924	**61,209**	**545,583**
Investments in associates and joint ventures accounted for using equity method		278	265	**245**	**2,184**
Other financial assets	18,33	95,439	65,519	**51,623**	**460,139**
Net defined benefit assets	27	15,730	8,170	**14,769**	**131,643**
Other non-current assets	19	861	632	**482**	**4,296**
Deferred tax assets	12	8,407	13,168	**6,286**	**56,030**
Total non-current assets		340,317	308,266	**300,778**	**2,680,970**
Current assets					
Inventories	20	82,324	75,697	**79,168**	**705,660**
Trade and other receivables	21,33	130,287	121,249	**116,856**	**1,041,590**
Other financial assets	18,33	297,182	351,665	**354,255**	**3,157,635**
Other current assets	19	9,428	12,502	**9,183**	**81,852**
Cash and cash equivalents	22	73,337	88,919	**113,215**	**1,009,136**
Subtotal		592,558	650,032	**672,677**	**5,995,873**
Assets held for sale	23	3,526	147	**11,082**	**98,779**
Total current assets		596,084	650,179	**683,759**	**6,094,652**
Total assets		¥936,401	¥958,445	**¥984,537**	**$8,775,622**

See accompanying notes to consolidated financial statements.

	Notes	2015	2016	Millions of yen 2017	Thousands of U.S. dollars (Note 2) 2017
Liabilities and equity					
Liabilities					
Non-current liabilities					
Borrowings	24,33	¥ 894	¥ 713	¥ 581	$ 5,179
Other financial liabilities	25,26,33	2,843	2,646	2,405	21,437
Net defined benefit liabilities	27	2,456	1,354	1,092	9,733
Provisions	30	6,467	9,106	7,890	70,327
Other non-current liabilities	28	7,339	11,987	5,576	49,701
Deferred tax liabilities	12	8,011	7,412	7,156	63,785
Total non-current liabilities		28,010	33,218	24,700	220,162
Current liabilities					
Borrowings	24,33	132	125	127	1,132
Trade and other payables	29,33	34,585	32,653	35,741	318,576
Other financial liabilities	25,26,33	34,871	27,466	24,135	215,126
Income taxes payable		19,189	16,332	4,815	42,918
Provisions	30	438	137	86	767
Other current liabilities	28	23,181	22,198	20,358	181,460
Subtotal		112,396	98,911	85,262	759,979
Liabilities directly related to assets held for sale	23	—	—	3,145	28,033
Total current liabilities		112,396	98,911	88,407	788,012
Total liabilities		140,406	132,129	113,107	1,008,174
Equity					
Share capital	31	50,000	50,000	50,000	445,673
Capital surplus	31	451,186	451,186	451,187	4,021,633
Treasury shares	31	(493)	(494)	(496)	(4,421)
Retained earnings	31	267,278	304,931	353,427	3,150,254
Other components of equity	31	16,557	9,895	6,387	56,930
Total equity attributable to owners of the Company		784,528	815,518	860,505	7,670,069
Non-controlling interests		11,467	10,798	10,925	97,379
Total equity		795,995	826,316	871,430	7,767,448
Total liabilities and equity		¥936,401	¥958,445	¥984,537	$8,775,622

Consolidated Statement of Changes in Equity

Year ended March 31, 2017

Millions of yen

		Equity attributable to owners of the Company						
						Other components of equity		
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2015		¥50,000	¥451,186	¥(493)	¥267,278	—	¥ 105	¥16,452
Profit for the year		—	—	—	59,306	—	—	—
Other comprehensive income		—	—	—	—	¥(3,911)	(101)	6,521
Total comprehensive income		—	—	—	59,306	(3,911)	(101)	6,521
Acquisition of treasury shares	31	—	—	(1)	—	—	—	—
Disposal of treasury shares	31	—	0	0	—	—	—	—
Dividends	32	—	—	—	(24,683)	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	3,030	—	—	(9,141)
Total contributions by and distributions to owners		—	0	(1)	(21,653)	—	—	(9,141)
Issuance of new shares		—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others		—	—	—	—	—	—	—
Total transactions with owners		—	0	(1)	(21,653)	—	—	(9,141)
Balance as of March 31, 2016		¥50,000	¥451,186	¥(494)	¥304,931	¥(3,911)	¥ 4	¥13,832

Millions of yen

		Equity attributable to owners of the Company						
						Other components of equity		
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2016		**¥50,000**	**¥451,186**	**¥(494)**	**¥304,931**	**¥(3,911)**	**¥ 4**	**¥13,832**
Profit for the year		—	—	—	71,263	—	—	—
Other comprehensive income		—	—	—	—	(755)	(4)	(2,229)
Total comprehensive income		—	—	—	71,263	(755)	¥ (4)	(2,229)
Acquisition of treasury shares	31	—	—	(2)	—	—	—	—
Disposal of treasury shares	31	—	1	0	—	—	—	—
Dividends	32	—	—	—	(26,927)	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	4,160	—	—	(502)
Total contributions by and distributions to owners		—	1	(2)	(22,767)	—	—	(502)
Issuance of new shares		—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others		—	—	—	—	—	—	—
Total transactions with owners		—	1	(2)	(22,767)	—	—	(502)
Balance as of March 31, 2017		**¥50,000**	**¥451,187**	**¥(496)**	**¥353,427**	**¥(4,666)**	—	**¥11,101**

See accompanying notes to consolidated financial statements.

Millions of yen

	Notes	Equity attributable to owners of the Company				Non-controlling interests	Total equity
		Other components of equity			Total equity attributable to owners of the Company		
		Remeasurements of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total			
Balance as of April 1, 2015		—	—	¥16,557	¥784,528	¥11,467	¥795,995
Profit for the year		—	—	—	59,306	(2,272)	57,034
Other comprehensive income		¥(6,111)	¥(30)	(3,632)	(3,632)	(1,066)	(4,698)
Total comprehensive income		(6,111)	(30)	(3,632)	55,674	(3,338)	52,336
Acquisition of treasury shares	31	—	—	—	(1)	—	(1)
Disposal of treasury shares	31	—	—	—	0	—	0
Dividends	32	—	—	—	(24,683)	(114)	(24,797)
Transfer from other components of equity to retained earnings		6,111	—	(3,030)	—	—	—
Total contributions by and distributions to owners		6,111	—	(3,030)	(24,684)	(114)	(24,798)
Issuance of new shares		—	—	—	—	2,783	2,783
Changes in ownership interests in subsidiaries and others		—	—	—	—	2,783	2,783
Total transactions with owners		¥6,111	—	(3,030)	(24,684)	2,669	(22,015)
Balance as of March 31, 2016		—	¥(30)	¥ 9,895	¥815,518	¥10,798	¥826,316

Millions of yen

	Notes	Equity attributable to owners of the Company				Non-controlling interests	Total equity
		Other components of equity			Total equity attributable to owners of the Company		
		Remeasurements of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total			
Balance as of April 1, 2016		—	¥(30)	¥ 9,895	¥815,518	¥10,798	¥826,316
Profit for the year		—	—	—	71,263	(2,341)	68,922
Other comprehensive income		¥ 3,658	(18)	652	652	(265)	387
Total comprehensive income		3,658	(18)	652	71,915	(2,606)	69,309
Acquisition of treasury shares	31	—	—	—	(2)	—	(2)
Disposal of treasury shares	31	—	—	—	1	—	1
Dividends	32	—	—	—	(26,927)	(80)	(27,007)
Transfer from other components of equity to retained earnings		(3,658)	—	(4,160)	—	—	—
Total contributions by and distributions to owners		(3,658)	—	(4,160)	(26,928)	(80)	(27,008)
Issuance of new shares		—	—	—	—	2,813	2,813
Changes in ownership interests in subsidiaries and others		—	—	—	—	2,813	2,813
Total transactions with owners		¥(3,658)	—	(4,160)	(26,928)	2,733	(24,195)
Balance as of March 31, 2017		—	¥(48)	¥ 6,387	¥860,505	¥10,925	¥871,430

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Thousands of U.S. dollars (Note 2)

	Notes	Equity attributable to owners of the Company						
						Other components of equity		
		Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2016		$445,673	$4,021,624	$(4,403)	$2,717,987	$(34,861)	$ 36	$123,291
Profit for the year		—	—	—	635,199	—	—	—
Other comprehensive income		—	—	—	—	(6,729)	(36)	(19,868)
Total comprehensive income		—	—	—	635,199	(6,729)	$(36)	(19,868)
Acquisition of treasury shares	31	—	—	(18)	—	—	—	—
Disposal of treasury shares	31	—	9	0	—	—	—	—
Dividends	32	—	—	—	(240,012)	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	37,080	—	—	(4,475)
Total contributions by and distributions to owners		—	9	(18)	(202,932)	—	—	(4,475)
Issuance of new shares		—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others		—	—	—	—	—	—	—
Total transactions with owners		—	9	(18)	(202,932)	—	—	(4,475)
Balance as of March 31, 2017		$445,673	$4,021,633	$(4,421)	$3,150,254	$(41,590)	—	$98,948

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars (Note 2)

		Equity attributable to owners of the Company					
		Other components of equity					
	Notes	Remeasurements of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2016		—	$(267)	$ 88,199	$7,269,080	$ 96,247	$7,365,327
Profit for the year		—	—	—	635,199	(20,866)	614,333
Other comprehensive income		$ 32,605	(161)	5,811	5,811	(2,362)	3,449
Total comprehensive income		32,605	(161)	5,811	641,010	(23,228)	617,782
Acquisition of treasury shares	31	—	—	—	(18)	—	(18)
Disposal of treasury shares	31	—	—	—	9	—	9
Dividends	32	—	—	—	(240,012)	(714)	(240,726)
Transfer from other components of equity to retained earnings		(32,605)	—	(37,080)	—	—	—
Total contributions by and distributions to owners		(32,605)	—	(37,080)	(240,021)	(714)	(240,735)
Issuance of new shares		—	—	—	—	25,074	25,074
Changes in ownership interests in subsidiaries and others		—	—	—	—	25,074	25,074
Total transactions with owners		$(32,605)	—	(37,080)	(240,021)	24,360	(215,661)
Balance as of March 31, 2017		—	$(428)	$ 56,930	$7,670,069	$ 97,379	$7,767,448

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2017

	Notes	Millions of yen		Thousands of U.S. dollars (Note 2)
		2016	2017	2017
Cash flows from operating activities:				
Profit before income tax		¥ 83,255	¥ 96,059	$ 856,217
Depreciation and amortization		10,336	10,454	93,181
Impairment losses		6,030	185	1,649
Interest and dividend income		(2,960)	(1,864)	(16,616)
Share of profits of associates and joint ventures accounted for using equity method		(31)	(24)	(214)
Loss (gain) on sales of property, plant and equipment		(708)	(67)	(597)
Restructuring loss		16,330	484	4,314
Decrease (increase) in trade and other receivables		8,670	(2,030)	(18,094)
Decrease (increase) in inventories		6,271	(7,842)	(69,899)
Increase (decrease) in trade and other payables		(1,660)	4,997	44,540
Increase (decrease) in provisions		2,338	(1,267)	(11,293)
Decrease (increase) in net defined benefit assets		(1,372)	(863)	(7,692)
Increase (decrease) in net defined benefit liabilities		(803)	(185)	(1,649)
Increase (decrease) in deferred income		5,937	(7,265)	(64,756)
Other		(4,430)	(331)	(2,950)
Subtotal		127,203	90,441	806,141
Interest received		1,803	1,211	10,794
Dividends received		1,173	737	6,569
Interest paid		(323)	(178)	(1,586)
Special retirement benefits paid		(15,282)	—	—
Income taxes paid		(33,732)	(32,426)	(289,027)
Net cash flows from operating activities		80,842	59,785	532,891
Cash flows from investing activities:				
Payments into time deposits		(150,027)	(684)	(6,097)
Proceeds from withdrawal of time deposits		56,432	118,468	1,055,959
Purchase of property, plant and equipment		(11,890)	(14,271)	(127,204)
Proceeds from sales of property, plant and equipment		2,788	2,325	20,724
Purchase of intangible assets		(17,300)	(6,658)	(59,346)
Purchase of investments		(143,022)	(309,930)	(2,762,546)
Proceeds from sales and redemption of investments		214,370	197,454	1,759,996
Proceeds from corporate division	23	3,323	—	—
Proceeds from transfer of business		3,000	3,056	27,240
Other		113	(326)	(2,906)
Net cash flows used in investing activities		(42,213)	(10,566)	(94,180)
Cash flows from financing activities:				
Proceeds from stock issuance to non-controlling interests		2,783	2,813	25,074
Dividends paid	32	(24,683)	(26,927)	(240,012)
Other		(336)	(294)	(2,621)
Net cash flows used in financing activities		(22,236)	(24,408)	(217,559)
Effect of exchange rate changes on cash and cash equivalents		(811)	(507)	(4,520)
Net increase in cash and cash equivalents		15,582	24,304	216,632
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale		—	(8)	(71)
Cash and cash equivalents at the beginning of the year		73,337	88,919	792,575
Cash and cash equivalents at the end of the year	22	¥ 88,919	¥ 113,215	$ 1,009,136

See accompanying notes to consolidated financial statements.

March 31, 2017

1 Reporting Entity

Mitsubishi Tanabe Pharma Corporation (hereinafter "the Company") is incorporated in Japan. The shares of the Company are listed on the First Section of the Tokyo Stock Exchange. The registered address of its headquarters is available on the Company's website (http://www.mt-pharma.co.jp/).

The Company's consolidated financial statements for the year ended March 31, 2017 comprise of the Company, its subsidiaries and its affiliates (collectively, "the Group,") and the interests in joint arrangements.

The Group is principally engaged in the pharmaceuticals business.

The Company's parent company is Mitsubishi Chemical Holdings Corporation.

2 Basis of Preparation

(1) Compliance with International Financial Reporting Standards ("IFRS") and first-time adoption

The consolidated financial statements of the Group have been prepared in accordance with IFRS pursuant to the provisions set forth in Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, since the Group meets the requirements for a "Specified Company Applying Designated IFRS prescribed in Article 1-2 of said ordinance.

The Group adopted IFRS for the first time for the year ended March 31, 2017. The date of transition to IFRS (hereinafter the "IFRS transition date") was April 1, 2015. Descriptions of how the transition to IFRS has affected the Group's financial position, operating results and cash flows are provided in "37. First-time Adoption."

(2) Approval of consolidated financial statements

The Group's consolidated financial statements were approved by the President and Representative Director, Masayuki Mitsuka, on June 21, 2017.

(3) Basis of measurement

The Group's consolidated financial statements have been prepared on a historical acquisition cost basis, except for specific financial instruments described in "3. Significant Accounting Policies (11) Financial instruments."

(4) Presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is also the Company's functional currency, and figures are rounded to the nearest million yen.

The translation of the Japanese yen amounts to U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate of ¥112.19 to U.S.$1 as of March 31, 2017. 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.

(5) Early adoption of new accounting standards

The Group has early adopted IFRS 9 "Financial Instruments" (issued in November 2009, revised in July 2014) (hereinafter "IFRS 9"), from the IFRS transition date.

(6) New IFRS standards and interpretations not yet adopted

The following IFRS standards and interpretations were newly established by the approval date of the Group's consolidated financial statements. However, the Group has not early applied these standards and interpretations.

The effects on the Group's consolidated financial statements due to the application of these standards and interpretations are still under consideration and cannot be estimated at this time.

Standards and interpretations		Mandatory adoption (Fiscal years beginning on or after)	To be adopted by the Group from	Overview of the new or amended standards and interpretations
IFRS 15	Revenue from contracts with customers	January 1, 2018	Fiscal year ending March 31, 2019	IFRS 15 describes that revision of current accounting treatment for revenue recognition and disclosure. Mainly, IFRS15 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	IFRS 16 describes that revision of current accounting treatment for lease and disclosure. Mainly, IFRS 16 introduces a single lessee accounting model and requires lessees to recognize its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months in principle.

3 Significant Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group has power over the entity, is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

When the end of reporting period of a subsidiary is different from that of the Group, the subsidiary prepares its financial statements for consolidation purposes, based on provisional accounting as of the Group's closing date.

All intercompany balances, transactions and unrealized gains or losses on transactions within the Group are eliminated in preparing the consolidated financial statements.

In case of changes in the ownership interest in subsidiaries, if the Group retains control over the subsidiaries, they are accounted for as equity transactions. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity attributable to owners of the Group.

When there is a loss of control, any retained interest in the entity is measured at the fair value on the date when the Group loses control. The difference between the carrying amount of subsidiary on the date when control is lost and the fair value of the retained interest and the amount received by disposal is recognized in profit or loss.

Non-controlling interests in the consolidated subsidiary's net assets are identified separately from those of the Group. Furthermore, comprehensive income of the consolidated subsidiary is attributed to owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2) Joint arrangements

A joint arrangement is an arrangement in which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control. One type of joint arrangement in which the Group has an interest is a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group accounts for its interest in joint ventures using the equity method.

3) Business combinations

Business combinations are accounted for by using the acquisition method.

The acquiree's identifiable assets and liabilities are measured at their acquisition-date fair values, excluding certain assets and liabilities required under IFRS.

The excess of the aggregate of the consideration transferred, the fair value of equity interests in the acquiree held by the Group prior to acquisition-date in case of step acquisition, and the amount of non-controlling interest in the acquiree over the acquisition-date net value of the identifiable assets and liabilities is recorded as goodwill. If the excess is negative, then the excess is immediately recognized in profit or loss.

The consideration transferred is measured as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred to former owners of the acquiree and the equity interests issued by the acquirer.

Non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

Acquisition-related costs incurred in connection with business combinations, such as finder's fees and advisory fees, are expensed when incurred.

(2) Foreign currency translation

1) Foreign currency transactions

Each entity of the Group uses its own functional currency as the currency of the primary economic environment in which the entity operates. Transactions of each entity are measured at the functional currency.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions or an approximation of the rates.

At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rates at the end of the reporting period.

Translation differences arising from the translation and settlement are recognized in profit or loss.

However, translation differences arising from financial assets measured at fair value through other comprehensive income and from cash flow hedges are recognized as other comprehensive income.

2) Foreign operations

Assets and liabilities of foreign operations in the statement of financial position are translated into Japanese yen using the exchange rate at the end of the reporting period. Income and expenses items of foreign operations and other comprehensive income are translated into Japanese yen using the average exchange rates for the period.

Exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income.

In cases of disposition of whole interests of foreign operations or certain interests involving a loss of joint control, the cumulative amount of other comprehensive income is reclassified to part of profit or loss on disposal.

(3) Revenue

1) Sale of goods

Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

(a) Significant risks and rewards of ownership of the goods have been transferred to the buyers;
(b) The Group retains neither continuing involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) The amount of revenue can be measured reliably;
(d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any sales discounts, rebates, and consumption taxes.

2) Rendering of services

Revenue from the rendering of services is recognized at the point when the services are provided to external customers.

3) Royalty income, etc.

Some of the Group's revenues are generated from licensing agreements under which third parties have been granted rights to produce or market products or rights to use technologies.

Upfront payments under agreements where the rights or obligations still exist are initially recognized as deferred income and then recognized in profit or loss as earned over the period in which the performance obligations stipulated in the agreements are fulfilled.

Milestone payment is recognized upon achievement of the milestones defined in the respective agreements.

Running royalty is recognized on an accrual basis in accordance with the substance of the relevant agreement.

4) Interest income

Interest income is recognized using the effective interest method.

5) Dividend income

In principle, dividend income is recognized when the shareholder's right to receive payment is established.

(4) Income taxes

Income taxes are comprised of current and deferred taxes, and recognized in profit or loss, except for taxes related to business combinations and to items that are recognized in other comprehensive income or directly in equity.

Current tax is calculated at the amount expected to be paid to or recovered from the taxation authority by applying the statutory tax rate and tax laws enacted or substantially enacted at the end of the reporting period.

Deferred tax assets and liabilities are determined based on temporary differences between tax base of assets and liabilities and their accounting carrying amount at the end of the reporting period, unused tax credits and unused tax loss. However, deferred tax assets and liabilities are not recognized for:

(a) taxable temporary differences arising from the initial recognition of goodwill.
(b) taxable or deductible temporary differences arising from the initial recognition of assets and liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit (tax loss).
(c) deductible temporary differences associated with investments in subsidiaries and interests in joint arrangements when it is not probable that the temporary difference will reverse in the foreseeable future or there will not be sufficient taxable profits against which the deductible temporary differences can be utilized.
(d) taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements when the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax loss, and unused tax credits can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on statutory tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

(5) Earnings per share

Basic earnings per share are calculated by dividing net profit (loss) attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusting for treasury shares.

Diluted earnings per share are not calculated because no potentially dilutive shares of ordinary shares are outstanding.

(6) Property, plant and equipment (excluding leased assets)

Property, plant and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes any costs directly attributable to the acquisition of the item, costs of dismantling, removing and restoring the item and borrowing costs eligible for capitalization.

An item of property, plant and equipment other than land and construction in progress is depreciated in a way that allows the depreciable amount, which is determined by deducting its residual value from its cost, to be allocated regularly on a straight-line basis over the following useful lives.

Buildings and structures	2 to 60 years
Machinery and vehicles	2 to 22 years
Tools, furniture and fixtures	2 to 20 years

The depreciation methods, residual values and useful lives of property, plant and equipment are revised at the end of each fiscal year, and changed, as necessary.

(7) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership of leased assets are transferred to the Group. All other leases are classified as operating leases.

Under finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease.

Lease payments are allocated to the financial costs and the repayment of the outstanding obligation based on the interest method. Financial costs are recognized in the consolidated statement of income.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or lease terms.

Under operating lease transactions, lease payments are recognized as an expense on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease, based on the substance of the arrangement.

(8) Goodwill

Goodwill is not amortized but carried at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash-generating units that are expected to benefit from the synergies of the business combination.

Measurement at the initial recognition of goodwill is described in "(1) Basis of consolidation, 3) Business combinations."

Impairment of goodwill is described in "(10) Impairment of property, plant and equipment, goodwill, and intangible assets, 2) Impairment of goodwill."

(9) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, other than goodwill, including patents and technologies, marketing rights, and in-process research and development acquired in a business combination or acquired separately.

Intangible assets after recognition are measured by using the cost model and are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost including costs directly related to the acquisition upon initial recognition. Cost of intangible assets acquired through business combinations is measured at fair value at the acquisition date.

Internally incurred expenditures in the research stage are recognized as an expense when incurred. Expenditures in the development stage are capitalized as intangible assets only if the Group can prove all the following requirements.

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
(b) The intention to complete the intangible asset and use or sell it.
(c) The ability to use or sell the intangible asset.
(d) How the intangible asset will generate future economic benefits.
(e) The availability of adequate resources to complete the development of the intangible asset.
(f) The ability to reliably measure the expenditure attributable to the intangible asset during its development.

The Group considers that expenditures incurred for ongoing development projects do not meet the requirements for capitalization unless marketing approval is obtained from the regulatory authorities in a major market, and recognizes such expenditures as an expense when incurred.

Except for intangible assets with indefinite useful lives and intangible assets that are not yet available for use, each asset is amortized over the estimated useful life on a straight-line basis.

The estimated useful life of an intangible asset acquired through a business combination or under the in-licensing of technologies, etc. is the shorter of the period of legal protection or its economic life in principle. However, if there is a more suitable period in which the effect of the intangible asset is expected, with the purpose of the expenditures and economic substance of the transaction taken into account, this period is deemed as the estimated useful life.

The estimated useful lives of major asset items are as follows:

Intangible assets associated with products	4 to 11 years
Software	3 to 5 years

Since intangible assets acquired through business combinations and under the in-licensing of technologies, etc. consist of combined rights such as licensing and marketing rights for products under development and it is difficult to classify and identify the amortization expense for these assets by function, such amortization expense is separately presented as "amortization of intangible assets associated with products" in the consolidated statement of income.

The amortization methods, residual values and useful lives of intangible assets are reviewed at the end of each fiscal year, and changed, as necessary.

(10) Impairment of property, plant and equipment, goodwill, and intangible assets

1) Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, the Group assesses whether there is any indication that its property, plant and equipment and intangible assets may be impaired. If there is an indication of impairment, the recoverable amount of the asset is estimated. Intangible assets not yet available for use or with indefinite useful lives are tested for impairment annually irrespective of whether there is any indication of impairment.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of each cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, or value in use. Fair value is calculated using the appropriate evaluation model supported by available fair value indicators. Value in use is determined as the discounted present value of estimated future cash flows using a pretax discount rate that reflects current market evaluation for the time value of money and the risks specific to the asset.

If the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, the asset is written down to its recoverable amount and impairment loss is recognized in profit or loss.

2) Impairment of goodwill

Goodwill is tested for impairment annually or whenever there is any indication of impairment.

3) Reversal of impairment loss

For assets on which an impairment loss was recognized in prior years, other than goodwill, the Group confirms whether there is any indication that the loss may have decreased or may no longer exist, including any change in assumptions based on which the recoverable amount is determined as of the end of the reporting period.

If the above indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount is greater than the carrying amount before impairment of the asset in the asset or cash-generating unit after taking into account the depreciation, a reversal of an impairment loss is recognized, to the extent the amount does not exceed the lower of the recoverable amount or the carrying amount before impairment after taking into account depreciation. A reversal of an impairment loss is recognized in profit or loss.

Any impairment loss recognized for goodwill is not reversed.

(11) Financial instruments

1) Financial assets (excluding derivatives)

(i) Initial recognition and measurement

Purchase or sale of financial assets are recognized or derecognized based on trade date accounting (contract date basis).

Financial assets are classified as "financial assets measured at amortized cost," "financial assets measured at fair value through other comprehensive income" and "financial assets measured at fair value through profit or loss" upon initial recognition.

(Debt financial assets)
Debt financial assets that meet all the following conditions are classified as "financial assets measured at amortized cost."

(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
(b) The contractual terms of the financial asset give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets that meet all the following conditions are classified as "financial assets measured at fair value through other comprehensive income."

(c) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale.
(d) The contractual terms of the financial asset give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets other than "financial assets measured at amortized cost" and "financial assets measured at fair value through other comprehensive income" are classified as "financial assets measured at fair value through profit or loss."

(Equity financial assets)
Equity financial assets, except those held for trading, are designated as "financial assets measured at fair value through other comprehensive income" or "financial assets measured at fair value through profit or loss," and the classification is applied continuously.

All financial assets are measured at fair value plus transaction costs that are directly attributable to the financial assets, except for "financial assets measured at fair value through profit or loss."

(ii) Subsequent measurement
After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial assets measured at amortized cost
Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

Amortization under the effective interest method and any gain or loss in the case of derecognition of financial assets are recognized in profit or loss.

(b) Financial assets measured at fair value through other comprehensive income
Any change in fair value is recognized as other comprehensive income. If equity financial assets are derecognized or the fair value decreases significantly, accumulated other comprehensive income is transferred to retained earnings.

(c) Financial assets measured at fair value through profit or loss
Changes in fair value are recognized in profit or loss.

(iii) Impairment loss
The Group recognizes impairment loss on financial assets based on its evaluation at the end of each reporting period whether there is a significant increase in credit risk of the financial assets or groups of financial assets since initial recognition. Specifically, when there is no significant increase in the credit risk since initial recognition, expected credit losses for 12 months are recognized as allowance for credit losses.

On the other hand, when there is a significant increase in credit risk since initial recognition, expected credit losses for the remaining life of the financial assets are recognized as allowance for credit losses.

Whether or not there is a significant increase in credit risk is determined based on the changes in default risk. To determine if there is a change in the default risk, factors such as delinquencies or the external credit rating of the financial asset are considered. However, expected credit losses of trade and other receivables are recognized over their remaining lives since inception solely based on historical credit loss experience.

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received.

(iv) Derecognition
The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset.

In cases where the Group neither transfers nor retains substantially all the risks and rewards of ownership but continues to control the assets transferred, the Group recognizes the retained interest in the assets and related liabilities that might be payable.

2) Financial liabilities (excluding derivatives)

(i) Initial recognition and measurement
Upon initial recognition, financial liabilities held for trading are classified as financial liabilities measured at fair value through profit or loss, while other financial liabilities are classified as financial liabilities measured at amortized cost.

All financial liabilities are measured at fair value at initial recognition. Financial liabilities measured at amortized cost are measured at fair value after deducting transaction costs that are directly attributable to the issue of the financial liabilities.

(ii) Subsequent measurement
After initial recognition, financial liabilities are measured based on the classification as follows:

(a) Financial liabilities measured at amortized cost
Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method.
Amortization under the effective interest method and any gain or loss in the case of derecognition of financial liabilities are recognized in profit or loss.

(b) Financial liabilities measured at fair value through profit or loss
Changes in fair value are recognized in profit or loss.

(iii) Derecognition
Financial liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or expired.

3) Derivatives

The Group enters into derivative financial instruments such as forward exchange contracts and currency options to hedge the risks of fluctuations mainly in foreign exchange rates and interest rates.

Derivatives are initially recognized at fair value on the date when the contracts are entered into and are subsequently measured at fair value at the end of the reporting period.

Derivatives to which hedge accounting is not applied are classified as financial assets or liabilities measured at fair value through profit or loss, and any change in fair value is recognized at the end of the reporting period.

4) Hedge accounting

Hedges that meet criteria for hedge accounting are accounted for as follows:

The relationship between the hedging instrument and the hedged item is documented based on the risk management strategy and the risk management purpose at the inception of the hedge.

(i) Fair value hedges

Changes in the fair value of derivatives are recognized in profit or loss.

Changes in the fair value of the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in profit or loss.

(ii) Cash flow hedges

The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.

The cumulative amounts of hedging instruments recognized in other comprehensive income as equity are reclassified to profit or loss when the hedged transaction affects profit or loss.

If a hedged item results in the recognition of a non-financial asset or a non-financial liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the carrying amount of the non-financial asset or the non-financial liability.

When any forecast transaction is no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income as equity is reclassified to profit or loss.

When any hedging instrument expires, is sold, or terminated or exercised without the replacement or rollover of the hedging instrument into another hedging instrument, or when any hedge designation regarding all or the portion of the hedge relationship accompanying the change in the risk management purpose is revoked, the cumulative amount that has been recognized in other comprehensive income as equity is continued to be recognized as equity until the forecast transaction occurs or is no longer expected to occur.

5) Offsetting financial instruments

Financial assets and financial liabilities are offset only when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

6) Fair value of financial instruments

With regard to the fair value of financial instruments traded on active financial markets as of the end of each reporting period, the Group refers to the fair value in the market or dealer prices.

The Group calculates the fair value of financial instruments for which an active market does not exist by reference to an appropriate evaluation technique or offered prices by financial institutions.

(12) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with banks withdrawable on demand, and short-term investments having maturities of three months or less from the date of acquisition, which are readily convertible to cash and subject to an insignificant risk of any change in their value.

(13) Inventories

Inventories are measured at the lower of cost and net realizable value.

Cost of inventories is determined mainly using the weighted average method and includes cost of purchase, cost of conversion and all other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is calculated as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell.

(14) Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

To be classified as assets held for sale, the asset must be available for immediate sale in its present condition, and the sale must be highly probable. Management of the Group must have a firm commitment to execute the plan to sell the asset and the sale is expected to be completed within one year from the date of classification, as a general rule.

Non-current assets (or disposal groups) held for sale are not depreciated or amortized. Non-current assets (or disposal groups) are measured at the lower of their carrying amounts and fair values less costs to sell. The resulting losses are recognized as impairment losses.

(15) Equity

1) Ordinary shares

Ordinary shares are recorded in share capital and capital surplus at their issue price.

2) Treasury shares

When the Company reacquires its own treasury shares, the amount of the consideration paid is deducted from equity. When the Company sells treasury shares, the difference between the carrying amount and the consideration received from the sale is recognized in capital surplus.

(16) Employee benefits

1) Post-employment benefits

The Group operates defined benefit plans and defined contribution plans as post-employment benefit plans for its employees.

(i) Defined benefit plans

Retirement benefit obligations of each plan are determined using the projected unit credit method and, the discount rate is determined by reference to market yield on high-quality corporate bonds having maturity terms consistent with the estimated term of the related pension obligations.

The defined benefit assets and liabilities are calculated by deducting fair value of plan assets from retirement benefit obligations.

The Group recognizes the actuarial gains or losses in other comprehensive income and immediately transfers them to retained earnings in the fiscal year when incurred.

Past service cost is recognized in profit or loss in the fiscal year when incurred.

(ii) Defined contribution plans

For defined contribution plans, the amount of contributions corresponding to the period in which employees rendered services is recorded as expenses.

2) Short-term employee benefits

Short-term employee benefits are recognized as an expense when the related service is rendered.

Paid absences are recognized as a liability when the Group has legal or constructive obligations resulting from past service rendered by the employees and reliable estimates of the obligations can be made.

(17) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will occur to settle the obligations, and reliable estimates of the obligations can be made.

When the effect of the time value of money is material in measuring the provisions, the present value of the expenditures expected to be required to settle the obligations is used.

In calculating the present value, the Group principally uses a pretax discount rate reflecting the time value of money and the risks specific to the liability.

(18) Government grants

Government grants are measured and recognized at fair value, if there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to revenue are deducted directly from related costs covered by the grants.

Government grants related to assets are deducted directly from the acquisition cost of the assets.

4 Significant Accounting Estimates and Judgments accompanying Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

The actual results may differ from these estimates by their nature.

Estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimates are revised and future periods.

Major judgments and estimates made by management and which significantly affect the consolidated financial statements are as follows:

- Impairment of non-financial assets (Notes 15, 16 and 17)
- Recoverability of deferred tax assets (Note 12)
- Measurement of the defined benefit obligation (Note 27)
- Fair value of financial instruments (Note 33)
- Provisions (Note 30)

5 Segment Information

(1) Overview of reportable segments

As the Group is engaged in a single segment, the pharmaceuticals business, it does not have multiple operating segments. As part of its pharmaceuticals business, the Group conducts operations related to ethical drugs and OTC products in Japan and overseas.

(2) Information about products and services

The components of revenue are as follows:

Millions of yen

	2016		2017	
	Revenue	Ratio (%)	Revenue	Ratio (%)
Pharmaceuticals				
Domestic ethical drugs	308,084	72.4	**314,221**	**74.1**
Overseas ethical drugs	24,711	5.8	**22,689**	**5.4**
Royalty revenue, etc.	86,639	20.3	**82,239**	**19.4**
OTC products	3,765	0.9	**3,413**	**0.8**
Others	2,565	0.6	**1,415**	**0.3**
Total	425,764	100.0	**423,977**	**100.0**

(3) Geographical information

The geographical breakdown of revenue from external customers and non-current assets is as follows:

1) Revenue from external customers

Millions of yen

	2016	2017
Japan	315,425	**320,369**
Europe	66,962	**57,425**
North America	24,445	**27,039**
Asia	18,507	**18,752**
Others	425	**392**
Total	425,764	**423,977**

Note: Revenue is classified by country or region based on the location of customers.

2) Non-current assets

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Japan	174,454	177,990	**185,385**
Europe	84	65	**54**
North America	41,028	38,289	**37,888**
Asia	4,897	4,800	**4,528**
Total	220,463	221,144	**227,855**

Note: Non-current assets are classified based on the location of assets and do not include other financial assets, defined benefit assets and deferred tax assets.

(4) Information about major customers

External customers that account for 10% or more of revenue on the consolidated statement of income are as follows:

Millions of yen

Customer name	Related segment name	2016	2017
SUZUKEN CO., LTD.	Pharmaceuticals	64,121	**64,596**
Toho Pharmaceutical Co., Ltd.	Pharmaceuticals	61,809	**62,511**
Novartis Pharma AG	Pharmaceuticals	51,742	**53,755**
Alfresa Corporation	Pharmaceuticals	46,403	**50,137**
MEDICEO CORPORATION	Pharmaceuticals	45,100	**44,462**

6 Revenue

The breakdown of revenue is provided in "5. Operating segments (2) Information about products and services."

7 Other Income

The breakdown of other income is as follows:

Millions of yen

	2016	2017
Gain on sales of property, plant and equipment	708	**188**
Rental income from property, plant and equipment	238	**240**
Others	655	**546**
Total other income	1,601	**974**

8 Other Expenses

The breakdown of other expenses is as follows:

Millions of yen

	2016	2017
Loss on sale and disposal of property, plant and equipment	467	462
Impairment loss (Note 1)	6,030	185
Restructuring loss (Note 2)	16,330	484
Provision of reserve for HCV litigation (Note 3)	3,521	—
Others	1,013	751
Total other expenses	27,361	1,882

Note 1: Information on impairment loss is provided in "15. Property, Plant and Equipment (2) Impairment loss" and "17. Intangible assets (3) Impairment loss"
Note 2: The breakdown of major items of restructuring loss as of March 31, 2016 is as follows:
Extra retirement payments, etc. accompanying requests for early retirement ¥15,282 million
Reorganization of manufacturing bases: impairment loss and estimated removal expenses accompanying the transfer of manufacturing operations of the Kashima Office No.2 Manufacturing Building and consolidation and relocation of CMC clinical trial facilities and others ¥184 million
Reorganization of research bases: impairment loss, relocation expenses, etc. accompanying the closure of the Kazusa Office ¥864 million
Note 3: Provision of reserve for HCV litigation as of March 31, 2016 represents the estimated amount to be paid by the Company as a result of the newly clarified payment allocation relationship and other factors.

9 Employee Benefit Expenses

The breakdown of employee benefit expenses is as follows:

Millions of yen

	2016	2017
Remuneration and salaries	53,221	47,944
Employees' bonuses	10,883	9,396
Retirement benefit expenses	8,480	8,171
Other employee benefit expenses	8,174	7,212
Total	80,758	72,723

Note 1: Employee benefit expenses have been recorded in "cost of sales," "selling, general and administrative expenses," "research and development expenses" and "other expenses."
Note 2: Employee benefit expenses as of March 31, 2016 do not include "extra retirement payments, etc. accompanying requests for early retirement" stated in "8. Other Expenses."

10 Financial Income

The breakdown of financial income is as follows:

Millions of yen

	2016	2017
Interest income		
Financial assets measured a fair value through profit or loss	309	63
Financial assets measured a amortized cost	1,492	1,078
Dividend income		
Financial assets measured a fair value through other comprehensive income	1,159	722
Foreign exchange gain (net)	—	203
Others	33	146
Total	2,993	2,212

11 Financial Expenses

The breakdown of financial expenses is as follows:

Millions of yen

	2016	2017
Interest expenses		
Financial liabilities measured at amortized cost	202	181
Loss on valuation of securities		
Financial assets measured a fair value through profit or loss	863	53
Foreign exchange loss (net)	463	—
Others	13	2
Total	1,541	236

12 Income Tax Expenses

(1) Deferred tax assets and deferred tax liabilities

The breakdown and changes in deferred tax assets and deferred tax liabilities by major cause is as follows:

Fiscal year ended March 31, 2016

Millions of yen

	Balance as of April 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	Balance as of March 31, 2016
Prepaid research expenses	7,896	(1,466)	—	—	6,430
Property, plant and equipment	(3,974)	(138)	—	5	(4,107)
Intangible assets	(4,853)	799	—	675	(3,379)
Inventories	2,911	(981)	—	—	1,930
Net defined benefit assets and liabilities	2,173	(554)	2,530	43	4,192
Provisions	1,483	778	—	—	2,261
Accrued expenses	1,879	(32)	—	—	1,847
Financial assets measured at fair value through other comprehensive income	(12,767)	149	2,263	1,227	(9,128)
Others	5,649	151	—	(90)	5,710
Total	397	(1,294)	4,793	1,860	5,756

Fiscal year ended March 31, 2017

Millions of yen

	Balance as of April 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	Balance as of March 31, 2017
Prepaid research expenses	6,430	(1,656)	—	—	4,774
Property, plant and equipment	(4,107)	(130)	—	(2)	(4,239)
Intangible assets	(3,379)	(3,671)	—	171	(6,879)
Inventories	1,930	274	—	—	2,204
Net defined benefit assets and liabilities	4,192	255	1,640	(139)	2,668
Provisions	2,261	(333)	—	(1)	1,927
Accrued expenses	1,847	(581)	—	(2)	1,264
Financial assets measured at fair value through other comprehensive income	(9,128)	175	988	412	(7,553)
Others	5,710	(709)	—	(37)	4,964
Total	5,756	(6,376)	(652)	402	(870)

Note: Others include exchange differences on translation of foreign operations and deferred tax assets classified in assets held for sale.

(2) Unrecognized deferred tax assets

The amounts of deductible temporary differences, unused tax losses and unused tax credits for which deferred tax assets have not been recognized are as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Deductible temporary differences	9,778	8,696	**7,390**
Unused tax losses	47,234	48,753	**53,689**
Unused tax credits	8,387	11,347	**14,367**
Total	65,399	68,796	**75,446**

Unused tax losses and unused tax credits for which deferred tax assets have not been recognized will expire as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Unused tax losses			
Not later than one year	—	—	—
Later than one year and not later than five years	—	—	**1,182**
Later than five years	47,234	48,753	**52,507**
Total	47,234	48,753	**53,689**
Unused tax credits			
Not later than one year	—	—	—
Later than one year and not later than five years	—	—	—
Later than five years	8,387	11,347	**14,367**
Total	8,387	11,347	**14,367**

(3) Unrecognized deferred tax liabilities

The total amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities have not been recognized were ¥24,706 million as of April 1, 2015, ¥23,140 million as of March 31, 2016 and ¥24,472 million as of March 31, 2017.

For temporary differences, deferred tax liabilities have not been recognized when the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(4) Income tax expenses

The breakdown of income taxes is as follows:

Millions of yen

	2016	2017
Current income taxes	24,927	**20,761**
Deferred income taxes		
Recognition and realization of temporary differences, adjustment and realization of deferred tax assets, and others	736	**6,346**
Changes in tax rates	558	**30**
Total	1,294	**6,376**
Total income taxes	26,221	**27,137**

(5) Reconciliation of effective tax rate

The Company is principally subject to income taxes, inhabitant taxes and business taxes, and the effective statutory tax rates based on these taxes in the fiscal years ended March 31, 2016 and 2017 were 33.0% and 30.8%, respectively. Overseas subsidiaries are subject to income taxes applicable in the countries in which they operate.

The breakdown of major items resulting in a difference between the effective statutory tax rate and the actual tax rate is as follows:

	2016	2017
Effective statutory tax rate	33.0%	**30.8%**
Permanently non-deductible items such as entertainment expenses	0.5%	**0.4%**
Permanent differences arising from non-taxable items such as dividend income	(0.3)%	**(0.2)%**
Tax credits for research and development expenses	(6.0)%	**(4.8)%**
Changes in unrecognized deferred tax assets	2.6%	**1.8%**
Adjustment of deferred tax assets at period-end due to a change in tax rates	0.5%	**0.0%**
Others	1.2%	**0.3%**
Actual tax rate	31.5%	**28.3%**

13 Earnings per Share

The basis of calculating basic earnings per share is as follows:

Information on diluted earnings per share is omitted due to an absence of dilutive shares.

	2016	2017
Net profit attributable to owners of the Company (Millions of yen)	59,306	**71,263**
Net profit not attributable to ordinary equity holders of the Company (Millions of yen)	—	**—**
Net profit to be used in calculating basic earnings per share (Millions of yen)	59,036	**71,263**
Average number of ordinary shares outstanding during the period (Thousands of shares)	560,989	**560,988**
Earnings per share		
Basic earnings per share (Yen)	105.72	**127.03**

14 Other Comprehensive Income

Changes in each item of other comprehensive income during the period are as follows:

Millions of yen

	2016	2017
Net changes in financial assets measured at fair value through other comprehensive income		
Amount arising during the period	8,834	**(3,215)**
Before tax effects	8,834	**(3,215)**
Tax effects	(2,313)	**986**
Net of tax effects	6,521	**(2,229)**
Remeasurements of defined benefit plans		
Amount arising during the period	(8,641)	**5,298**
Before tax effects	(8,641)	**5,298**
Tax effects	2,530	**(1,640)**
Net of tax effects	(6,111)	**3,658**
Exchange differences on translation of foreign operations		
Amount arising during the period	(4,977)	**(1,054)**
Reclassification adjustments	—	**34**
Before tax effects	(4,977)	**(1,020)**
Tax effects	—	**—**
Net of tax effects	(4,977)	**(1,020)**
Effective portion of changes in fair value of cash flow hedges		
Amount arising during the period	180	**58**
Reclassification adjustments	(331)	**(64)**
Before tax effects	(151)	**(6)**
Tax effects	50	**2**
Net of tax effects	(101)	**(4)**
Share of other comprehensive income (loss) of associates and joint ventures accounted for using equity method		
Amount arising during the period	(30)	**(18)**
Reclassification adjustments	—	**—**
After reclassification adjustments	(30)	**(18)**
Total other comprehensive income (loss)	(4,698)	**387**

15 Property, Plant and Equipment

(1) Schedule of movements

Changes in cost and accumulated depreciation and accumulated impairment loss of property, plant and equipment are as follows:

Cost

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2015	106,935	81,616	35,685	34,016	4,597	262,849
Individual acquisition	3,203	4,233	2,216	619	1,151	11,422
Sale and disposal	(7,147)	(5,818)	(3,898)	(2,534)	(64)	(19,461)
Transfer to assets held for sale	(969)	—	(59)	(237)	—	(1,265)
Exchange differences on translation of foreign operations	(704)	(631)	(68)	(74)	(8)	(1,485)
Other changes	—	(741)	(208)	—	(247)	(1,196)
Balance as of March 31, 2016	101,318	78,659	33,668	31,790	5,429	250,864
Individual acquisition	**8,878**	**4,906**	**2,255**	**—**	**(3,315)**	**12,724**
Acquisition of lease assets	**—**	**—**	**10**	**—**	**—**	**10**
Sale and disposal	**(789)**	**(1,612)**	**(1,605)**	**(1,869)**	**—**	**(5,875)**
Transfer to assets held for sale	**—**	**—**	**(31)**	**—**	**—**	**(31)**
Exchange differences on translation of foreign operations	**(107)**	**(105)**	**(9)**	**(8)**	**6**	**(223)**
Other changes	**—**	**(2)**	**1**	**—**	**(1,125)**	**(1,126)**
Balance as of March 31, 2017	**109,300**	**81,846**	**34,289**	**29,913**	**995**	**256,343**

Accumulated depreciation and accumulated impairment loss

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2015	(70,812)	(70,959)	(29,702)	(4,105)	—	(175,578)
Depreciation	(2,408)	(2,782)	(2,104)	—	—	(7,294)
Impairment loss	(2,647)	(555)	(182)	(421)	—	(3,805)
Sale and disposal	6,543	5,537	3,743	1,557	—	17,380
Transfer to assets held for sale	848	—	59	—	—	907
Exchange differences on translation of foreign operations	267	352	49	—	—	668
Other changes	—	745	190	—	—	935
Balance as of March 31, 2016	(68,209)	(67,662)	(27,947)	(2,969)	—	(166,787)
Depreciation	**(2,416)**	**(2,645)**	**(2,268)**	**—**	**—**	**(7,329)**
Impairment loss	**(113)**	**(51)**	**(21)**	**—**	**—**	**(185)**
Sale and disposal	**587**	**1,556**	**1,592**	**—**	**—**	**3,735**
Transfer to assets held for sale	**—**	**—**	**28**	**—**	**—**	**28**
Exchange differences on translation of foreign operations	**7**	**18**	**5**	**—**	**—**	**30**
Other changes	**—**	**1**	**—**	**—**	**—**	**1**
Balance as of March 31, 2017	**(70,144)**	**(68,783)**	**(28,611)**	**(2,969)**	**—**	**(170,507)**

Carrying amount

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2015	36,123	10,657	5,983	29,911	4,597	87,271
Balance as of March 31, 2016	33,109	10,997	5,721	28,821	5,429	84,077
Balance as of March 31, 2017	**39,156**	**13,063**	**5,678**	**26,944**	**995**	**85,836**

Reclassification from construction in progress is included in "individual acquisition" of cost.

Depreciation of property, plant and equipment is included in "cost of sales," "selling, general and administrative expenses," "research and development expenses" and "other expenses" in the consolidated statement of income.

Government grants directly deducted from the carrying amount of property, plant and equipment as of April 1, 2015, March 31, 2016 and March 31, 2017 were ¥1,035 million, ¥764 million and ¥552 million, respectively.

(2) Impairment loss

Property, plant and equipment are grouped based on the smallest cash-generating unit that produces largely independent cash inflows. When there is an indication of impairment, an impairment test is performed.

The Group recorded impairment losses of ¥3,805 million as of March 31, 2016 and ¥185 million as of March 31, 2017, which are included in "other expenses" in the consolidated statement of income.

Of the impairment loss recognized as of March 31, 2016, a major component relates to the business associated with recombinant human serum albumin preparations. Since it became obvious that there would be a delay in the plan to restart the business associated with recombinant human serum albumin preparations, the plan was reviewed in light of the current situation. As a result, the size of the business is expected to be much smaller than previously anticipated, due to "shift of the core from preparations for therapeutic use to those for non-therapeutic use" and other factors. Consequently, an impairment loss of ¥3,156 million was recorded to the extent of the memorandum value.

(3) Leased assets

The carrying amounts of leased assets under finance lease transactions included in property, plant and equipment are as follows:

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2015	1,742	38	1	1,781
Balance as of March 31, 2016	1,527	18	5	1,550
Balance as of March 31, 2017	**1,349**	**7**	**8**	**1,364**

(4) Commitments

Commitments related to acquisition of property, plant and equipment were ¥10,327 million as of April 1, 2015, ¥9,638 million as of March 31, 2016 and ¥1,571 million as of March 31, 2017.

16 Goodwill

(1) Schedule of movements

Changes in cost and accumulated impairment loss of goodwill are as follows:

Millions of yen

	Cost	Accumulated impairment loss	Carrying amount
Balance as of April 1, 2015	81,041	—	81,041
Exchange differences on translation of foreign operations	(530)	—	(530)
Balance as of March 31, 2016	80,511	—	80,511
Exchange differences on translation of foreign operations	**(183)**	**—**	**(183)**
Balance as of March 31, 2017	**80,328**	**—**	**80,328**

(2) Significant goodwill

A major component of goodwill recorded in the consolidated statement of financial position arose from the merger of the Company with the former Mitsubishi Pharma Corporation on October 1, 2007, and the carrying amount of the corresponding goodwill as of April 1, 2015, March 31, 2016 and March 31, 2017 was ¥74,776 million, respectively.

(3) Impairment testing

With operating segments deemed as the smallest cash-generating unit that produces largely independent cash inflows, goodwill is tested for impairment annually, and whenever there is an indication of impairment.

In impairment testing, the recoverable amount of goodwill is measured at value in use.

In the calculation of value in use, the Group uses the estimated amount of future cash flows on the basis of the Medium-Term Management Plan ending fiscal year 2020 approved by the management and terminal value after the fiscal year 2020 based on past experience and external information.

With regard to the discount rate, a pre-tax weighted average cost of capital from 6.2% to 6.7% is used.

Since the value in use sufficiently exceeds the carrying amount of the cash-generating unit, the Group expects that the value in use will not likely be lower than the carrying amount even if key assumptions used in the calculation of the value in use change within a reasonable range.

17 Intangible Assets

(1) Schedule of movements

Changes in cost and accumulated amortization and accumulated impairment loss of intangible assets are as follows:

Cost

Millions of yen

	Intangible assets			
	Software	Intangible assets associated with products	Others	Total
Balance as of April 1, 2015	6,888	49,216	1,525	57,629
Individual acquisition	1,012	11,464	(17)	12,459
Sale and disposal	(534)	—	(112)	(646)
Exchange differences on translation of foreign operations	(17)	(2,510)	(81)	(2,608)
Other changes	—	—	(49)	(49)
Balance as of March 31, 2016	7,349	58,170	1,266	66,785
Individual acquisition	**1,219**	**7,510**	**595**	**9,324**
Sale and disposal	**(165)**	**—**	**—**	**(165)**
Exchange differences on translation of foreign operations	**(7)**	**(861)**	**(24)**	**(892)**
Other changes	**(1,024)**	**—**	**(3)**	**(1,027)**
Balance as of March 31, 2017	**7,372**	**64,819**	**1,834**	**74,025**

Accumulated amortization and accumulated impairment loss

Millions of yen

	Intangible assets			
	Software	Intangible assets associated with products	Others	Total
Balance as of April 1, 2015	(2,616)	(3,544)	(179)	(6,339)
Amortization	(1,521)	(1,473)	(48)	(3,042)
Impairment loss	(14)	(2,014)	—	(2,028)
Sale and disposal	472	—	48	520
Exchange differences on translation of foreign operations	10	—	18	28
Other changes	—	—	—	—
Balance as of March 31, 2016	(3,669)	(7,031)	(161)	(10,861)
Amortization	**(1,550)**	**(1,528)**	**(47)**	**(3,125)**
Impairment loss	**—**	**—**	**—**	**—**
Sale and disposal	**160**	**—**	**—**	**160**
Exchange differences on translation of foreign operations	**7**	**—**	**4**	**11**
Other changes	**997**	**—**	**2**	**999**
Balance as of March 31, 2017	**(4,055)**	**(8,559)**	**(202)**	**(12,816)**

Carrying amount

Millions of yen

	Intangible assets			
	Software	Intangible assets associated with products	Others	Total
Balance as of April 1, 2015	4,272	45,672	1,346	51,290
Balance as of March 31, 2016	3,680	51,139	1,105	55,924
Balance as of March 31, 2017	**3,317**	**56,260**	**1,632**	**61,209**

Of "intangible assets associated with products," those in the research and development phase which have not been approved for sale by the regulatory authorities are not yet available for use. Therefore, the Group has determined that the period during which future economic benefits will flow to the Group is not foreseeable for these intangible assets, and classifies them as intangible assets with indefinite useful lives. The carrying amounts of intangible assets with indefinite useful lives were ¥37,622 million, ¥44,562 million and ¥48,285 million as of April 1, 2015, March 31, 2016 and March 31, 2017, respectively. Among them, major intangible assets with indefinite useful lives are in-process research and development expenses recognized in line with the acquisition of Medicago Inc. in September 2013.

"Others" includes construction in progress and rights of using facilities, etc.

Amortization of intangible assets is included in "cost of sales," "selling, general and administrative expenses," "research and development expenses" and "amortization of intangible assets associated with products" in the consolidated statement of income.

There were no significant internally generated assets as of April 1, 2015, March 31, 2016 and March 31, 2017.

(2) Significant intangible assets

Major intangible assets recorded in the consolidated statement of financial position are in-process research and development expenses recognized in line with the acquisition of Medicago Inc. in September 2013, and the carrying amount was ¥29,781 million as of April 1, 2015, ¥27,271 million as of March 31, 2016 and ¥26,410 million as of March 31, 2017. These assets are in the research and development phase, have not been approved for sale by regulatory authorities, and are not yet available for use. Therefore, the Group has determined that the period during which future economic benefits will flow to it is not foreseeable for these intangible assets, and classifies them as intangible assets with indefinite useful lives.

(3) Impairment loss

Intangible assets are tested for impairment principally for each individual asset that belongs to the pharmaceuticals business when there is an indication of impairment.

Intangible assets with indefinite useful lives are tested for impairment at a certain point of time annually, regardless of whether or not there is an indication of impairment.

In impairment testing, the recoverable amount of intangible assets is measured at value in use.

In calculation of value in use, the Group uses the estimated amount of cash flows based on the business plan approved by the management. The business plan is based on past experience and external information, and in principle, for up to five years, except where there are rational reasons.

With regard to the discount rate, it is calculated based on the weighted average cost of capital, and the pre-tax discount rate used in the calculation of value in use is from 6.2% to 10.5%.

The Group recognized impairment loss of ¥2,028 million as of March 31, 2016, which is included in "other expenses" in the consolidated statement of income.

Of impairment loss recognized as of March 31, 2016, a major component was due to the decision to cease development of certain products under development. The impairment loss of ¥2,014 million was recorded to the extent of the recoverable amount. The recoverable amount is based on value in use, and its value was deemed as zero.

(4) Commitments

Commitments (undiscounted) related to acquisition of intangible assets were ¥23,775 million as of April 1, 2015, ¥116,942 million as of March 31, 2016 and ¥123,297 million as of March 31, 2017.

These commitments, which principally relate to pipelines under development or launched products, are development milestones up to launching for the pipelines under development and the maximum payment of milestones for achieving sales targets for launched products. Since uncertainty in achievement of payment terms of milestones for achieving sales targets is high for the pipelines under development, they are not included in the commitments amount above.

18 Other Financial Assets

(1) Breakdown

The breakdown of other financial assets is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Financial assets measured at amortized cost			
Debt securities	20,150	7,159	**7,140**
Bank deposits (Note 1)	109,052	171,504	**168,886**
Deposits	172,758	173,147	**173,280**
Others	24,793	18,956	**16,914**
Financial assets measured at fair value through profit or loss			
Derivative assets (Note 2)	—	1,161	**1**
Structured bonds	6,062	2,025	**1,014**
Shares	1,912	1,326	**1,909**
Others	1,220	580	**419**
Financial assets measured at fair value through other comprehensive income			
Derivative assets	158	7	**—**
Shares	56,515	41,317	**36,314**
Others	3	3	**3**
Allowance for credit losses	(2)	(1)	**(1)**
Total	392,621	417,184	**405,879**
Non-current assets	95,439	65,519	**51,623**
Current assets	297,182	351,665	**354,255**
Total	392,621	417,184	**405,878**

Note 1: Bank deposits include time deposits and negotiable certificates of deposits. As deposits for opening letters of credit, certain of the bank deposits have been pledged as collateral (as of April 1, 2015: ¥8 million, as of March 31, 2016: ¥7 million, and as of March 31, 2017: ¥1 million).

Note 2: In the consolidated statement of financial position, derivative assets as of March 31, 2017 are reported on a net basis after offsetting of assets and liabilities. On the other hand, in the above table, derivative assets are reported on a gross basis. Therefore, there is difference of ¥1 million between the total amount of other financial assets on current and non-current items in the consolidated statement of financial position and the total amount in the above table.

(2) Financial assets measured at fair value through other comprehensive income

Shares held for the purpose of maintenance, strengthening, etc. of transactional or business relationships are designated as financial assets measured at fair value through other comprehensive income. The breakdown of major shareholdings is as follows:

As of April 1, 2015

Millions of yen

Issue	Amount
TOHO HOLDINGS CO., LTD.	7,254
SUZUKEN CO., LTD.	5,674
Alfresa Holdings Corporation	3,772
Shionogi & Co., Ltd.	3,461
MEDIPAL HOLDINGS CORPORATION	3,323

As of March 31, 2016

Millions of yen

Issue	Amount
TOHO HOLDINGS CO., LTD.	8,604
SUZUKEN CO., LTD.	5,921
ONO PHARMACEUTICAL CO., LTD.	5,813
Alfresa Holdings Corporation	4,805
MEDIPAL HOLDINGS CORPORATION	3,788

As of March 31, 2017

Millions of yen

Issue	Amount
TOHO HOLDINGS CO., LTD.	8,326
SUZUKEN CO., LTD.	5,650
Alfresa Holdings Corporation	4,293
MEDIPAL HOLDINGS CORPORATION	3,711
VITAL KSK HOLDINGS, INC.	1,501

(3) Derecognition of financial assets measured at fair value through other comprehensive income

Due to review of business strategies and other reasons, the Group disposes of certain financial assets measured at fair value through other comprehensive income by sale or other means, and derecognizes them.

Fair value at the time of disposal and cumulative gain or loss recognized in other comprehensive income are as follows. Cumulative gain or loss recognized in other comprehensive income is transferred to retained earnings at the time of disposal.

Millions of yen

	2016	2017
Fair value	24,341	1,790
Cumulative gain or loss recognized in other comprehensive income	13,202	728

(4) Others

Dividend income on financial assets measured at fair value through other comprehensive income is as follows:

Millions of yen

	2016	2017
Derecognized financial assets	340	135
Financial assets held as of the end of the fiscal year	819	587

19 Other Assets

The breakdown of other assets is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Long-term prepaid expenses	861	632	482
Prepaid expenses (Note)	6,489	6,781	3,990
Advance payments	798	565	385
Others	2,141	5,156	4,808
Total	10,289	13,134	9,665
Non-current assets	861	632	482
Current assets	9,428	12,502	9,183
Total	10,289	13,134	9,665

Note: Of prepaid expenses, a major component is outsourced research and development expenses.

20 Inventories

(1) Breakdown

The breakdown of inventories is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Raw materials and supplies	19,645	22,463	**20,642**
Work in process	11,016	10,075	**8,522**
Merchandise and products	51,663	43,159	**50,004**
Total	82,324	75,697	**79,168**

(2) Write-downs

The write-downs of inventories recognized as an expense in the period are as follows:

Millions of yen

	2016	2017
Write-downs	808	**622**

21 Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Notes and accounts receivable - trade	130,331	121,288	**116,896**
Allowance for doubtful accounts	(44)	(39)	**(40)**
Total	130,287	121,249	**116,856**

22 Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Cash and bank deposits	24,651	24,670	**24,153**
Short-term investments	48,686	64,249	**89,062**
Cash and cash equivalents in the consolidated statement of financial position	73,337	88,919	**113,215**
Cash and cash equivalents in the consolidated statement of cash flows	73,337	88,919	**113,215**

23 Assets Held for Sale and Liabilities Directly Related to Assets Held for Sale

The breakdown of assets held for sale and directly related liabilities is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Assets held for sale			
Property, plant and equipment	757	147	3
Inventories	2,767	—	4,330
Trade and other receivables	—	—	6,405
Others	2	—	344
Total	3,526	147	11,082
Liabilities directly related to assets held for sale			
Net defined benefit liabilities	—	—	516
Trade and other payables	—	—	1,861
Other financial liabilities	—	—	468
Others	—	—	300
Total	—	—	3,145

Note: Assets held for sale as of April 1, 2015 were mainly assets related to the Kashima Plant of Mitsubishi Tanabe Pharma Factory Ltd. that belongs to the Group. The Group entered into a transfer agreement for these assets prior to April 1, 2015 and transferred them in the fiscal year ended March 31, 2016. They are presented as "Proceeds from corporate division" in the consolidated statement of cash flows.

Assets held for sale as of March 31, 2016 were idle land held by the Company and others. Because their fair value less costs to sell exceeded the carrying amount, a gain on sale of ¥32 million was recorded in "other income" as of March 31, 2017.

Assets held for sale and liabilities directly related to assets held for sale as of March 31, 2017 resulted from the conclusion of the share transfer agreement accompanying the loss of control of the Company's subsidiary. On March 28, 2017, the Company concluded an agreement whereby Tanabe Seiyaku Hanbai Co., Ltd. (hereinafter "TSH"), its wholly-owned subsidiary, will succeed the Company's business of generic drugs and part of long-listed products by way of an absorption-type company split and subsequently transfer all TSH shares. Consequently, split assets and liabilities and TSH's total assets and liabilities are recorded as "assets held for sale" and "liabilities directly related to assets held for sale" as of March 31, 2017.

Because their fair value exceeds the carrying amount, the relevant assets and liabilities are measured at the carrying amount.

24 Borrowings

The breakdown of borrowings is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017	Average interest rate (%)	Repayment period
Financial liabilities measured at amortized cost					
Current portion of non-current borrowings	132	125	127	5.65	
Non-current borrowings	894	713	581	5.65	From 2018 to 2024
Total	1,026	838	708	—	—
Non-current liabilities	894	713	581	—	—
Current liabilities	132	125	127	—	—
Total	1,026	838	708	—	—

Note: "Average interest rate" shows the weighted-average interest rate on the balance as of March 31, 2017.

25 Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Financial liabilities measured at amortized cost			
Finance lease obligations (Note 1)	1,945	1,743	**1,645**
Accounts payable - other	25,846	20,263	**19,545**
Accrued expenses	8,663	6,922	**4,351**
Others	1,056	1,184	**999**
Financial liabilities measured at fair value through profit or loss			
Derivative liabilities (Note 2)	203	—	**1**
Financial liabilities measured at fair value through other comprehensive income			
Derivative liabilities	1	—	—
Total	37,714	30,112	**26,541**
Non-current liabilities	2,843	2,646	**2,405**
Current liabilities	34,871	27,466	**24,135**
Total	37,714	30,112	**26,540**

Note 1: With regard to lease obligations as of March 31, 2017, the average interest rate was 8.64% with repayment period from 2017 through 2026.

Note 2: In the consolidated statement of financial position, derivative liabilities as of March 31, 2017 are reported on a net basis after offsetting assets and liabilities. On the other hand, in the above table, derivative liabilities are reported on a gross basis. Therefore, there is a difference of ¥1 million between the total amount of other financial liabilities on current and non-current items in the consolidated statement of financial position and the total amount in the above table.

26 Lease Transactions

The Group leases certain real estate, vehicles and others. A renewal option has been attached to certain lease contracts. There is no significant restriction imposed by lease contracts.

(1) Finance leases

The future minimum lease payments based on finance lease contracts and their present values are as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Minimum lease payments			
Not later than one year	251	240	**233**
Later than one yea and not later than five years	1,019	972	**995**
Later than five years	1,843	1,476	**1,210**
Total	3,113	2,688	**2,438**
Deduction: Finance costs	(1,168)	(945)	**(793)**
Total	1,945	1,743	**1,645**

(2) Operating leases

The future minimum lease payments under non-cancellable operating lease contracts are as follows:

Lease payments recorded as expenses were ¥7,416 million and ¥7,270 million for the years ended March 31, 2016 and 2017, respectively.

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Not later than one year	2,707	3,041	**3,090**
Later than one year and not later than five years	4,575	4,430	**3,733**
Later than five years	48	411	**158**
Total	7,330	7,882	**6,981**

27 Retirement Benefits

The Group principally offers a choice between a defined contribution pension plan and a prepaid plan; a choice between a cash balance plan and a prepaid plan; a contract-type defined-benefit corporate pension plan; and a system of lump-sum payments at retirement.

Upon retirement of employees or other occasions, the Group may pay extra retirement benefits that are not subject to actuarial calculation.

(1) Defined benefit plans

The Company and consolidated subsidiaries excluding certain entities have adopted cash balance pension plans, contract-type defined benefit corporate pension plans and lump-sum retirement benefit plans, as defined benefit plans. Of these defined benefit plans, major plans are cash balance pension plans.

The amount of benefits under cash balance pension plans is determined based on base salary, which is calculated on the basis of accumulated number of base points received up to the retirement, reevaluation rate on the basis of yields of 10-year government bonds and others. In cases where an employee has been enrolled in such plans for a certain period of time or longer, the employee can choose to receive benefits as pensions.

Under cash balance pension plans, the employer pays the amount calculated based on the funded status of plan assets, actuarial calculation and others as normal contributions. Normal contributions are recalculated at least every five years so that balanced finance can be maintained now and in the future. In the closing of accounts of the corporate pension fund for each fiscal year, additional contributions are made if the amount of reserved funds is lower than liability reserve.

Cash balance pension plans are managed by the Mitsubishi Tanabe Pharma Corporate Pension Fund. Directors of this fund execute their duties faithfully for the fund, and jointly and severally accept liability if they fail to perform their tasks for the fund concerning management and investment of reserved funds.

Defined benefit plans are exposed to actuarial risks.

The amounts related to defined benefit plans in the consolidated statement of financial position are as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Present value of defined benefit obligation	158,715	157,991	**150,128**
Fair value of plan assets	171,989	164,807	**163,289**
Net defined benefit assets (liabilities)	13,274	6,816	**13,161**
Amounts in the consolidated statement of financial position			
Defined benefit assets	15,730	8,170	**14,769**
Defined benefit liabilities	2,456	1,354	**1,092**
Liabilities directly related to assets held for sale	—	—	**516**

Changes in the present value of the defined benefit obligation are as follows:

Millions of yen

	2016	2017
Beginning of the fiscal year	158,715	**157,991**
Current service cost	3,055	**3,043**
Interest expenses	927	**476**
Remeasurement		
Actuarial gains and losses arising from changes in financial assumptions	4,631	**1,255**
Others	118	**(1,501)**
Benefits paid	(9,370)	**(11,167)**
Exchange differences on translation of foreign operations	(85)	**31**
End of the fiscal year	157,991	**150,128**

Changes in the fair value of plan assets are as follows:

Millions of yen

	2016	2017
Beginning of the fiscal year	171,989	**164,807**
Interest income	1,037	**539**
Remeasurement		
Return on plan assets	(3,943)	**5,069**
Employer contributions	4,780	**3,869**
Benefits paid	(9,004)	**(11,026)**
Exchange differences on translation of foreign operations	(52)	**31**
End of the fiscal year	164,807	**163,289**

Note: The Group is scheduled to contribute ¥2,151 million to plan assets in the period from April 1, 2017 to March 31, 2018.

The fair value of plan assets as of April 1, 2015 is as follows:

Millions of yen

	Assets with quoted market prices in active markets	Assets with no quoted market prices in active markets	Total
Cash and cash equivalents	6,554	—	6,554
Equity instruments	13,980	39,028	53,008
Domestic shares	13,980	—	13,980
Pooled funds	—	39,028	39,028
Debt instruments	3,921	67,364	71,285
Domestic debt securities	3,921	—	3,921
Pooled funds	—	67,364	67,364
Life insurance company general accounts	—	24,634	24,634
Others	—	16,508	16,508
Total	24,455	147,534	171,989

The fair value of plan assets as of March 31, 2016 is as follows:

Millions of yen

	Assets with quoted market prices in active markets	Assets with no quoted market prices in active markets	Total
Cash and cash equivalents	23,690	—	23,690
Equity instruments	11,154	25,678	36,832
Domestic shares	11,154	—	11,154
Pooled funds	—	25,678	25,678
Debt instruments	4,092	52,653	56,745
Domestic debt securities	4,092	—	4,092
Pooled funds	—	52,653	52,653
Life insurance company general accounts	—	27,633	27,633
Others	—	19,907	19,907
Total	38,936	125,871	164,807

The fair value of plan assets as of March 31, 2017 is as follows:

Millions of yen

	Assets with quoted market prices in active markets	Assets with no quoted market prices in active markets	Total
Cash and cash equivalents	**17,184**	**—**	**17,184**
Equity instruments	**11,116**	**29,054**	**40,170**
Domestic shares	**11,116**	**—**	**11,116**
Pooled funds	**—**	**29,054**	**29,054**
Debt instruments	**4,000**	**53,520**	**57,520**
Domestic debt securities	**4,000**	**—**	**4,000**
Pooled funds	**—**	**53,520**	**53,520**
Life insurance company general accounts	**—**	**28,112**	**28,112**
Others	**—**	**20,303**	**20,303**
Total	**32,300**	**130,989**	**163,289**

To continue to ensure payment of pension benefits in the future, the Group invests plan assets for the purpose of securing necessary aggregate returns in the medium to long term within the range of acceptable risk.

In the investment of plan assets, the Group sets a policy asset mix ratio, taking into account the potential risks and returns for each asset included in the investment portfolio, which is the optimal combination of assets in the future, and works to manage the investment performance of assets by regularly monitoring the ratio.

The significant actuarial assumptions used to determine the present value of the defined benefit obligation are as follows:

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Discount rate	Mainly 0.6%	Mainly 0.3%	**Mainly 0.4%**

The increase or decrease in the defined benefit obligation when the discount rate, which is a significant actuarial assumption, changes is as follows.

This sensitivity analysis is based on the assumption that other actuarial assumptions are constant, and the same method is applied as the method for calculating the defined benefit obligation recognized in the consolidated statement of financial position.

However, in practice, changes in other assumptions may affect the sensitivity analysis.

Millions of yen

	As of March 31, 2016	As of March 31, 2017
Discount rate		
Increase 0.5%	(7,946)	**(7,725)**
Decrease 0.5%	4,977	**6,443**

Note: As the discount rate is determined with reference to the market yields on high-quality corporate bonds that have maturities approximating to the terms in which the benefits are expected, the sensitivity is analyzed within a range in which a minimum discount rate of 0% may be deemed reasonable.

The weighted average duration of the defined benefit obligation is as follows:

	As of March 31, 2016	As of March 31, 2017
Weighted average duration (years)	10.8	**11.1**

The amounts recognized as expenses for defined contribution plans are as follows:

Millions of yen

	2016	2017
Expenses for defined contribution plans	817	**741**
Expenses for government sponsored plans	4,718	**4,450**

28 Other Liabilities

The breakdown of other liabilities is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Consumption taxes payable	4,882	1,142	**2,603**
Bonuses payable	9,957	10,686	**9,041**
Accrued paid absences	6,272	6,043	**5,968**
Deposits received	605	1,622	**452**
Deferred income (Note)	6,272	12,209	**4,944**
Others	2,532	2,483	**2,926**
Total	30,520	34,185	**25,934**
Non-current liabilities	7,339	11,987	**5,576**
Current liabilities	23,181	22,198	**20,358**
Total	30,520	34,185	**25,934**

Note: Deferred income represents upfront payments accompanying the licensing of products, etc., and is recognized as revenue over the period during which the performance obligations under the contracts are fulfilled.

29 Trade and Other Payables

The breakdown of trade and other payables is as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Accounts payable - trade	34,585	32,653	**35,741**
Total	34,585	32,653	**35,741**

30 Provisions

The breakdown and changes in provisions are as follows:

Millions of yen

	Reserve for health management allowances for HIV compensation	Reserve for health management allowances for SMON compensation	Reserve for HCV litigation	Others	Total
Balance as of April 1, 2015	1,700	2,731	2,036	438	6,905
Increases during the period	—	216	3,521	137	3,874
Interest expenses	11	—	—	—	11
Provisions utilized	(64)	(425)	(537)	(438)	(1,464)
Provisions reversed	(83)	—	—	—	(83)
Balance as of March 31, 2016	1,564	2,522	5,020	137	9,243
Increases during the period	**30**	**269**	**—**	**86**	**385**
Interest expenses	**11**	**—**	**—**	**—**	**11**
Provisions utilized	**(67)**	**(397)**	**(1,062)**	**(137)**	**(1,663)**
Provisions reversed	**—**	**—**	**—**	**—**	**—**
Balance as of March 31, 2017	**1,538**	**2,394**	**3,958**	**86**	**7,976**

Millions of yen

Balance as of April 1, 2015	Reserve for health management allowances for HIV compensation	Reserve for health management allowances for SMON compensation	Reserve for HCV litigation	Others	Total
Non-current liabilities	1,700	2,731	2,036	—	6,467
Current liabilities	—	—	—	438	438
Total	1,700	2,731	2,036	438	6,905

Millions of yen

Balance as of March 31, 2016	Reserve for health management allowances for HIV compensation	Reserve for health management allowances for SMON compensation	Reserve for HCV litigation	Others	Total
Non-current liabilities	1,564	2,522	5,020	—	9,106
Current liabilities	—	—	—	137	137
Total	1,564	2,522	5,020	137	9,243

Millions of yen

Balance as of March 31, 2017	Reserve for health management allowances for HIV compensation	Reserve for health management allowances for SMON compensation	Reserve for HCV litigation	Others	Total
Non-current liabilities	**1,538**	**2,394**	**3,958**	**—**	**7,890**
Current liabilities	**—**	**—**	**—**	**86**	**86**
Total	**1,538**	**2,394**	**3,958**	**86**	**7,976**

(1) Reserve for health management allowances for HIV compensation

To provide for future payments for health management allowances and settlement payments (including attorney fees) for a lawsuit for damages filed by plaintiffs infected with HIV, the Company has set aside the estimated amount of 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, calculated with reference to the amount actually paid to patients with AIDs who have 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 HIV litigation plaintiffs as of the end of the fiscal year ended March 31, 2017, and to future plaintiffs, calculated with reference to settlement outcomes up to the end of the fiscal year ended March 31, 2017.

(2) Reserve for health management allowances for SMON compensation

Reserve for health management allowances for SMON (subacute myelo-optico-neuropathy) compensation is stated at the estimated future amount over the lifetime of the plaintiffs for health care allowances and nursing expenses covered under the compromise settlement reached in the SMON litigation.

(3) 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", which was promulgated and enacted to facilitate the settlement of damage recovery lawsuits filed on behalf of people infected with hepatitis C virus (HCV), the Company has set aside the estimated amount of payments based on estimates of the people receiving relief and the amount of relief payments.

(4) Others

To prepare mainly for losses on future sales rebates and returns of merchandise and products sold, the Company has recorded the amount calculated by multiplying trade accounts receivable as of March 31, 2017 by the applicable rebate rate for the fiscal year ended March 31, 2017, the estimated amount of future losses on sales returns based on actual past experience with sales returns, and others.

These expenses are expected to be paid principally within one year.

31 Equity and Other Equity Items

(1) Number of shares authorized and number of shares issued

The number of shares authorized and number of shares issued are as follows:

Thousands of shares

	2016	2017
Number of shares authorized	2,000,000	**2,000,000**
Number of shares issued		
Beginning of the fiscal year	561,417	**561,417**
Changes during the fiscal year	—	**—**
End of the fiscal year	561,417	**561,417**

Note: All shares issued by the Company are ordinary shares with no rights limitations and with no par value. Issued shares are fully paid up.

(2) Treasury shares

Changes in the number of treasury shares during the fiscal year are as follows:

Thousands of shares

	2016	2017
Beginning of the fiscal year	428	**428**
Increase	0	**0**
Decrease	(0)	**(0)**
End of the fiscal year	428	**429**

Note: The increase and decrease in treasury shares are due to response to shareholder's requests for share buybacks and sales of shares of less than one unit.

(3) Capital surplus and retained earnings

Capital surplus consists of the amount that is not included in share capital among amounts generated from capital transactions. Retained earnings consist of earned legal reserve and other surplus.

Japan's Companies Act provides that 50% or more of the amount paid in or contributed for the issuance of shares shall be credited to share capital, and the remaining amount shall be credited to capital reserve. Capital reserve can be credited to share capital by resolution of the general meeting of shareholders.

In addition, the Companies Act stipulates that 10% of the amount paid as dividends of surplus shall be accumulated as capital reserve or earned legal reserve until the total amount of capital reserve and earned legal reserve equals 25% of share capital. Accumulated earned legal reserve may be utilized to eliminate a deficit, and earned legal reserve may be reversed by resolution of the general meeting of shareholders.

(4) Other components of equity

The details on other components of equity are as follows:

(Exchange differences on translation of foreign operations)
This item is foreign exchange translation differences arising from translation of financial statements of foreign operations prepared in foreign currencies.

(Effective portion of changes in fair value of cash flow hedges)
This item is the cumulative effective portion of hedges among gain or loss arising from changes in fair value of hedging instruments on cash flow hedges.

(Net changes in financial assets measured at fair value through other comprehensive income)
This item is the valuation difference of financial assets measured at fair value through other comprehensive income.

(Remeasurements of defined benefit plans)
This item is the effect of the difference between actuarial assumptions at the beginning of the fiscal year and actual results, and the effect of changes in actuarial assumptions. It is recognized in other comprehensive income as incurred, and immediately transferred from other components of equity to retained earnings.

32 Dividends

Dividends paid are as follows:

Fiscal year ended March 31, 2016

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 19, 2015 Ordinary General Meeting of Shareholders	Ordinary shares	12,341	22	March 31, 2015	June 22, 2015
October 30, 2015 Board of Directors Meeting	Ordinary shares	12,341	22	September 30, 2015	December 1, 2015

(2) Dividends whose record date falls in the fiscal year eneded March 31, 2016 and which have an effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2016 Ordinary General Meeting of Shareholders	Ordinary shares	13,463	24	March 31, 2016	June 23, 2016

Fiscal year ended March 31, 2017

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2016 Ordinary General Meeting of Shareholders	Ordinary shares	**13,463**	**24**	March 31, 2016	June 23, 2016
November 1, 2016 Board of Directors Meeting	Ordinary shares	**13,463**	**24**	September 30, 2016	December 1, 2016

(2) Dividends whose record date falls in the fiscal year ended March 31, 2017 and which have an effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2017 Ordinary General Meeting of Shareholders	Ordinary shares	**15,707**	**28**	March 31, 2017	June 22, 2017

33 Financial Instruments

(1) Capital management

The Group conducts capital management under the policy of making investments for growth, including strategic investments, research and development investments and capital investments, in order to achieve sustainable growth and enhance corporate value over the medium to long term, and also positioning return of profits to shareholders as a key management priority and implementing this return.

The Group is not subject to any material capital restrictions.

(2) Risk management for financial instruments

The Group is exposed to various financial risks in the process of conducting business activities, such as credit risk, liquidity risk, currency exchange risk, interest rate risk, and market price fluctuation risk. In order to avoid or mitigate these risks, the Group conducts risk management under certain policies.

In addition, the Group limits derivatives transactions to transactions with the aim of mitigating risks in transactions based on actual demand, and does not use derivatives for speculative purposes. For derivatives transactions, the Finance & Accounting Department executes and manages such transactions and regularly reports the outstanding contract amount, market value, etc. to the Board of Directors in accordance with internal regulations stipulating authority of transactions, limits and others.

(3) Credit risk

Notes and accounts receivable trade are subject to the credit risk of customers. As for the management of credit risk, the Group principally sets the credit limit and trading conditions and 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 over repayment resulting from the weakening of a counterparty's financial position.

In addition, protective measures are taken as needed such as collateral and guarantees.

For bank deposits, debt securities and money entrusted, credit risk is insignificant because the transactions are conducted only with counterparties with high credit ratings.

When entering into derivatives transactions, the Group limits the transaction partners to financial institutions that have a high credit rating to mitigate the counterparty risks.

The Group, just like other pharmaceutical companies in Japan, sells products through a limited number of wholesale firms. Of wholesale firms with which the Group has transactions, total revenue attributable to the top four companies accounts for approximately 69.2% of revenue in Japan, and trade receivables from these top four companies as of April 1, 2015, March 31, 2016 and March 31, 2017 were ¥79,980 million, ¥71,047 million and ¥74,357 million, respectively.

The maximum exposure to credit risk as of the fiscal year-end that does not take into account collateral held and other credit enhancements is the carrying amount, after impairment, of financial assets presented in the consolidated statement of financial position.

The Group holds real estate, securities and others as collateral for receivables from wholesale firms.

As of the end of each fiscal year, the Group records as allowance for credit losses for expected credit losses at the uncollectible amount for individually significant financial assets and at the amount based on the historical rate, etc. for individually insignificant financial assets. Allowance for credit losses for these financial assets is included in "trade and other receivables" and "other financial assets" in the consolidated statement of financial position.

Changes in allowance for credit losses measured at the amount equal to lifetime expected credit losses are as follows:

Millions of yen

	2016	2017
Beginning of the fiscal year	46	**40**
Increase during the fiscal year	14	**16**
Decrease during the fiscal year (utilization)	—	**(1)**
Decrease during the fiscal year (reversal)	(17)	**(15)**
Other changes	(3)	**—**
End of the fiscal year	40	**40**

(4) Liquidity risk

The Group is exposed to liquidity risk whereby it may experience difficulties in fulfilling its payment obligations. However, liquidity risk is insignificant because the Group updates a plan in a timely manner based on monitoring of the cash flow plan and actual results and maintains liquidity in hand that enables it to also respond to certain strategic investment opportunities flexibly.

The balances of principal financial liabilities (including derivative financial instruments) classified by maturity are as follows:

As of April 1, 2015

Millions of yen

	Carrying amount	Contractual cash flows	Not later than one year	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years
Trade and other payables	34,585	34,585	34,585	—	—	—	—	—
Borrowings	1,026	1,249	186	180	206	160	112	405
Other financial liabilities	37,714	38,882	35,032	254	248	255	262	2,831
Forward exchange contracts	204	204	204	—	—	—	—	—
Currency options	—	—	—	—	—	—	—	—

As of March 31, 2016

Millions of yen

	Carrying amount	Contractual cash flows	Not later than one year	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years
Trade and other payables	32,653	32,653	32,653	—	—	—	—	—
Borrowings	838	986	168	161	176	104	100	277
Other financial liabilities	30,112	31,057	27,612	233	239	247	254	2,472
Forward exchange contracts	—	—	—	—	—	—	—	—
Currency options	—	—	—	—	—	—	—	—

As of March 31, 2017

Millions of yen

	Carrying amount	Contractual cash flows	Not later than one year	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years
Trade and other payables	**35,741**	**35,741**	**35,741**	—	—	—	—	—
Borrowings	**708**	**803**	**160**	**162**	**110**	**98**	**94**	**179**
Other financial liabilities	**26,541**	**27,334**	**24,109**	**239**	**246**	**253**	**258**	**2,229**
Forward exchange contracts	—	—	—	—	—	—	—	—
Currency options	**1**	**1**	**1**	—	—	—	—	—

(5) Currency exchange risk

The Group is exposed to currency exchange risk in association with transactions denominated in foreign currencies occurring from global business activities. For trade and other receivables and payables, etc. denominated in foreign currencies, the Company hedges foreign exchange fluctuation risk by utilizing forward exchange contracts, etc. where necessary.

Foreign exchange sensitivity analysis

For financial instruments denominated in foreign currencies held by the Group as of the end of the fiscal year, in cases where the yen appreciates by 1% against the US dollar and euro on the final day of the fiscal year, the impact on profit before income tax in the consolidated statement of income is as follows.

In this analysis, figures have been calculated by multiplying each exposure to exchange risk by 1%, assuming that any fluctuation in each exchange rate has no impact on other variables (such as exchange rates of other currencies and interest rates).

Millions of yen

	2016	2017
US dollar (1% appreciation of the Japanese yen)	5	**87**
Euro (1% appreciation of the Japanese yen)	(6)	**(5)**

(6) Interest rate risk

Interest rate risk of the Group arises from interest-bearing liabilities after netting with cash equivalents and others. Of borrowings, those with variable interest rates are exposed to interest rate fluctuation risk.

Interest rate sensitivity analysis

For financial instruments held by the Group as of the end of the fiscal year, in cases where the interest rate increases by 1%, the impact on profit before income tax in the consolidated statement of income is as follows.

The analysis targets financial instruments exposed to interest rate fluctuation risk and is based on the assumption that other factors, including the impacts of foreign exchange fluctuation, are constant.

Millions of yen

	2016	2017
Profit before income tax	24	**20**

(7) Market price fluctuation risk

The Group has shares and debt securities, and is exposed to market price fluctuation risk. The Group assesses fair value, financial conditions of issuers (business partner companies) and others regularly. Shares are managed through ongoing review of the holding status.

(8) Fair value of financial instruments

The fair value hierarchy for financial instruments classifies Level 1 to Level 3 as follows:

Level 1: Fair value measured based on unadjusted quoted prices in active markets
Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price
Level 3: Fair value determined by valuation techniques including inputs that are not based on significant observable market data

Transfers between levels of the fair value hierarchy are recognized as if they occurred at the end of each quarter.
Financial assets and liabilities measured at fair value are as follows:

As of April 1, 2015

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	—	—	—
Structured bonds	—	—	6,062	6,062
Shares	398	—	1,514	1,912
Others	—	—	1,220	1,220
Financial assets measured at fair value through other comprehensive income				
Derivative assets	—	158	—	158
Shares	51,647	—	4,868	56,515
Others	—	—	3	3
Total	52,045	158	13,667	65,870
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	203	—	203
Financial liabilities measured at fair value through other comprehensive income				
Derivative liabilities	—	1	—	1
Total	—	204	—	204

The above financial assets and liabilities are included in "other financial assets" and "other financial liabilities" in the consolidated statement of financial position.

As of March 31, 2016

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	1,161	—	1,161
Structured bonds	—	—	2,025	2,025
Shares	3	—	1,323	1,326
Others	—	—	580	580
Financial assets measured at fair value through other comprehensive income				
Derivative assets	—	6	—	6
Shares	36,086	—	5,231	41,317
Others	—	—	3	3
Total	36,089	1,167	9,162	46,418
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	—	—	—
Financial liabilities measured at fair value through other comprehensive income				
Derivative liabilities	—	—	—	—
Total	—	—	—	—

As of March 31, 2016, there were no transfers between Level 1, 2 and 3 of the fair value hierarchy.
The above financial assets and liabilities are included in "other financial assets" and "other financial liabilities" in the consolidated statement of financial position.

As of March 31, 2017

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	—	1	—	1
Structured bonds	—	—	1,014	1,014
Shares	925	—	984	1,909
Others	—	—	419	419
Financial assets measured at fair value through other comprehensive income				
Derivative assets	—	—	—	—
Shares	31,301	—	5,013	36,314
Others	—	—	3	3
Total	32,226	1	7,433	39,660
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	1	—	1
Financial liabilities measured at fair value through other comprehensive income				
Derivative liabilities	—	—	—	—
Total	—	1	—	1

As of March 31, 2017, there were no transfers between Level 1 and 2 of the fair value hierarchy.

The above financial assets and liabilities are included in "other financial assets" and "other financial liabilities" in the consolidated statement of financial position.

Financial instruments classified as Level 2 are derivative assets and liabilities from forward exchange contracts.

The fair value of derivative assets and liabilities has been calculated based on the price information from the financial institutions. In addition, hedge accounting is applied for derivative assets and liabilities categorized as financial assets and liabilities measured at fair value through other comprehensive income.

Financial instruments classified as Level 3 are principally structured bonds and unlisted shares.

The fair value of structured bonds has been calculated based on the price information from the financial institutions.

As to the fair value of unlisted shares, for significant issues, it is calculated by comparable company analysis method or other appropriate valuation method based on reasonably available inputs. Certain discount for lack of marketability is taken into account where necessary. For less significant issues, fair value is calculated based on book value per share method.

Significant unobservable inputs for measurement of structured bonds are based on certain information, including parameters on which counterparty financial institutions base the determination of prices, and changes in the information cause an increase or decrease in fair value of the structured bonds.

For assets classified as Level 3, a valuator determines the valuation method for each asset to be valued to measure its fair value, in accordance with the valuation policy and procedures approved by an appropriate authorized person, including valuation method for fair value measurement. The results of fair value measurement are reviewed and approved by an appropriate authorized person.

Changes in financial instruments classified as Level 3 are as follows:

Millions of yen

	2016	2017
Beginning of the fiscal year	13,667	9,162
Profit or loss (Note 1)	(863)	87
Other comprehensive income (Note 2)	386	149
Increase due to purchase, etc.	188	426
Decrease due to sale, redemption, settlement, etc.	(4,082)	(1,463)
Transfer to (from) Level 3 (Note 3)	—	(924)
Other changes	(134)	(4)
End of the fiscal year	9,162	7,433
Change in unrealized gains or losses for the fiscal year included in profit or loss for assets held at the end of the reporting period (Note 1)	(898)	(244)

Note 1: Included in "financial income" and "financial expenses" in the consolidated statement of income.
Note 2: Included in "net changes in financial assets measured at fair value through other comprehensive income" in the consolidated statement of comprehensive income.
Note 3: Transfer from Level 3 is attributable to the fact that important inputs for fair value measurement became observable.

The carrying amount and fair value of financial assets and liabilities measured at amortized cost are as follows:

As of April 1, 2015

Millions of yen

		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	20,150	3,213	11,453	5,800	20,466
Financial liabilities					
Non-current borrowings	1,026	—	—	1,065	1,065

As of March 31, 2016

Millions of yen

		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	7,159	2,900	3,438	1,000	7,338
Financial liabilities					
Non-current borrowings	838	—	—	832	832

As of March 31, 2017

Millions of yen

		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	**7,140**	**2,777**	**3,415**	**1,001**	**7,193**
Financial liabilities					
Non-current borrowings	**708**	**—**	**—**	**711**	**711**

The above financial assets and liabilities are included in "other financial assets" and "borrowings" in the consolidated statement of financial position.

With regard to financial assets and liabilities measured at amortized cost, information, except for debt securities and non-current borrowings, is omitted because the fair value approximates the carrying amount.

The fair value of debt securities classified as Level 2 is determined based on prices presented by counterparty financial institutions.

Debt securities classified as Level 3 are subordinated debt securities and others, and their fair value is determined by reference to prices provided by counterparty financial institutions.

The fair value of non-current borrowings with fixed interest rates is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made. The current portion of non-current borrowings is included in non-current borrowings.

Non-current borrowings with floating rates reflect market interest rates within a short period of time and their fair values approximate the amounts recognized in the consolidated statement of financial position.

(9) Derivatives transactions

Since the Group is exposed to exchange risk related to trade and other receivables and payables etc. denominated in foreign currencies, it utilizes forward exchange contracts, etc. as derivatives transactions in accordance with the risk management policy to mitigate such risk.

i) Derivatives transactions to which hedge accounting is applied

The Group documents relationships between a hedging instrument and a hedged item at the hedge's inception in accordance with the risk management strategy and risk management purpose. This documentation includes the specific hedging instrument and the hedged item or transaction as well as the nature of the risk being hedged and method for assessing the effectiveness of changes in the hedging instrument's fair value in offsetting exposure to changes in fair value or cash flows of the hedged item attributable the hedged risk (including analysis of causes of the ineffective portion of the hedge and method for determining the hedge ratio).

The Group assesses whether the derivative used for the hedge transaction is effective in offsetting changes in fair value or cash flows of the hedged item over the period of designation of the hedge relationship. Specifically, the Group judges that the hedge is effective when the economic relationship between the hedged item and the hedging instrument gives rise to an offset.

The analysis of the contract amount, etc. of hedging instruments by maturity is as follows:

As of April 1, 2015

Millions of yen

	Contract amount, etc.	Not later than one year	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years
Cash flow hedges							
Exchange risk							
Buying (USD)							
Forward exchange contract	9,721	9,721	—	—	—	—	—
Selling (USD)							
Forward exchange contract	86	86	—	—	—	—	—

As of March 31, 2016

Millions of yen

	Contract amount, etc.	Not later than one year	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years
Cash flow hedges							
Exchange risk							
Buying (USD)							
Forward exchange contract	—	—	—	—	—	—	—
Selling (USD)							
Forward exchange contract	635	635	—	—	—	—	—

As of March 31, 2017

Not applicable.

Forward exchange rates for forward exchange contracts are mainly as follows:

	As of April 1, 2015	As of March 31, 2016	As of March 31, 2017
Cash flow hedges			
Exchange risk			
Forward exchange contracts			
USD	From 115.15 yen to 119.15 yen	From 112.84 yen to 112.92 yen	—

Amounts related to items designated as hedging instruments are as follows:

As of April 1, 2015

Millions of yen

	Contract amount, etc.	Carrying amount		Line items in the consolidated statement of financial position
		Assets	Liabilities	
Cash flow hedges				
Exchange risk				
Buying (USD)				
Forward exchange contracts	9,721	158	—	Other financial assets
Selling (USD)				
Forward exchange contracts	86	—	1	Other financial liabilities

As of March 31, 2016

Millions of yen

	Contract amount, etc.	Carrying amount		Line items in the consolidated statement of financial position	Changes in fair value used to calculate the ineffective portion of hedges for the fiscal year
		Assets	Liabilities		
Cash flow hedges					
Exchange risk					
Buying (USD)					
Forward exchange contracts	—	—	—	—	—
Selling (USD)					
Forward exchange contracts	635	7	—	Other financial assets	7

As of March 31, 2017

Not applicable.

Amounts related to items designated as hedged items are as follows:

Millions of yen

	As of April 1, 2015	As of March 31, 2016		As of March 31, 2017	
	Reserve of cash flow hedges	Changes in value used to calculate the ineffective portion of hedges for the fiscal year	Reserve of cash flow hedges	Changes in value used to calculate the ineffective portion of hedges for the fiscal year	Reserve of cash flow hedges
Cash flow hedges					
Exchange risk					
Forecasted transactions					
Buying (USD)	105	—	—	—	—
Selling (USD)	—	(7)	4	—	—

As of April 1, 2015, and March 31, 2016 and 2017, there were no amounts of other components of equity recorded that arose from discontinued hedge relationships.

The impact of the application of hedge accounting on the consolidated statement of income and the consolidated statement of comprehensive income is as follows:

Fiscal year ended March 31, 2016

Millions of yen

	Changes in fair value of the hedging instruments that are recognized in other comprehensive income	Ineffective portion of hedges recognized in profit or loss	Line items in the consolidated statement of income that include gains or losses on the ineffective portion of hedges	Reclassification adjustments from reserve of cash flow hedges to profit or loss	Line items in the consolidated statement of income that include gains or losses from reclassification adjustment
Cash flow hedges					
Exchange risk					
Forward exchange contract	(101)	—	—	222	Financial income / expenses

Since forecasted transactions were not executed by the time initially planned, cash flow hedges were terminated. Consequently, there were no cash flow hedges of which a reclassification adjustment was made from other components of equity to the consolidated statement of income.

Fiscal year ended March 31, 2017

Millions of yen

	Changes in fair value of the hedging instruments that are recognized in other comprehensive income	Ineffective portion of hedges recognized in profit or loss	Line items in the consolidated statement of income that include gains or losses on the ineffective portion of hedges	Reclassification adjustment from reserve of cash flow hedges to profit or loss	Line items in the consolidated statement of income that include gains or losses from reclassification adjustment
Cash flow hedges					
Exchange risk					
Forward exchange contracts	(4)	—	—	44	Financial income / expenses

Since forecast transactions were not executed by the time initially planned, cash flow hedges were terminated. Consequently, there were no cash flow hedges of which a reclassification adjustment was made from other components of equity to the consolidated statement of income.

ii) Derivatives transactions to which hedge accounting is not applied
The breakdown of currency derivatives is as follows:

As of April 1, 2015

Millions of yen

	Contract amount, etc.	Of which: later than one year	Fair value
Forward exchange contracts Selling	24,034	—	(203)

As of March 31, 2016

Millions of yen

	Contract amount, etc.	Of which: later than one year	Fair value
Forward exchange contracts Selling	115,689	—	1,161

As of March 31, 2017

Millions of yen

	Contract amount, etc.	Of which: later than one year	Fair value
Currency options Buying	3,851	—	1
Currency options Selling	3,851	—	(1)

34 Related Parties

(1) Related party transactions

Of the related parties, the parent company, Mitsubishi Chemical Holdings Corporation, which is listed on the Tokyo Stock Exchange, has significant influence over the Group.

Transactions with major related parties are as follows:

Millions of yen

	2016		2017	
	Deposit of funds	Interest income	Deposit of funds	Interest income
Parent company	389	389	**133**	**133**
Total	389	389	**133**	**133**

Note: The Company limits its deposits of funds with the parent company to when the interest rate is more favorable than market interest rates. Certain deposits are convertible into cash at any time while some deposits require six months' notice for redemption.

Receivables from and payables to major related parties are as follows:

Millions of yen

	As of April 1, 2015		As of March 31, 2016		As of March 31, 2017	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Parent company	192,802	8	193,196	7	**193,319**	**6**
Total	192,802	8	193,196	7	**193,319**	**6**

Note: Receivables from the parent company are mainly deposits accompanying transactions involving deposits of funds.

(2) Remuneration for key management personnel

Key management personnel refers to all members serving on the Board of Directors including the Outside Board of Directors, at the Company, and their remuneration is as follows:

Millions of yen

	2016	2017
Remuneration	344	**388**
Total	344	**388**

35 Contingent Liabilities

There are no significant contingent liabilities.

36 Subsequent Event

Not applicable.

37 First-Time Adoption

The Group disclosed the consolidated financial statements under IFRS for the first time from this fiscal year.

The latest consolidated financial statements under Japanese GAAP were prepared for the fiscal year ended March 31, 2016, and the IFRS transition date is April 1, 2015.

(1) Exemptions to retrospective application of IFRS

In accordance with IFRS, an entity adopting IFRS for the first time shall apply IFRS retrospectively to prior periods, in principle.

However, IFRS 1, "First-time Adoption of International Financial Reporting Standards" (hereinafter "IFRS 1"), allows certain exemptions from the retrospective application of certain aspects required by IFRS.

The Group has applied the following exemptions in accordance with the transition from Japanese GAAP to IFRS.

1) Business combinations

IFRS 1 permits an entity to elect not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred prior to the IFRS transition date. The Group elected to apply this exemption and did not apply IFRS 3 retrospectively to business combinations that occurred before the IFRS transition date. Consequently, the amount of goodwill arising from business combinations before the date of transition is based on the carrying amount as of the date of transition under Japanese GAAP. However, expenditures incurred in line with the in-licensing of technologies, etc. that were not identified in the past business combinations and meet the recognition requirements under IFRS are recorded as "Intangible assets," and at the same time, the amount of "Goodwill" is reduced accordingly. Further, the Group performed an impairment test on goodwill at the date of transition regardless of whether there was any indication that the goodwill may be impaired.

2) Use of fair value as deemed cost

IFRS 1 permits an entity to measure items of property, plant and equipment at the IFRS transition date at its fair value and use that fair value as deemed cost at that date. The Group elected to use the fair value at the IFRS transition date as deemed cost at the IFRS transition date for certain items of property, plant and equipment. At the transition date, the prior carrying amount of property, plant and equipment to which deemed cost was applied was ¥7,439 million, and the fair value was ¥2,451 million.

3) Translation differences for foreign operations

IFRS 1 permits to elect the cumulative amount of translation differences for foreign operations to be deemed to be zero at the IFRS transition date.

The Group elected to deem all cumulative translation differences for foreign operations as zero at the IFRS transition date.

4) Designation of financial instruments recognized prior to date of transition

IFRS 1 allows entities to determine the classification under IFRS 9 based on facts and circumstances as of the date of transition and to designate changes in fair values of equity financial assets as financial assets measured at fair value through other comprehensive income based on facts and circumstances existing as of the transaction date. The Group has determined the classification under IFRS 9 based on facts and circumstances existing as of the date of transition and designated some equity financial assets as financial assets measured at fair value through other comprehensive income.

(2) Reconciliations

The reconciliations required to be disclosed in the first IFRS financial statements are described below. In the reconciliations below, "Presentation" includes items that do not affect retained earnings and comprehensive income, while "Recognition and measurement" includes items that affect retained earnings and comprehensive income.

Reconciliation of profit or loss and comprehensive income for the fiscal year ended March 31, 2016

Millions of yen

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Net sales	431,701	—	(5,937)	425,764	1)	Revenue
Cost of sales	155,806	(69)	65	155,802		Cost of sales
Gross profit	275,895	69	(6,002)	269,962		Gross profit
Selling, general and administrative expenses	180,988	(75,468)	(9,176)	96,344	2)	Selling, general and administrative expenses
	—	75,293	(10,680)	64,613	3)	Research and development expenses
	—	1,700	(227)	1,473	4)	Amortization of intangible assets associated with products
	—	1,603	(2)	1,601	5)	Other income
	—	25,785	1,576	27,361	6)	Other expenses
	—	31	—	31	7)	Share of profit of associates and joint ventures accounted for using equity method
Operating income	94,907	(25,607)	12,503	81,803		Operating profit
Non-operating income	3,976	(3,976)	—	—		
Non-operating expenses	4,120	(4,120)	—	—		
Extraordinary income	14,132	(14,132)	—	—		
Extraordinary loss	24,583	(24,583)	—	—		
	—	16,399	(13,406)	2,993	8)	Financial income
	—	1,504	37	1,541	9)	Financial expenses
Income before income taxes and non-controlling interests	84,312	(117)	(940)	83,255		Profit before tax
Total income taxes	30,155	(117)	(3,817)	26,221	10)	Income tax expenses
Net income	54,157	—	2,877	57,034		Profit for the year
Net income	54,157	—	2,877	57,034		Profit for the year
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified subsequently to profit or loss
Unrealized holding loss on securities	(3,054)	—	9,575	6,521	11)	Net changes in financial assets measured at fair value through other comprehensive income
Retirement benefits liability adjustments	(7,724)	—	1,613	(6,111)	12)	Remeasurements of defined benefit plans
	—	—	—	410		Subtotal
						Items that may be reclassified subsequently to profit or loss
Translation adjustments	(4,954)	—	(23)	(4,977)		Exchange differences on translation of foreign operations
Deferred loss on hedges	(101)	—	—	(101)		Effective portion of changes in fair value of cash flow hedges
Share of other comprehensive loss of affiliates accounted for by the equity method	(30)	—	—	(30)		Share of other comprehensive income of associates and joint venture accounted for using equity method
	—	—	—	(5,108)		Subtotal
Total other comprehensive loss	(15,863)	—	11,165	(4,698)		Other comprehensive income (loss), net of tax
Comprehensive income	38,294	—	14,042	52,336		Comprehensive income

Reconciliation of equity as of the date of transition to IFRS (April 1, 2015)

Millions of yen

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Assets						Assets
Fixed assets						Non-current assets
Total property, plant and equipment	92,497	(756)	(4,470)	87,271	13)	Property, plant and equipment
Intangible fixed assets						
Goodwill	81,517	—	(476)	81,041	14)	Goodwill
Software	4,275	(4,275)	—	—		
Other	31,127	10,247	9,916	51,290	15)	Intangible assets
Investments and other assets						
	—	278	—	278	16)	Investments in associates and joint ventures accounted for using equity method
Investment in securities	76,328	16,601	2,510	95,439	17)	Other financial assets
Asset for retirement benefits	15,730	—	—	15,730		Net defined benefit assets
Other	23,417	(22,556)	—	861	18)	Other non-current assets
Deferred income taxes	763	8,319	(675)	8,407	19)	Deferred tax assets
Less allowance for doubtful receivables	(2)	2	—	—		
Total fixed assets	325,652	7,860	6,805	340,317		Total non-current assets
Current assets						Current assets
Merchandise and finished goods	63,566	18,758	—	82,324	20)	Inventories
Work in process	582	(582)	—	—		
Raw materials and supplies	20,943	(20,943)	—	—		
Notes and accounts receivable - trade	130,331	(44)	—	130,287		Trade and other receivables
Marketable securities	118,805	(118,805)	—	—		
Deposits	192,758	(192,758)	—	—		
	—	297,187	(5)	297,182	21)	Other financial assets
Other	18,186	(8,758)	—	9,428	22)	Other current assets
Deferred income taxes	8,319	(8,319)	—	—		
Cash and time deposits	50,203	23,134	—	73,337	23)	Cash and cash equivalents
Less allowance for doubtful receivables	(44)	44	—	—		
	—	—	—	592,558		Subtotal
	—	3,526	—	3,526	24)	Assets held for sale
Total current assets	603,649	(7,560)	(5)	596,084		Total current assets
Total assets	929,301	300	6,800	936,401		Total assets

Millions of yen

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
						Liabilities and equity
Liabilities						Liabilities
Long-term liabilities						Non-current liabilities
Long-term loans	894	—	—	894		Borrowings
	—	2,843	—	2,843	25)	Other financial liabilities
Liability for retirement benefits	2,456	—	—	2,456		Net defined benefit liabilities
Reserve for health management allowances for HIV compensation	1,700	4,767	—	6,467	26)	Provisions
Reserve for health management allowances for SMON compensation	2,731	(2,731)	—	—		
Reserve for HCV litigation	2,036	(2,036)	—	—		
Other	3,875	(2,843)	6,307	7,339	27)	Other non-current liabilities
Deferred income taxes	9,776	—	(1,765)	8,011	28)	Deferred tax liabilities
Total long-term liabilities	23,468	—	4,542	28,010		Total non-current liabilities
Current liabilities						Current liabilities
Current portion of long-term loans	132	—	—	132		Borrowings
Notes and accounts payable - trade	34,620	(35)	—	34,585		Trade and other payables
Accounts payable - other	25,386	(25,386	—	—		
	—	34,274	597	34,871	29)	Other financial liabilities
Income taxes payable	19,758	(569)	—	19,189	30)	Income taxes payable
Reserve for sales returns	127	311	—	438	31)	Provisions
Reserve for sales rebates	11	(11)	—	—		
Reserve for employees' bonuses	9,957	(9,957)	—	—		
Other	15,408	1,673	6,100	23,181	32)	Other current liabilities
Total current liabilities	105,399	300	6,697	112,396		Total current liabilities
Total liabilities	128,867	300	11,239	140,406		Total liabilities
Net assets						Equity
Common stock	50,000	—	—	50,000		Share capital
Capital surplus	451,186	—	—	451,186		Capital surplus
Treasury stock, at cost	(493)	—	—	(493)		Treasury shares
Retained earnings	275,325	—	(8,047)	267,278	33)	Retained earnings
Total accumulated other comprehensive income	12,961	—	3,596	16,557	34)	Other components of equity
	—	—	—	784,528		Total equity attributable to owners of the Company
Non-controlling interests	11,455	—	12	11,467		Non-controlling interests
Total net assets	800,434	—	(4,439)	795,995		Total equity
Total liabilities and net assets	929,301	300	6,800	936,401		Total liabilities and equity

Reconciliation of equity as of March 31, 2016

Millions of yen

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Assets						Assets
Fixed assets						Non-current assets
Total property, plant and equipment	88,294	(147)	(4,070)	84,077	13)	Property, plant and equipment
Intangible fixed assets						
Goodwill	70,515	—	9,996	80,511	14)	Goodwill
Software	3,680	(3,680)	—	—		
Other	28,376	8,005	19,543	55,924	15)	Intangible assets
Investments and other assets						
	—	265	—	265	16)	Investments in associates and joint ventures accounted for using equity method
Investment in securities	49,835	12,845	2,839	65,519	17)	Other financial assets
Asset for retirement benefits	8,170	—	—	8,170		Net defined benefit assets
Other	18,068	(17,436)	—	632	18)	Other non-current assets
Deferred income taxes	6,052	7,287	(171)	13,168	19)	Deferred tax assets
Less allowance for doubtful receivables	(1)	1	—	—		
Total fixed assets	272,989	7,140	28,137	308,266		Total non-current assets
Current assets						Current assets
Merchandise and finished goods	52,623	23,008	66	75,697	20)	Inventories
Work in process	552	(552)	—	—		
Raw materials and supplies	22,456	(22,456)	—	—		
Notes and accounts receivable - trade	121,288	(39)	—	121,249		Trade and other receivables
Marketable securities	96,500	(96,500)	—	—		
Deposits	193,147	(193,147)	—	—		
	—	351,665	—	351,665	21)	Other financial assets
Other	20,765	(8,263)	—	12,502	22)	Other current assets
Deferred income taxes	7,287	(7,287)	—	—		
Cash and time deposits	142,674	(53,755)	—	88,919	23)	Cash and cash equivalents
Less allowance for doubtful receivables	(39)	39	—	—		
	—	—	—	650,032		Subtotal
	—	147	—	147	24)	Assets held for sale
Total current assets	657,253	(7,140)	66	650,179		Total current assets
Total assets	930,242	—	28,203	958,445		Total assets

Millions of yen

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
						Liabilities and equity
Liabilities						Liabilities
Long-term liabilities						Non-current liabilities
Long-term loans, less current maturities	713	—	—	713		Borrowings
	—	2,646	—	2,646	25)	Other financial liabilities
Liability for retirement benefits	1,354	—	—	1,354		Net defined benefit liabilities
Reserve for health management allowances for HIV compensation	1,564	7,542	—	9,106	26)	Provisions
Reserve for health management allowances for SMON compensation	2,522	(2,522)	—	—		
Reserve for HCV litigation	5,020	(5,020)	—	—		
Other	3,515	(2,646)	11,118	11,987	27)	Other non-current liabilities
Deferred income tax	7,532	—	(120)	7,412	28)	Deferred tax liabilities
Total long-term liabilities	22,220	—	10,998	33,218		Total non-current liabilities
Current liabilities						Current liabilities
Current portion of long-term loans	125	—	—	125		Borrowings
Notes and accounts payable - trade	32,737	(84)	—	32,653		Trade and other payables
Accounts payable - other	19,799	(19,799)	—	—		
	—	26,851	615	27,466	29)	Other financial liabilities
Income taxes payable	17,451	(1,119)	—	16,332	30)	Income taxes payable
Reserve for sales returns	124	13	—	137	31)	Provisions
Reserve for sales rebates	13	(13)	—	—		
Reserve for employees' bonuses	10,686	(10,686)	—	—		
Other	10,374	4,837	6,987	22,198	32)	Other current liabilities
Total current liabilities	91,309	—	7,602	98,911		Total current liabilities
Total liabilities	113,529	—	18,600	132,129		Total liabilities
		—				
Net assets		—				Equity
Common stock	50,000	—	—	50,000		Share capital
Capital surplus	451,186	—	——	451,186		Capital surplus
Treasury stock, at cost	(494)	—	——	(494)		Treasury shares
Retained earnings	307,075	—	(2,144)	304,931	33)	Retained earnings
Total accumulated other comprehensive income	(1,836)	—	11,731	9,895	34)	Other components of equity
	—	—	—	815,518		Total equity attributable to owners of the Company
Non-controlling interests	10,782	—	16	10,798		Non-controlling interests
Total net assets	816,713	—	9,603	826,316		Total equity
Total liabilities and net assets	930,242	—	28,203	958,445		Total liabilities and equity

Notes to reconciliation of profit or loss and comprehensive income and reconciliation of equity

1) Revenue

(Recognition and measurement)

Under Japanese GAAP, revenue from sales alliances and out-licensing of technologies, etc. was recorded as one-time income. However, under IFRS, when contractual obligations have not yet been fulfilled, such revenue is recorded as deferred income and the income is recognized over the period in which the obligations are performed. As a result, the amount of revenue has decreased.

2) Selling, general and administrative expenses

(Presentation)

Research and development expenses and amortization of intangible assets included in "Selling, general and administrative expenses" under Japanese GAAP have been presented separately as "Research and development expenses" and "Amortization of intangible assets associated with products" under IFRS.

Donations presented as "Non-operating expenses" under Japanese GAAP have been included in "Selling, general and administrative expenses" under IFRS.

(Recognition and measurement)

Goodwill was amortized over a specified period under Japanese GAAP while it is not amortized under IFRS. Consequently, there has been a decrease in "Selling, general and administrative expenses."

Under Japanese GAAP, with regard to retirement benefits under defined benefit plans, interest expenses and expected returns on pension assets were recognized as profit or loss. The portion of actuarial gains or losses and past service cost that did not constitute profit or loss in the fiscal year in which they were incurred was recognized as other comprehensive income, and subsequently as profit or loss over certain future periods. On the other hand, under IFRS, net interest expenses are recognized as profit or loss at the amount calculated by multiplying net defined benefit asset (obligation) by a discount rate. Past service cost is recognized as profit or loss in the fiscal year in which it was incurred, and actuarial gains or losses are recorded in other comprehensive income as remeasurements of net defined benefit asset (obligation), and transferred directly to retained earnings, rather than through profit or loss. As a result, the amount of "Selling, general and administrative expenses" related to retirement benefits has increased.

3) Research and development expenses

(Presentation)

Research and development expenses included in "Selling, general and administrative expenses" under Japanese GAAP have been presented separately as "Research and development expenses" under IFRS.

(Recognition and measurement)

Under Japanese GAAP, expenses associated with the in-licensing of products and technologies that were principally incurred before filing an application for approval from regulatory authorities were recorded as research and development expenses, but under IFRS, such expenses that satisfy certain criteria are recorded as assets. Retirement benefits under defined benefit plans are accounted for in the same way as described in "2) Selling, general and administrative expenses." As a result, the amount of "Research and development expenses" has decreased.

4) Amortization of intangible assets associated with products

(Presentation)

Amortization of intangible assets included in "Selling, general and administrative expenses" under Japanese GAAP has been presented separately as "Amortization of intangible assets associated with products" under IFRS.

(Recognition and measurement)

Under Japanese GAAP, expenses associated with the in-licensing of products and technologies that were principally incurred before filing an application for approval from regulatory authorities were recorded as research and development expenses, but under IFRS, such expenses that satisfy certain criteria are recorded as assets and amortized over their estimated useful lives on a straight-line basis. Also, the useful life of licensing fees under certain distribution agreements, etc. was revised upon adoption of IFRS. As a result, the amount of "Amortization of intangible assets associated with products" has decreased.

5) Other income

(Presentation)

"Rent income" presented as "Non-operating income" under Japanese GAAP has been included in "Other income" under IFRS.

"Gain on sales of fixed assets" presented as "Extraordinary income" under Japanese GAAP has been included in "Other income" under IFRS.

In addition, certain items of income presented as "Other" in "Non-operating income" under Japanese GAAP have been included in "Other income" under IFRS.

6) Other expenses

(Presentation)

"Loss on disposal of property, plant and equipment" presented as "Non-operating expenses" under Japanese GAAP has been included in "Other expenses" under IFRS.

"Loss on impairment of fixed assets," "Restructuring loss" and "Provision of reserve for HCV litigation" presented as "Extraordinary loss" under Japanese GAAP have been included in "Other expenses" under IFRS.

In addition, certain items of expenses presented as "Other" in "Non-operating expenses" under Japanese GAAP have been included in "Other expenses" under IFRS.

(Recognition and measurement)

Under Japanese GAAP, costs associated with the in-licensing of products and technologies that were principally incurred before filing an application for approval from regulatory authorities were recorded as research and development expenses, but under IFRS, such costs that satisfy certain criteria are recorded as assets. For certain intangible assets additionally recognized upon adoption of IFRS, the carrying amount is reduced to the recoverable amount when the discontinuation of the development, etc. is decided during the period, and the difference is recognized as impairment loss in the same period. As a result, the amount of "Other expenses" has increased.

7) Share of profit of associates and joint ventures accounted for using equity method

(Presentation)

"Equity in earnings of affiliates" presented as "Non-operating income" under Japanese GAAP has been presented separately as "Share of profit of associates and joint ventures accounted for using equity method" under IFRS.

8) Financial income

(Presentation)

"Interest income" and "Dividend income" presented as "Non-operating income" under Japanese GAAP have been included in "Financial income" under IFRS.

"Gain on sales of investments in securities" presented as "Extraordinary income" under Japanese GAAP has been included in "Financial income" under IFRS.

In addition, certain items of income presented as "Other" in "Non-operating income" under Japanese GAAP have been included in "Financial income" under IFRS.

(Recognition and measurement)

Under Japanese GAAP, gain on sales of investments in securities was recorded as "Extraordinary income." However, under IFRS, equity financial assets may be designated as financial assets measured at fair value through other comprehensive income, and gain on sales of such equity financial assets is recorded as other comprehensive income. As a result, the amount of "Financial income" has decreased.

9) Financial expenses

(Presentation)

"Interest expenses," "Foreign exchange losses" and "Loss on investment securities operation" presented as "Non-operating expenses" under Japanese GAAP have been included in "Financial expenses" under IFRS.

"Loss on valuation of investments in securities" presented as "Extraordinary loss" under Japanese GAAP has been included in "Financial expenses" under IFRS.

In addition, certain items of expenses presented as "Other" in "Non-operating expenses" under Japanese GAAP have been included in "Financial expenses" under IFRS.

10) Income tax expenses

(Recognition and measurement)

Since certain gain on sales of investments in securities recorded as "Extraordinary income" under Japanese GAAP has been recorded as other comprehensive income under IFRS, income taxes on such gain on sales of investments in securities are recorded as other comprehensive income. Consequently, the amount of "Income tax expenses" has decreased.

11) Net changes in financial assets measured at fair value through other comprehensive income

(Recognition and measurement)

Certain gains on sales of investments in securities recorded as "Extraordinary income" under Japanese GAAP and income taxes on such gains on sales are recorded as "Net changes in financial assets measured at fair value through other comprehensive income" under IFRS. In addition, unlisted shares were principally stated at cost calculated by using the moving average method under Japanese GAAP, but under IFRS, they are measured at fair value. As a result, the amount of "Net changes in financial assets measured at fair value through other comprehensive income" has increased.

12) Remeasurements of defined benefit plans

(Recognition and measurement)

Under Japanese GAAP, actuarial gains and losses associated with retirement benefits were amortized on a straight-line basis from the fiscal year following the year in which they were incurred over the average remaining service years of employees at the time they were incurred. However, under IFRS, the Group fully recognizes the actuarial gains and losses when they are incurred in other comprehensive income as remeasurements of net defined benefit obligation. As a result, the amount of "Remeasurements of defined benefit plans" has increased.

13) Property, plant and equipment

(Presentation)

Under Japanese GAAP, "Buildings and structures, net," "Machinery, equipment and vehicles, net," "Tools, furniture and fixtures, net," "Land," "Leased equipment, net," and "Construction in progress" were presented separately, whereas they have been included in "Property, plant and equipment" under IFRS.

Certain items of assets held for sale included in "Property, plant and equipment" under Japanese GAAP have been presented separately as "Assets held for sale" under IFRS.

(Recognition and measurement)

The amount of "Property, plant and equipment" has decreased as a result of using the fair value as deemed cost for certain items of property, plant and equipment upon the adoption of IFRS.

Real estate acquisition taxes were expensed under Japanese GAAP, whereas they have been included in acquisition cost of property, plant and equipment under IFRS. In addition, acquisition cost of land acquired in the exchange was measured at the carrying amount of the land transferred under Japanese GAAP, but it is measured at the fair value of the land acquired in the exchange under IFRS. As a result, the amount of "Property, plant and equipment" has increased.

14) Goodwill

(Recognition and measurement)

Due to the adoption of IFRS, expenditures associated with the in-licensing of technologies, etc. that were not identified in past business combinations and meet the recognition requirements under IFRS have been recorded as "Intangible assets." As a result, the amount of "Goodwill" has decreased.

Under Japanese GAAP, goodwill was amortized over a period in which the effect was expected, but under IFRS, goodwill is not amortized. As a result, the amount of "Goodwill" has increased.

15) Intangible assets

(Presentation)

"Software" presented separately under Japanese GAAP has been included in "Intangible assets" under IFRS.

License fees under distribution agreements, etc. were included in "Other" as investments and other assets under Japanese GAAP, but they have been included in "Intangible assets" under IFRS.

(Recognition and measurement)

Under Japanese GAAP, expenses associated with the in-licensing of technologies, etc. incurred by the time of filing an application for approval from regulatory authorities were recorded as research and development expenses, but under IFRS, such expenses that satisfy certain criteria are recorded as "Intangible assets." In addition, expenses associated with the in-licensing of technologies, etc. that were not identified in past business combinations and meet the recognition requirements under IFRS have been recorded as "Intangible assets," and at the same time, the amount of "Goodwill" has been reduced accordingly. "Intangible assets" are amortized over the estimated useful life on a straight-line basis. Other than that, the useful lives of license fees under certain distribution agreements, etc. was revised upon adoption of IFRS. As a result, the amount of "Intangible assets" has increased.

16) Investments in associates and joint ventures accounted for using equity method

(Presentation)

Investments accounted for using the equity method were included in "Investments in securities" under Japanese GAAP, but they are presented separately as "Investments in associates and joint ventures accounted for using equity method" under IFRS.

17) Other financial assets (non-current)

(Presentation)

Investments accounted for using the equity method were included in "Investment in securities" under Japanese GAAP, but they are presented separately as "Investments in associates and joint ventures accounted for using equity method" under IFRS. Other "Investments in securities" have been included in "Other financial assets" as non-current assets under IFRS.

Long-term accounts receivable - other and long-term guarantee deposits, etc. were included in "Other" as investments and other assets under Japanese GAAP, but they have been included in "Other financial assets" as non-current assets under IFRS.

(Recognition and measurement)

Under Japanese GAAP, unlisted shares were stated at cost calculated by using the moving average method. However, under IFRS, unlisted shares are measured at fair value. As a result, the amount of "Other financial assets" in non-current assets has increased.

18) Other non-current assets

(Presentation)

License fees under distribution agreements, etc., long-term accounts receivable - other and long-term guarantee deposits, etc. were included in "Other" as investments and other assets under Japanese GAAP. However, under IFRS, license fees under distribution agreements, etc. have been included in "Intangible assets," whereas long-term accounts receivable - other and long-term guarantee deposits, etc. have been included in "Other financial assets" as non-current assets.

19) Deferred tax assets

(Presentation)

Deferred tax assets were presented separately as current assets and fixed assets under Japanese GAAP, but the full amount of deferred tax assets has been presented as a separate item in non-current assets under IFRS.

(Recognition and measurement)

"Deferred tax assets" are recognized for the temporary differences resulting from the reconciliations to adoption of IFRS.

Under Japanese GAAP, deferred tax assets and liabilities were offset only within the categories of short-term or long-term items. However, the amount of the offset increased because all deferred tax assets and liabilities are classified as non-current items under IFRS. As a result, the amount of "Deferred tax assets" has decreased.

20) Inventories

(Presentation)

"Merchandise and finished goods," "Work in process" and "Raw materials and supplies," which were presented separately under Japanese GAAP, are included in "Inventories" under IFRS.

Certain items of assets held for sale included in "Inventories" under Japanese GAAP have been presented separately as "Assets held for sale" under IFRS.

21) Other financial assets (current)

(Presentation)

Items included in "Marketable securities" under Japanese GAAP, except for securities that become due for maturity within three months from the acquisition date, have been included in "Other financial assets" as current assets under IFRS.

Items included in "Deposits" under Japanese GAAP, except for deposits with the deposit period of three months or less (deposit management), have been included in "Other financial assets" as current assets under IFRS.

Time deposits with maturities over three months included in "Cash and time deposits" under Japanese GAAP have been included in "Other financial assets" as current assets under IFRS.

Accounts receivable - other, derivatives, and advances paid, etc. included in "Other" as current assets under Japanese GAAP have been included in "Other financial assets" as current assets under IFRS.

22) Other current assets

(Presentation)

Accounts receivable - other, derivatives, and advances paid, etc. included in "Other" as current assets under Japanese GAAP have been included in "Other financial assets" as current assets under IFRS.

Short-term loans receivable that become due for maturity within three months from the drawdown date included in "Other" as current assets under Japanese GAAP have been included in "Cash and cash equivalents" under IFRS.

23) Cash and cash equivalents

(Presentation)

Securities that become due for maturity within three months from the acquisition date, which were included in "Marketable securities" under Japanese GAAP, have been included in "Cash and cash equivalents" under IFRS.

Short-term loans receivable that become due for maturity within three months from the drawdown date included in "Other" as current assets under Japanese GAAP have been included in "Cash and cash equivalents" under IFRS.

Deposits with the deposit period of three months or less (deposit management) included in "Deposits" under Japanese GAAP have been included in "Cash and cash equivalents" under IFRS.

Time deposits with maturities over three months included in "Cash and time deposits" under Japanese GAAP have been included in "Other financial assets" as current assets under IFRS.

24) Assets held for sale

(Presentation)

Assets held for sale included in "Property, plant and equipment" and "Inventories" under Japanese GAAP have been presented separately as "Assets held for sale" under IFRS.

25) Other financial liabilities (non-current)

(Presentation)

Guaranty deposits received and lease obligations, etc. included in "Other" as long-term liabilities under Japanese GAAP have been included in "Other financial liabilities" as non-current liabilities under IFRS.

26) Provisions (non-current)

(Presentation)

"Reserve for health management allowances for HIV compensation," "Reserve for health management allowances for SMON compensation" and "Reserve for HCV litigation," which were presented separately under Japanese GAAP, have been included in "Provisions" as non-current liabilities under IFRS.

27) Other non-current liabilities

(Presentation)

Guaranty deposits received and lease obligations, etc. included in "Other" as long-term liabilities under Japanese GAAP have been included in "Other financial liabilities" as non-current liabilities under IFRS.

(Recognition and measurement)

Under Japanese GAAP, upfront payments accompanying the out-licensing of technologies, collaborative sales and collaborative sales promotion were recorded as income when they were received. However, under IFRS, when contractual obligations have not yet been fulfilled, such payments are recorded as deferred income and the income is recognized over the period in which the performance obligations are fulfilled.

Accrued paid absences, for which accounting treatment was not required under Japanese GAAP, are recognized as liabilities under IFRS.

As a result, the amount of "Other non-current liabilities" has increased.

28) Deferred tax liabilities

(Recognition and measurement)

"Deferred tax liabilities" are recognized for the temporary differences resulting from the reconciliations to adoption of IFRS.

Under Japanese GAAP, deferred tax assets and liabilities were offset only within the categories of short-term or long-term items. However, the amount of the offset increased because all deferred tax assets and liabilities are classified as non-current items under IFRS. As a result, the amount of "Deferred tax liabilities" has decreased.

29) Other financial liabilities (current)

(Presentation)

"Accounts payable - other," which was presented separately under Japanese GAAP, have been included in "Other financial liabilities" as current liabilities under IFRS.

Accrued expenses, etc. included in "Other" as current liabilities under Japanese GAAP have been included in "Other financial liabilities" as current liabilities under IFRS.

(Recognition and measurement)

With regard to levies of property tax, the fixed amount based on the tax notice, etc. was recorded under Japanese GAAP, but under IFRS, the estimated amount of payment is recognized when the obligation for payment is generated.

30) Income taxes payable

(Presentation)

Accrued business taxes based on the size of the business, which were included in "Income taxes payable" under Japanese GAAP, have been included in "Other current liabilities" under IFRS.

31) Provisions (current)

(Presentation)

"Reserve for sales returns" and "Reserve for sales rebates" presented separately under Japanese GAAP have been included in "Provisions" as current liabilities under IFRS.

32) Other current liabilities

(Presentation)

"Reserve for employees' bonuses" presented separately under Japanese GAAP has been included in "Other current liabilities" under IFRS.

Accrued expenses, etc. included in "Other" as current liabilities under Japanese GAAP have been included in "Other financial liabilities" as current liabilities under IFRS.

Accrued business taxes based on the size of the business, which were included in "Income taxes payable" under Japanese GAAP, have been included in "Other current liabilities" under IFRS.

(Recognition and measurement)

Under Japanese GAAP, revenue from sales alliances and out-licensing of technologies, etc. was recorded as one-time income. However, under IFRS, when contractual obligations have not yet been fulfilled, such revenue is recorded as deferred income and the income is recognized over the period in which the obligations are performed.

Accrued paid absences, for which accounting treatment was not required under Japanese GAAP, are recognized as liabilities under IFRS.

As a result, the amount of "Other current liabilities" has increased.

33) Retained earnings

Millions of yen

	Note	As of April 1, 2015	As of March 31, 2016
Adjustment for deferred income	1), 27), 32)	(4,253)	(8,486)
Adjustment for immediate recognition and change in calculation method of actuarial gains or losses in defined benefit plans	2), 12), 34)	(2,179)	(9,902)
Adjustment for intangible assets	3), 4), 6), 14), 15)	6,247	13,105
Adjustment for property, plant and equipment	13)	(3,415)	(3,062)
Adjustment for goodwill	14)	—	10,498
Adjustment for accrued paid absences	27), 32)	(4,143)	(4,088)
Others		(304)	(209)
Total adjustment to retained earnings		(8,047)	(2,144)

34) Other components of equity
(Recognition and measurement)
The Group applied the exemption set forth under IFRS 1 and transferred the balance of exchange differences on translation of foreign operations as of the IFRS transition date to retained earnings. Consequently, the amount of "Other components of equity" has decreased.

Under Japanese GAAP, with regard to retirement benefits under defined benefit plans, actuarial gains or losses arising from these plans were recognized as accumulated other comprehensive income, and subsequently as profit or loss over certain future periods. Under IFRS, however, such actuarial gains or losses are recorded in other comprehensive income as remeasurements of net defined benefit asset (liability) and transferred directly to retained earnings, rather than through profit or loss.

Unlisted shares were stated at cost calculated by using the moving average method under Japanese GAAP, but under IFRS, unlisted shares are measured at fair value. As a result, the amount of "Other components of equity" has increased.

Notes to reconciliation of consolidated statement of cash flows for the fiscal year ended March 31, 2016

The expenditures associated with research and development expenses were classified as cash flows from operating activities under Japanese GAAP because research and development expenses were expensed as incurred, while under IFRS, the capitalized research and development expenses have been classified as cash flows from investing activities.

38 Litigation (Unaudited)

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

After "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 Special Law" promulgated on January 16, 2008) was put into effect, in accordance with the procedures determined by the Special Law the patients allegedly suffered through HCV (hepatitis C virus) infection following use of a fibrinogen product or a blood coagulant factor IX product sold by the former Green Cross Corporation, one of the predecessors of the Company, filed a lawsuit against the government and established their eligibility for relief. Subsequently, a settlement with the government was reached, and the relief for the patients was provided through the payment of benefits.

On September 28, 2008, a "basic agreement" for the conclusion of the previous court action was signed with the nationwide plaintiff group and legal team. In regard to expenses related to relief payments under the Special Law, the burden of those expenses and the method of sharing that burden were the subject of discussions with the Japanese Ministry of Health, Labour and Welfare, and those standards were announced by the Ministry of Health, Labour and Welfare on April 10, 2009, and the Company incurs the expenses in accordance with the standards. On January 16, 2013, a partial amendment was made to the Special Law and promulgated, and the period for claimants to file lawsuits was extended.

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

Independent Auditor's Report

The Board of Directors
Mitsubishi Tanabe Pharma Corporation

We have audited the accompanying consolidated financial statements of Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young Shin Nihon LLC

June 21, 2017
Osaka, Japan

Explanation of Terms

Appropriate usage of pharmaceuticals
A cycle under which a prescription is determined for the optimal drug and formulation with an appropriate administration / dosage in accordance with the patient's condition; the prescription is dispensed; the patient sufficiently understands the explanation of the drug; the patient takes the drug correctly; the effects and side effects are evaluated; and feedback is provided for the next prescription.

Biologics
A general term for products that use substances of biological origin or biological functionality, including vaccines, plasma fractionation products and other protein drugs, therapeutic antibodies, nucleic acid drugs, and cells for use in regenerative medicine.

Clinical trials
Trials implemented with the objective of ascertaining effectiveness, side effects, etc., through the administration of a drug with therapeutic effects to patients and to healthy people.

CMC
Chemistry, manufacturing, and control research: Comprehensive research supporting pharmaceutical manufacturing and quality, such as research into manufacturing and formulation of pharmaceutical ingredients and analytical research involving the evaluation of the quality of pharmaceutical ingredients and pharmaceuticals.

Generic drugs
Drugs that are launched after a new drug's patent expires, have the same active ingredients in the same amounts, and have equivalent effects. In Europe and the U.S., many prescriptions are written in the generic name, which is the name of the active ingredient, rather than the product name, and accordingly these products are called generic drugs.

ICH-GCP
International GCP guidelines for the EU, U.S., and Japan that are related to the implementation of clinical trials. These guidelines have been agreed to by the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH).

Launch
Introduction of new drugs to the market.

Long-listed drugs
Original drugs that have gone off patent and for which generics are on sale.

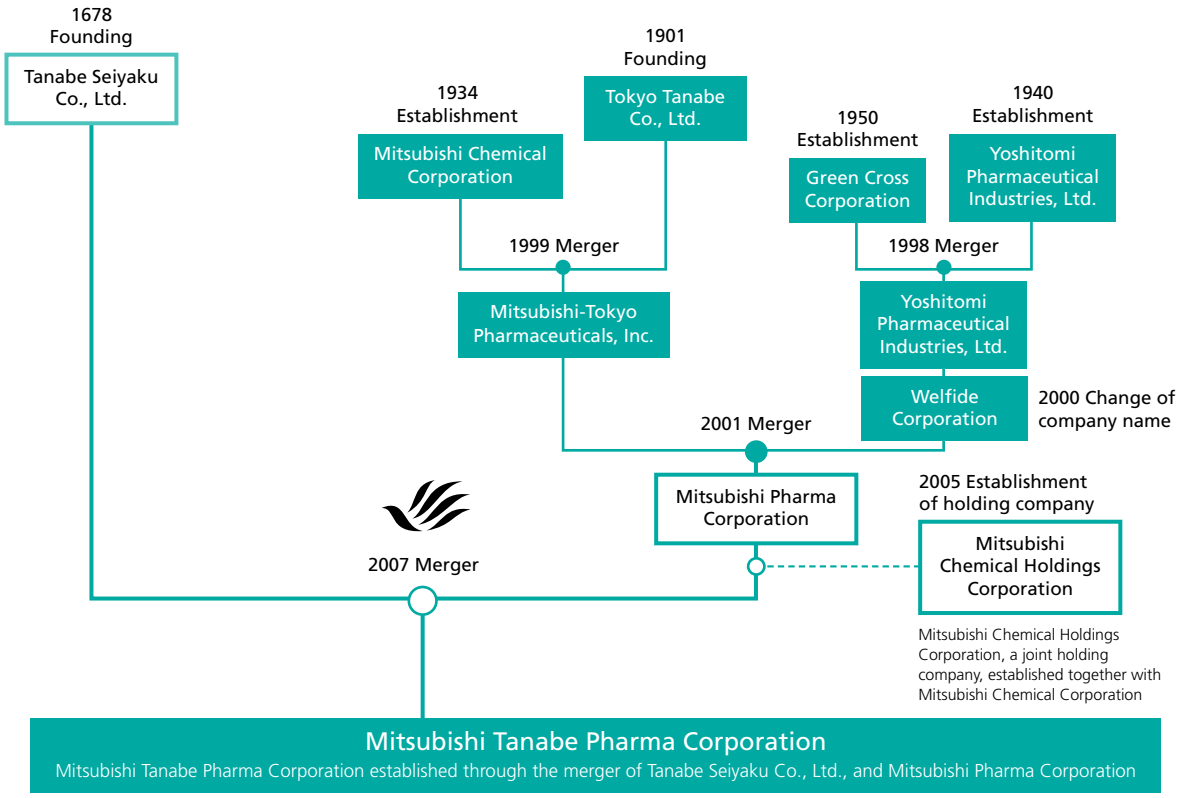
MR (abbreviation for medicalxrepresentative)
As sales representatives of pharmaceutical companies, MRs visit medical institutions and collect and provide information related to pharmaceutical quality efficacy, safety, etc., in order to promote appropriate usage of pharmaceuticals.

POC (abbreviation for proof of concept)
Confirmation of the efficacy and safety of new drug candidate substances in humans at the R&D stage.

QOL (abbreviation for quality of life)
Benchmark that addresses whether patients can enjoy their daily lives with a sense of fulfillment and satisfaction, without a decline in their quality of life, including not only the effects during treatment but also after treatment is completed.

Unmet medical needs
Medical needs for which there are no effective treatments or drugs.

History



Mitsubishi Tanabe Pharma's History since Its Establishment

▶ New product launches

2007 October
- ▶ Establishment of Mitsubishi Tanabe Pharma Corporation through the merger of Tanabe Seiyaku and Mitsubishi Pharma Corporation (President and Representative Director, Natsuki Hayama)

2008 April
- ▶ Establishment of Tanabe Seiyaku Hanbai, a subsidiary handling generic drugs

May
- ▶ Announcement of Corporate Behavior Charter and Medium-Term Management Plan 08–10: Dynamic Synergy for 2015

August
- ▶ Choseido Pharmaceutical Co., Ltd. became a subsidiary, start of comprehensive, equity-based alliance, centered on the generic drug business

October
- ▶ Merger of MP-Technopharma and Tanabe Seiyaku Yamaguchi, establishment of Mitsubishi Tanabe Pharma Factory

2009 June
- ▶ Michihiro Tsuchiya became president and representative director

October
- ▶ Head Office relocated to Kitahama, Chuo-ku, Osaka

November
- ▶ Acquisition of domestic sales rights from Kureha Corporation for Kremezin, a treatment for chronic kidney disease

2010 September
- ▶ Acquisition by Novartis International AG, of Switzerland, of approval in the U.S. for Gilenya, a treatment agent for multiple sclerosis

2011 March
- ▶ Acquisition by Novartis International AG, of Switzerland, of approval in Europe for Gilenya, a treatment agent for multiple sclerosis

April
- ▶ Transfer of domestic sales of Kremezin, a treatment for chronic kidney disease, from Daiichi Sankyo Co., Ltd. to the Company

	August	▶Launch of Lexapro, an anti-depressant, and start of joint sales with Mochida Pharmaceutical Co., Ltd.
	September	▶Launch of Simponi, a treatment agent for RA, and start of joint sales with Janssen Pharmaceutical K.K.
	October	▶Announcement of Medium-Term Management Plan 11–15: New Value Creation
	November	▶Launch of Imusera, a treatment agent for MS
		▶Launch of Telavic, a treatment agent for chronic hepatitis C
2012	March	▶Conclusion of strategic joint sales agreement with Daiichi Sankyo Co., Ltd. for Tenelia and Canaglu, treatments for type 2 diabetes mellitus
		▶Receipt of Fiscal 2012 Pharmaceutical Society of Japan Award for Drug Research and Development for fingolimod hydrochloride (Imusera), a treatment agent for MS
	May	▶Relocation of Tokyo Head Office to Koamicho, Nihonbashi, Chuo-ku, Tokyo
	July	▶Transfer of fine chemical operations to API Corporation and TAISHO TECHNOS
	September	▶Launch of Tenelia, a treatment agent for type 2 diabetes mellitus
	October	▶Establishment of Japan Blood Products Organization in joint initiative with the Japanese Red Cross Society and transfer of plasma fractionation operations
		▶Comprehensive consignment to Collabo-Create Co., Ltd. of distribution operations that had been handled by MP Logistics
		▶Dissolution of comprehensive, equity-based alliance, centered on the generic drug business, with Choseido Pharmaceutical Co., Ltd.
		▶Launch of Tetrabik, a pertussis-diphtheria-tetanus-inactivated polio combined vaccine
2013	March	▶Acquisition by Janssen Pharmaceuticals, Inc., of the U.S., of approval for Invokana, a treatment agent for adult type 2 diabetes mellitus
	June	▶Transfer of Tanabe Europe to API Corporation
	September	▶Medicago, of Canada, a biopharmaceutical company, became a consolidated subsidiary
2014	March	▶Receipt of Fiscal 2014 Pharmaceutical Society of Japan Award for Drug Research and Development for SGLT2 inhibitor canagliflozin (Canaglu), a new treatment agent for type 2 diabetes mellitus
	April	▶Transfer of Mitsubishi Tanabe Pharma Factory's Ashikaga Plant to CMIC HOLDINGS Co., Ltd.
	June	▶Masayuki Mitsuka became president and representative director
	September	▶Launch of Canaglu, a treatment agent for type 2 diabetes mellitus
2015	March	▶Termination of plasma fractionation product sales agreement with Japan Blood Products Organization
	April	▶Relocation of Head Office to Dosho-machi, Chuo-ku, Osaka
		▶Transfer of Mitsubishi Tanabe Pharma Factory's Kashima Plant to Sawai Pharmaceutical Co., Ltd.
	May	▶Opening of Mitsubishi Tanabe Pharma Historical Museum
		▶Receipt of commendation at the Fiscal 2015 National Commendation for Invention for discovery of diabetes treatment agent teneligliptin (Tenelia)
	November	▶Announcement of Medium-Term Management Plan 16–20: Open Up the Future
2016	January	▶Establishment of MT Pharma Singapore in Singapore
	February	▶Establishment of Mitsubishi Tanabe Pharma America, a pharmaceutical sales company, in the U.S.
	May	▶Receipt of METI Minister's Award at the Fiscal 2016 National Commendation for Invention for discovery of diabetes treatment agent canagliflozin (Canaglu)
	November	▶Establishment of MT Pharma (Thailand), a pharmaceutical sales company, in Thailand
2017	February	▶Receipt of Okochi Memorial Technology Prize at the 63rd Okochi Prize awards for fingolimod hydrochloride, a treatment agent for MS
	April	▶Establishment of Tanabe Palm Service, which will be certified as a special subsidiary
	May	▶Acquisition of approval in the U.S. for Radicava, an ALS treatment agent

Corporate Data / Investor Information

As of March 31, 2017

Corporate Data

Company Name	Mitsubishi Tanabe Pharma Corporation	**Date of Merger**	October 1, 2007
Headquarters	3-2-10, Dosho-machi, Chuo-ku, Osaka 541-8505, Japan	**Number of Employees**	7,280 (Consolidated) 4,239 (Parent company only)
Incorporated	December 1933		

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

Group Companies

■ Consolidated subsidiary ■ Affiliated company accounted for by the equity method

Japan

	Paid-in Capital	% Voting Control*	Principal Business
Yoshitomiyakuhin Corporation	¥385 million	100.0%	Provision of information about pharmaceuticals
Bipha Corporation	¥100 million	100.0%	Manufacture and sale of pharmaceuticals
Mitsubishi Tanabe Pharma Factory Ltd.	¥1,130 million	100.0%	Manufacture and sale of pharmaceuticals
Tanabe Seiyaku Yoshiki Factory Co., Ltd.	¥400 million	100.0%	Manufacture and sale of pharmaceuticals
Tanabe Seiyaku Hanbai Co., Ltd.	¥100 million	100.0%	Sale of generic drugs, etc.
Tanabe Total Service Co., Ltd.	¥90 million	100.0%	Office services, etc.

Overseas

Asia	Paid-in Capital	% Voting Control*	Principal Business
Mitsubishi Tanabe Pharma Development (Beijing) Co., Ltd.	USD1,000,000	100.0%	R&D of pharmaceuticals
Tianjin Tanabe Seiyaku Co., Ltd.	USD16,230,000	75.4%	Manufacture and sale of pharmaceuticals
Taiwan Tanabe Seiyaku Co., Ltd.	TWD90,000,000	65.0%	Manufacture and sale of pharmaceuticals
Tai Tien Pharmaceuticals Co., Ltd.	TWD20,000,000	65.0%	Sale of pharmaceuticals
P.T. Tanabe Indonesia	USD2,500,000	99.6%	Manufacture and sale of pharmaceuticals
MT Pharma Singapore Pte. Ltd.	SGD300,000	100.0%	Sale of pharmaceuticals
MT Pharma (Thailand) Co., Ltd.	THB103,000,000	100.0% (2.0%)	Sale of pharmaceuticals
Mitsubishi Tanabe Pharma Korea Co., Ltd.	KRW2,100,000,000	100.0%	Manufacture and sale of pharmaceuticals
North America			
Mitsubishi Tanabe Pharma Holdings America, Inc.	USD167	100.0%	Management of Group companies in the U.S.
Mitsubishi Tanabe Pharma Development America, Inc.	USD200	100.0% (100.0%)	R&D of pharmaceuticals
Mitsubishi Tanabe Pharma America, Inc.	USD100	100.0% (100.0%)	Sale of pharmaceuticals
MP Healthcare Venture Management Inc.	USD100	100.0% (100.0%)	Investments in bio-ventures
Tanabe Research Laboratories U.S.A., Inc.	USD3,000,000	100.0% (100.0%)	R&D of pharmaceuticals
MTPC Holdings Canada Inc.	CAD338,509,000	100.0%	Investments in Medicago Group
Medicago Inc.	CAD413,042,000	60.0% (57.0%)	R&D and manufacture of vaccines
Medicago USA Inc.	USD99	60.0% (60.0%)	Manufacture of vaccines
Medicago R&D Inc.	CAD500	60.0% (60.0%)	R&D of vaccines
Europe			
Mitsubishi Tanabe Pharma Europe Ltd.	GBP4,632,000	100.0%	R&D of pharmaceuticals
Mitsubishi Tanabe Pharma GmbH	EUR 25,000	100.0% (100.0%)	Sale of pharmaceuticals
Synthelabo-Tanabe Chimie S.A.	EUR1,600,000	50.0%	Manufacture and sale of pharmaceuticals

* Figures in parentheses show indirect control.

Note: Aside from the companies mentioned above, there are two consolidated companies under liquidation.

Investor Information

Stock Exchange Listing	Tokyo
Stock Code	4508
Paid-in Capital	¥50,000 million
Common Stock	Authorized: 2,000,000,000 shares Issued : 561,417,916 shares
Closing Date of Accounts	March 31
Number of Shareholders	14,661

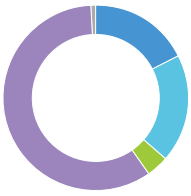
Major Shareholders

	% Voting Rights
Mitsubishi Chemical Holdings Corporation	56.3
The Master Trust of Japan, Ltd.	4.6
Nippon Life Insurance Company	2.2
Japan Trustee Services Bank, Ltd.	2.0
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1.3
STATE STREET BANK WEST CLIENT-TREATY 505234	1.1
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1.0
Japan Trustee Services Bank, Ltd. (Trust Account 5)	0.8
CBNY-GOVERNMENT OF NORWAY	0.7
Nipro Corporation	0.7

Shareholder Register Agent for Common Stock in Japan

Mitsubishi UFJ Trust and Banking Corporation
Osaka Corporate Agency Division
3-6-3, Fushimi-machi, Chuo-ku, Osaka 541-8502, Japan

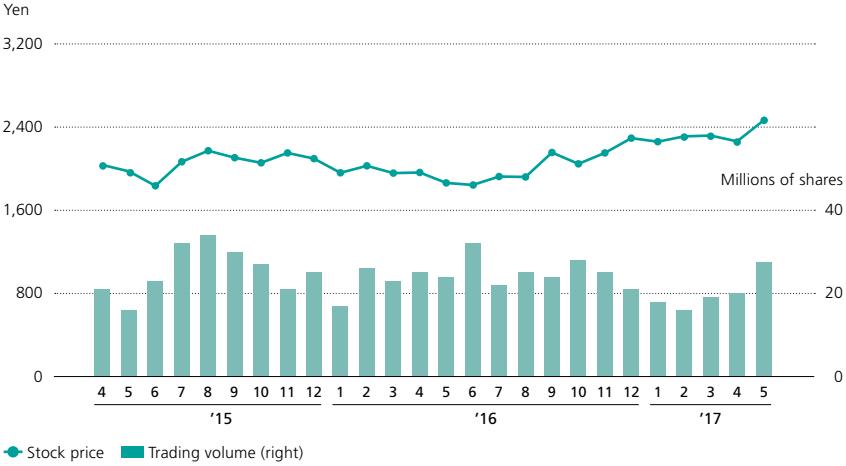
Distribution of Share Ownership by Type of Shareholder



Japanese financial institutions	17.6%
Foreign institutions	18.8%
Japanese individuals and others*	4.0%
Other Japanese corporations	58.8%
Japanese securities firms	0.8%

* Individuals and others includes treasury stock (429 thousand shares as of March 31, 2017)

Stock Price Range / Trading Volume



THE KAITEKI COMPANY
Mitsubishi Chemical Holdings Group

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

Printed in Japan