*New **Value** Creation*

Mitsubishi Tanabe Pharma
Corporate Report 2014

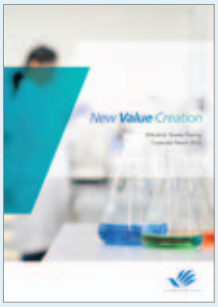
Mitsubishi Tanabe Pharma

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 2014



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 ACTIVITIES REPORT 2014 WEBSITE

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 2013 (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.

FTSE4Good

Inclusion in FTSE4Good Index Series

Mitsubishi Tanabe Pharma has been included in the FTSE4Good Index Series, a leading index for responsible investing (RI), for 11 consecutive years.

FTSE4Good Index Series

An index related to RI prepared by the FTSE Group. Based on FTSE Group original standards, companies that fulfill a certain level of CSR activities are selected for inclusion in the index. As of the end of March 2014, the index included 746 companies, including 176 Japanese companies.

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 WEBSITE

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

A corporate profile is prepared as a digest version of the Mitsubishi Tanabe Pharma Corporate Report 2014.

Contents

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.

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.

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.

Mitsubishi Tanabe Pharma's corporate philosophy—"We contribute to the healthier lives of people around the world through the creation of pharmaceuticals"—expresses the meaning of and the reason for the Company's existence.

Since the Company was established in October 2007, we have been guided by this corporate philosophy and have aimed to be a global research-driven pharmaceutical company that can be trusted by communities.

Under the Medium-Term Management Plan 11–15, which is currently being implemented, Mitsubishi Tanabe Pharma is implementing reforms to become a company that can continue to create new value, in accordance with the key concept of New Value Creation.

Going forward, in accordance with the Group's shared sense of values that "Everything we do is for the patients," we strive to contribute to the health of people around the world and to fulfill our responsibilities as a company engaged in the life sciences.

BRAND MARK

Our brand mark takes the form of hands gently enfolding the health of people around the world, symbolizing Mitsubishi Tanabe Pharma's future growth and unlimited potential as a global research-driven pharmaceutical company.

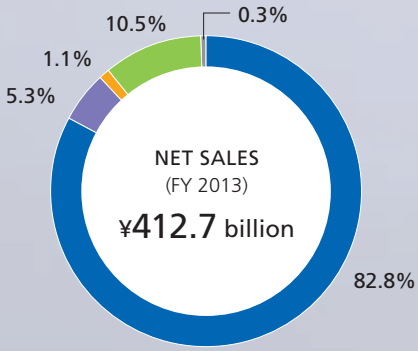
The corporate color of blue symbolizes the "intellect," "technology," and "ethics" of the Company and represents the "enterprising spirit" to take on the challenges of creating novel drugs that will help people around the world.

Mitsubishi Tanabe Pharma has designed this brand mark to represent the Company's "growth" as well as "trust" from society.

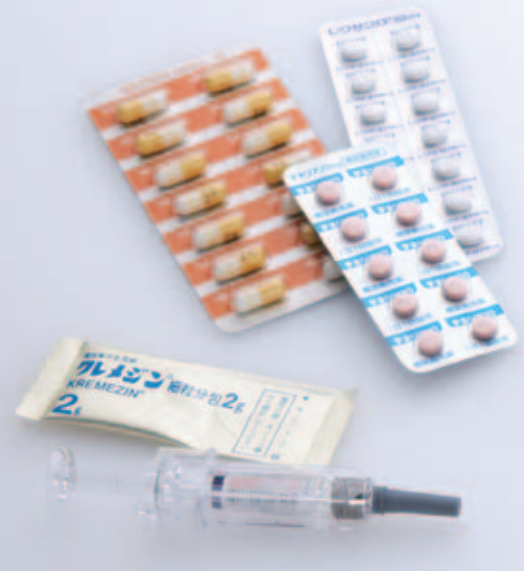
Principal Products

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

SALES COMPOSITION



- Domestic ethical drugs ..... ¥341.7 billion
- Overseas ethical drugs ..... ¥22.0 billion
- OTC drugs ..... ¥4.5 billion
- Others (Royalty revenues, etc.) ..... ¥43.4 billion
- Other business ..... ¥1.0 billion



Major Products

Remicade

Domestic Sales: ¥76.3 billion
Overseas Sales: ¥30 million

Treatment of rheumatoid arthritis (RA), Crohn's disease, psoriasis, ulcerative colitis, Behcet's disease with refractory uveoretinitis, and ankylosing spondylitis

Ceredist

Domestic Sales: ¥17.8 billion

Treatment of spinocerebellar degeneration

Maintate

Domestic Sales: ¥15.5 billion
Overseas Sales: ¥0.2 billion

Treatment of hypertension, angina pectoris, extrasystole, chronic heart failure, and atrial fibrillation

Talion

Domestic Sales: ¥13.7 billion
Overseas Sales: ¥0.8 billion

Treatment of allergic disorders

Kremezin

Domestic Sales: ¥12.6 billion

Treatment of chronic kidney disease

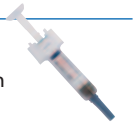
Major New Products

(launched during the period of the Medium-Term Management Plan 11–15)

Simponi

Domestic Sales: ¥9.4 billion
Overseas Sales: ¥0.5 billion

Treatment of RA



Tetrabik

Domestic Sales: ¥6.7 billion

Combined vaccine for diphtheria, pertussis, tetanus, and polio

Lexapro

Domestic Sales: ¥6.5 billion

Treatment of depression

Imusera

Domestic Sales: ¥2.3 billion

Treatment of multiple sclerosis (MS)

Tenelia

Domestic Sales: ¥0.8 billion

Treatment of type 2 diabetes mellitus

Vaccines

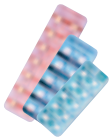
Domestic Sales: ¥28.4 billion

Including sales of Tetrabik, a new product

Generic Drugs

Domestic Sales: ¥14.1 billion

Sales of Tanabe Seiyaku Hanbai's products, which are composed of generic drugs and the long-listed drugs that were transferred from the Company



OTC Drugs

Domestic Sales: ¥4.3 billion
Overseas Sales: ¥0.1 billion

The Question We Face:

What is *New Value*?

We are now in the midst of unprecedented change. In particular, in the past several years the management environment in the domestic pharmaceutical industry has worsened rapidly. Major trends include lower success rates in new drug creation and changes in the market. In addition, the Japanese government has taken steps to limit health care spending, including stepped up measures to reduce spending on pharmaceuticals. Initiatives to promote the use of generics have had a rapidly increasing influence on long-listed products. Many domestic companies that make new drugs have relied on long-listed drugs as an important source of revenues, but the industry is now entering a stage in which that business model no longer functions.

In this environment, Mitsubishi Tanabe Pharma is working to implement the Medium-Term Management Plan 11–15, which has "New Value Creation" as its key concept. Implementing reforms to become a "company that can continue to create new value" is nothing more than implementing reforms to a new business model. In the first three years of the plan, we have launched a number of new products and royalty revenues from out-licensed products have become a pillar of our revenues. In addition, we have implemented reforms targeting the establishment of a new business model that addresses the changes in the business environment. These steps have included reorganizations and other restructuring initiatives.

In June 2014, the Company transitioned to a new management system. Michihiro Tsuchiya, who served as president for five years, became chairman, and Masayuki Mitsuka was appointed president. Under the new system, we will further accelerate initiatives targeting these reforms.

However, no matter what type of changes we face, we must always remember the starting point for all our business activities—"Everything we do is for the patients." Remicade, a core product, was launched in 2002 as a treatment agent for Crohn's disease. After its launch, we steadily took steps to promote post-marketing development. These steps included additional indications for rheumatoid arthritis (RA) and ulcerative colitis and dose escalation for RA and Crohn's disease. Through these initiatives, Remicade has grown into a drug that makes a contribution to many patients. As a result, in fiscal 2013 combined sales of Remicade and Simponi, a new RA treatment agent, surpassed ¥100.0 billion on a national health insurance (NHI) drug price basis. I believe this success was the result of the value of the product itself and the value accumulated by the Company together with health care professionals, patients, and their families.

No matter how superior a drug is, without the process of post-marketing development that establishes effectiveness and safety, it cannot make a contribution to patients. Our business activities do not end with the creation of a new drug. They continue on in the nurturing of that drug.

Moving forward, we will continually return to our starting point of "Everything we do is for the patients" and work to contribute to the health of patients around the world by repeating the processes of drug discovery and post-marketing development. To that end, the Company's managers and all other employees will ask themselves "What is value for the patient?" and continually take on the challenge of creating new value. In addition, we will strive to increase management transparency and achieve sustained growth. I would like to ask our shareholders, investors, and other stakeholders for their continued understanding and support for Mitsubishi Tanabe Pharma in the years ahead.

August 2014

Michihiro Tsuchiya
Chairman of the Board &
Representative Director

Masayuki Mitsuka
President &
Representative Director

OVERVIEW OF MEDIUM-TERM MANAGEMENT PLAN 11–15

Key Concept: *New **Value** Creation*

Period: April 2011 to March 2016 (five years)

Objectives that Will be Realized under the Medium-Term Management Plan 11–15:

Becoming a Company that Can Continue to Create New Value

Building a Foundation for Future Growth

- Taking on the challenge of unmet medical needs*
- Discovering drugs and building a foundation to provide them around the world
- Investing aggressively in future growth

Steadily Nurturing and Providing New Products and Priority Products, Centered on Remicade

Strategic Challenges:

1. Bolstering Our Ability to Discover New Drugs
2. Advancing Domestic Operations, Centered on New Drugs
3. Building a Foundation for the Expansion of Overseas Operations
4. Accelerating Operational and Structural Reforms

* Unmet medical needs: Medical needs that are not addressed adequately by existing therapies.

Becoming a Company that Can Continue to Create ***New Value***

Mitsubishi Tanabe Pharma conducts research, development, production, and marketing in the field of ethical drugs. These processes can be divided into two major stages. One is the drug discovery stage, in which drug candidate compounds are identified, manufacturing and marketing approval is received, and sales commence. At this stage, the Company works to discover drugs with superior efficacy and safety through such means as fundamental research, pre-clinical trials, and clinical trials.

The other stage is post-marketing development. At this stage, the value of drugs is enhanced so that they can make an even greater contribution to medical treatment. Information on effectiveness, side effects, and other factors is collected, and steps are taken to establish efficacy and safety, improve usage methods, and expand indications. In addition, measures are implemented to ensure a stable supply of high-quality drugs. Through the repetition of these drug discovery and post-marketing development processes, the Company takes on the challenge of creating new value.

Drug Discovery Stage

Post-Marketing Development Stage

Research

Development

Production

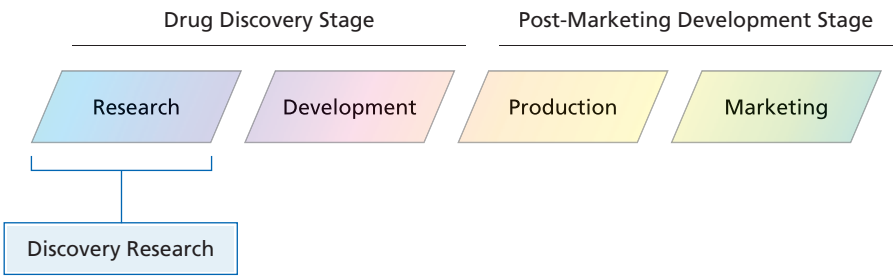
Marketing

Hisako Yamaguchi
Pharmacology Research Laboratories I,
Research Division

What is ***New Value***?

Contributing to Patients and their Families through the Power of Drugs

The value that must be created by researchers working in drug discovery is very simple. We strive to identify drug candidate compounds that meet unmet medical needs and to advance those compounds to the clinical stage. In that process, I am responsible for the evaluation of candidate compounds. I try to determine whether compounds exhibit effects that we are looking for, how strong that effect is, and how effective and safe the compounds are expected to be in humans. I am in charge of research in central nervous system diseases, which is a field that includes many serious diseases. Unfortunately, current drugs in the field do not adequately satisfy needs in terms of quality and quantity. I want to use the "Power of Drugs" to contribute to the patients who are suffering from such diseases as well as to their families. If we can do that, I believe that the results will be a new value that is provided to society by Mitsubishi Tanabe Pharma.



Creating Candidate Compounds that will Become Drugs

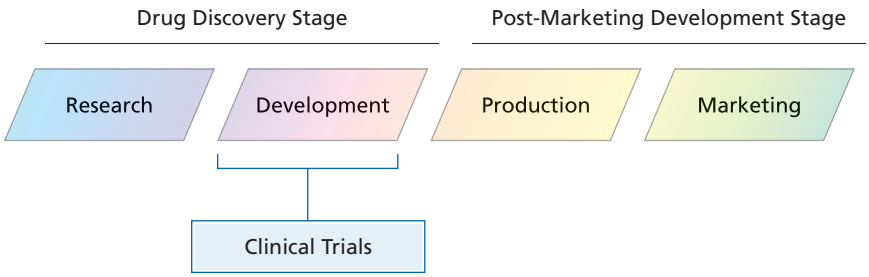
The drug discovery process starts with the search for compounds that have the potential to become drugs. First, we identify drug discovery targets that contribute to the disease of interest. Active substances are selected from a wide range of possibilities. We then repeatedly cycle through a process of evaluating the substances in terms of such factors as efficacy and safety and trying to improve those factors. Through these processes, we create candidate compounds that have the potential to become drugs and progress to the clinical stage.

Fuyuhiko Marubayashi
Clinical Research Planning and Coordination Department II, Development Division

What is ***New Value***?

Delivering Good Drugs to Patients as Rapidly as Possible

Currently, with the objective of launching pharmaceuticals in China and other Asian markets, we are proceeding with preparations for clinical trials. I would like the Company to accurately track needs in Asia and be the first to deliver drugs to patients. "Delivering good drugs to patients as rapidly as possible" is our role in Japan and overseas. However, Mitsubishi Tanabe Pharma has little development experience in Asia, and I believe that success in these trials will lead to new value for the Company. The development process is the same as in Japan, with efficacy and safety confirmed through clinical trials and approval received from the regulatory authorities, but the procedures differ by country and region. In addition, differences in business practices and other areas have an influence on the progress of clinical trials, and careful attention is required. By conducting rigorous advance preparations and formulating the optimal clinical trial plan, we will strive to launch products as rapidly as possible.



Confirming the Efficacy and Safety of Drugs

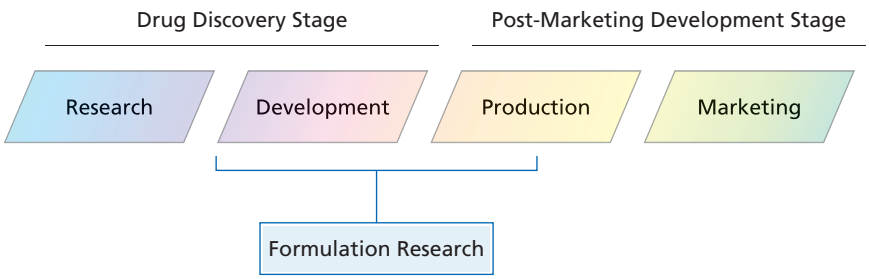
The compounds that are candidates to become drugs (drug candidates) are administered to actual patients in clinical trials, and their efficacy and safety is confirmed. After going through a process of phase 1 clinical trials with a small number of healthy subjects, phase 2 clinical trials with a small number of patients, and phase 3 clinical trials with a large number of patients, drug candidates that receive approval from the regulatory authorities can be delivered to patients as new drugs.

Maki Korenaga
Analytical Research Laboratories,
CMC Division

What is ***New Value***?

Supporting the Efficacy and Safety of Drugs in the Form of Quality

My principal duty is quality control for investigational drugs used in clinical trials. For example, I measure the quantity of active ingredients in investigational drugs and confirm that they meet the established specifications. The time required to manufacture investigational drugs has an impact on the progress of clinical trials, and accordingly it is important to make rapid and steady progress. In addition, we also establish specifications and testing methods for use in future production operations at manufacturing sites. Through those specifications and testing methods, we assure the quality, that is, the efficacy and safety, of all of the drugs that are delivered to patients. I believe that this quality control policy is the value that we can deliver to patients. Finally, to control quality at manufacturing sites it is essential that we establish testing methods that enable accurate, rapid measurement by any person at any time. After developing an understanding of the actual situation at plants, we try to improve testing methods with the incorporation of technologies and analysis equipment, which are advancing on a daily basis. I believe this leads to new value creation.



Turning Drugs into Products

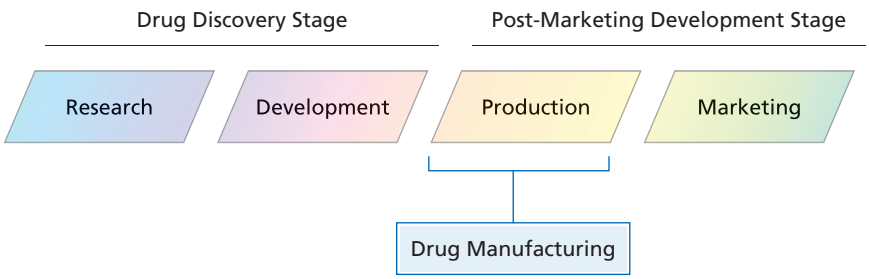
Pharmaceuticals have a wide range of formulations, such as tablets, capsules, and injections. In formulation research, we manufacture the investigational drugs used in clinical trials, evaluate them, and develop the optimal formulation. In addition, to support mass production after the product is launched, we establish specifications and testing methods to ensure the quality of the product and transfer these technologies to manufacturing sites.

Yoji Kawashima
Production Department,
Osaka Plant,
Mitsubishi Tanabe Pharma Factory Ltd.

What is ***New Value***?

Building a Platform to Raise Operational Value to Meet Drug Quality and Delivery Requirements

The duty of the manufacturing divisions is "delivering drugs to patients while meeting quality and delivery requirements." Safe operations are the foundation of those activities. I am working to enhance our handling of good manufacturing practices (GMP) standards and to increase safety awareness from the perspective of a manager. The process of manufacturing pharmaceuticals is not something that can be completed by a single person, and accordingly it is important to have an environment in which relationships with coworkers are based on smooth communication and mutual understanding. These relationships are the foundation for ensuring reliability and safety and for transferring technology. In the end, I believe these relationships also lead to the fulfillment of drug quality and delivery requirements. I pay special attention to creating an environment in which coworkers can speak freely in front of one another. As a result of those efforts, people can communicate their own thoughts in the daily work environment and they are ready to listen to the conversations of others. The new value that I can provide is establishing this type of foundation for "delivering drugs to patients while meeting quality and delivery requirements."



Ensuring the Quality of Drugs and Providing a Stable Supply

We are working to build a manufacturing system for the stable supply of drugs and to further enhance quality so that patients can use drugs with peace of mind. We act in accordance with GMP (production and quality standards for the control of pharmaceutical and quasi drug products) in all manufacturing processes—acceptance testing of raw materials procured from Japan or overseas, manufacturing of pharmaceutical ingredients and products, and testing / inspection. In addition, to achieve high quality at low cost, we are also working to enhance manufacturing technologies.

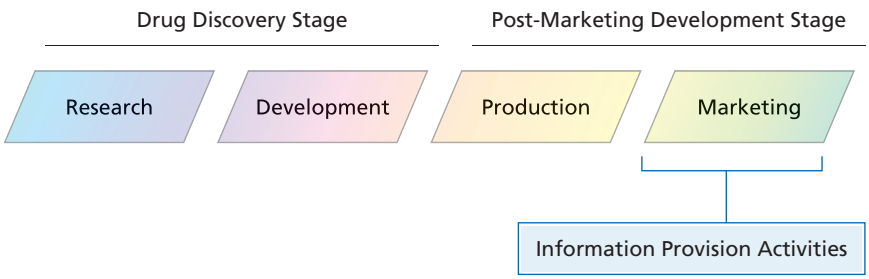
Michiko Fukukura

Sales Office II,
Highly-intensive Hospital Office,
Tokyo Branch,
Sales & Marketing Division

What is ***New Value***?

Providing Information with the "Ideas" of the Researchers that are Incorporated Into Each Drug

Pharmaceuticals are launched after a lengthy period of R&D activities. Medical representatives (MRs) have the responsibility of delivering those drugs to as many patients as possible. We collect and provide information about safety and efficacy. Our markets generally have competing products, and we provide information that meets the needs of health care professionals while maintaining a clear idea of which patients will benefit from our products. The value I am able to provide is in communicating the various data used in the provision of information. It takes a substantial amount of time to generate even a small amount of data, so I do my best to communicate the "ideas" of the researchers who are involved in the generation of that data. Accordingly, I am working to deepen my knowledge about diseases and products so that I can conduct information provision activities with confidence. In addition, I would like to take on the challenge of communicating the ideas of people on the medical frontlines. To link this to new value in the form of new drug discovery, I am also working to take the information collected on the medical frontlines and feed it back to the R&D frontlines.



Providing Appropriate Usage Information for Drugs

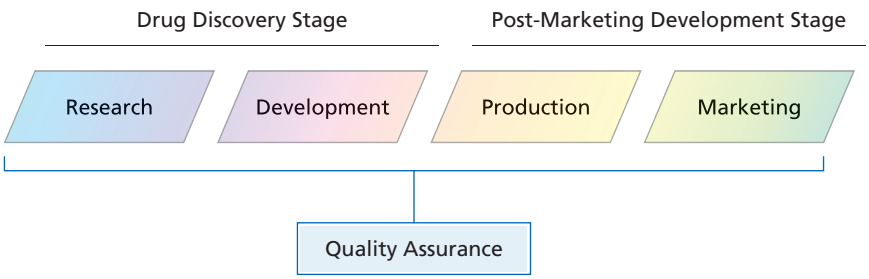
If drugs are not used in accordance with appropriate information, such as information about administration and dosage, then full effectiveness cannot be achieved. It is MRs who provide that information. We are promoting the appropriate usage of drugs by providing doctors and other health care professionals with information regarding not only efficacy but also safety, including side effects and other risks.

Koji Shibata
Safety Data Department,
Pharmacovigilance &
Quality Assurance Division

What is ***New Value***?

Adding the Value of Information to Compounds to Turn Them into Drugs

The effectiveness of pharmaceuticals is demonstrated when they are used in accordance with efficacy- and safety-related information. Information is the key to turning compounds into pharmaceuticals. Pharmaceuticals go through clinical trials before they are marketed, but after the launch they are used by a much larger number of patients. Accordingly, in some cases effects or side effects that were not anticipated prior to the launch become clear after the launch. I collect information that is obtained after the launch and enter it into a database. The information in the database is analyzed and the results are provided to the medical frontlines as new information to enhance safety. I provide value through the addition of information regarding drug efficacy and safety and the establishment of appropriate usage methods. Also, in terms of new value, a key issue is more rapidly providing patients with information that is useful in treatment. Accordingly, we are working to increase operational speed and have commenced initiatives to leverage feedback from the medical frontlines in order to discover information that is truly necessary.

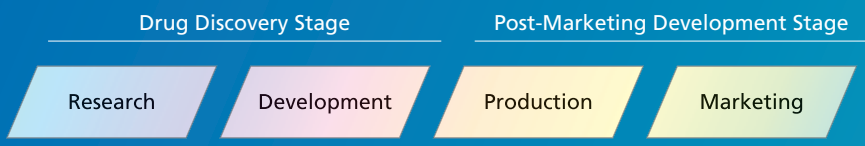


Increasing Drug Reliability

The Company is working to increase reliability in all processes, from research and development to production and marketing. We strive to ensure the quality of various tests and of investigational drugs and pharmaceuticals. In addition, we are continually working to secure the safety of drugs. To that end, We collect and evaluate post-marketing usage results information, which is then used as the basis for information provision and other safety monitoring activities.

Business Strategy Section

This section introduces the business strategies that play the central role in initiatives to create value. The Interview with the Chairman and the Interview with the President include explanations of the progress achieved with the Medium-Term Management Plan 11–15 and the Group's future policies. In addition, the section covering business strategies by stage reports on initiatives targeting value creation and initiatives supporting value creation at the drug discovery and post-marketing development stages.



Financial and Non-Financial Highlights

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 (FY 2013), 2013 (FY 2012), 2012 (FY 2011), 2011 (FY 2010) and 2010 (FY 2009)

Billions of yen

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Net sales	¥404.7	¥409.5	¥407.2	¥419.2	¥412.7
Operating income	61.5	76.6	69.0	69.0	59.1
Net income	30.3	37.7	39.0	41.9	45.4
R&D expenses	83.1	65.8	70.2	66.5	70.4
Capital expenditures on an accrual basis	8.4	10.2	7.1	9.2	12.6
Total assets	796.9	818.7	819.9	866.8	886.5
Total net assets	676.8	696.0	721.5	752.9	777.8
Net cash provided by operating activities	23.9	59.1	37.2	60.6	69.9
Net cash used in investing activities	(61.2)	(7.7)	(63.2)	(35.0)	(24.3)
Net cash used in financing activities	(17.1)	(15.4)	(17.2)	(23.7)	(21.1)

Financial indicators

%

Overseas sales ratio	6.6%	6.3%	7.0%	11.4%	14.4%
Operating margin	15.2	18.7	17.0	16.5	14.3
R&D expenses ratio	20.5	16.1	17.3	15.9	17.1
Equity ratio	84.1	84.3	87.3	86.3	86.4
ROE	4.6	5.5	5.5	5.7	6.0
Dividend payout ratio	51.9	41.6	50.3	53.6	49.4

Per share amounts

Yen

Net income	¥53.91	¥67.27	¥69.54	¥74.67	¥80.92
Cash dividends	28.00	28.00	35.00	40.00	40.00

Non-financial data

Number of employees	9,266	9,198	9,180	8,835	9,065
Number of new ethical drugs approved in Japan[2]	0	1	3	2	0
Energy used (TJ)	2,488	2,577	2,588	2,332	2,010
CO_2 emissions (thousands of tons)	124	122	126	123	115
Amount of waste generated (thousands of tons)	18	18	20	18	16

1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥102.92 to U.S.$1, the prevailing exchange rate at March 31, 2014.
2. Includes co-developed drugs

Millions of U.S. dollars[1]	% change
FY 2013	FY 2013 / 2012
$4,010	– 1.6%
574	– 14.3
441	+ 8.4
684	+ 5.8
122	+ 36.5
8,613	+ 2.3
7,557	+ 3.3
679	—
(237)	—
(205)	—

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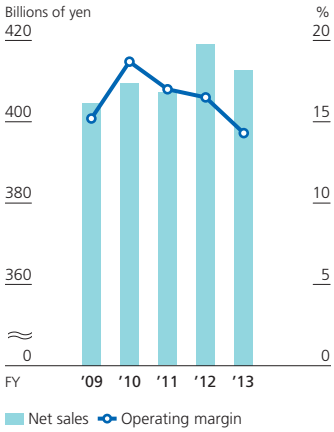
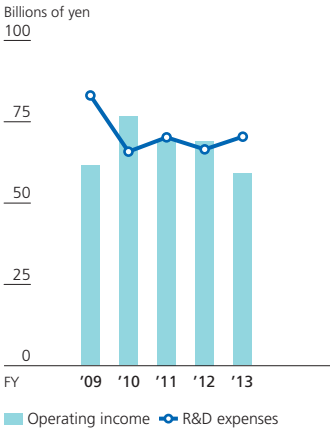
U.S. dollars[1]	
$0.79	+ 8.4%
0.39	—

—	+ 2.6%
—	—
—	– 13.8
—	– 6.5
—	– 7.5

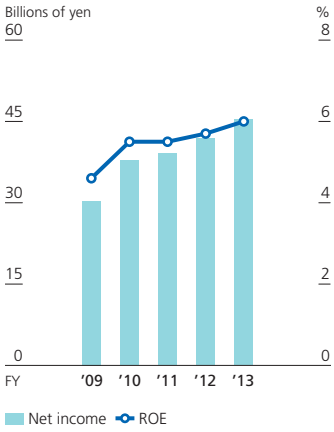
NET SALES / OPERATING MARGIN



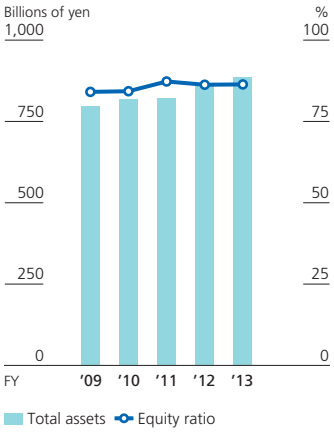
OPERATING INCOME / R&D EXPENSES



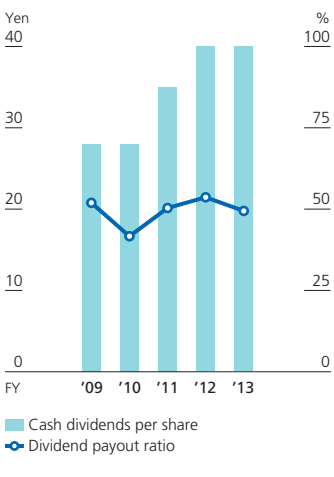
NET INCOME / ROE



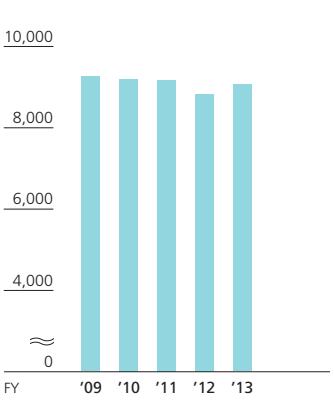
TOTAL ASSETS / EQUITY RATIO



CASH DIVIDENDS PER SHARE / DIVIDEND PAYOUT RATIO



NUMBER OF EMPLOYEES



State of New Product Development

As of May 8, 2014

From the start of the Medium-Term Management Plan 11–15 to the present, we have received approval in Japan for five new drugs and nine additional indications. Overseas, we have received approval for eight new drugs. In addition, in out-licensed products, approval has been received for seven new drugs. As of May 8, 2014, Mitsubishi Tanabe Pharma had the following product development projects under way.

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

Pipeline

New Drugs

Development code (Generic name)	Category	Indications	Region	Stage: Phase 1	Phase 2	Phase 3	NDA filed	Origin (Remarks)
TA-7284 (Canagliflozin)	SGLT2 inhibitor	Type 2 diabetes mellitus	Japan				May 2013	In-house (Approved in July 2014)
MP-424 (Telaprevir)	NS3-4A protease inhibitor	Chronic hepatitis C	Taiwan				Jan. 2013	US: Vertex Pharmaceuticals
			Korea					
MT-4666	Dopamine α7nACh receptor agonist	Dementia of Alzheimer's type	Multinational study[1]					US: FORUM Pharmaceuticals[2]
MP-214 (Cariprazine)	D3 / D2 receptor partial antagonist	Schizophrenia	Japan				Phase 2b/3	Hungary: Gedeon Richter
MT-9938 (Nalfurafine)	κ-opioid receptor agonist	Refractory pruritus in hemodialysis patients	US					Japan: Toray
MP-513 (Teneligliptin)	DPP-4 inhibitor	Type 2 diabetes mellitus	Europe					In-house
			US					
MT-3995	Selective mineralocorticoid receptor antagonist	Diabetic nephropathy	Europe					In-house
			Japan					
			US					
MT-1303	S1P receptor functional antagonist	Multiple sclerosis (MS)	Europe					In-house
		Psoriasis	Europe					
		Inflammatory disease, autoimmune disease	Japan, Europe, US					
Influenza vaccine	Plant-based VLP vaccine	Prophylaxis of H5N1 influenza	Canada					In-house
Influenza vaccine	Plant-based VLP vaccine	Prophylaxis of seasonal influenza	US				Phase 1/2	In-house
Influenza vaccine	Plant-based VLP vaccine	Prophylaxis of H7N9 influenza	Canada					In-house
GB-1057 (Recombinant human serum albumin)	Recombinant human serum albumin	Stabilizing agent	US					In-house
MP-124	PARP inhibitor	Acute ischemic stroke	US					In-house
MP-157	Angiotensin type 2 receptor agonist	Hypertension	Europe					In-house

Additional Indications

Product name (Generic name)	Category	Indications	Region	Stage: Phase 1	Phase 2	Phase 3	NDA filed	Origin (Remarks)
Telavic (Telaprevir)	NS3-4A protease inhibitor	Chronic hepatitis C (genotype 2)	Japan				Dec. 2013	US: Vertex Pharmaceuticals
		Chronic hepatitis C (combination with Pegasys)						
		Chronic hepatitis C (combination with Feron)						
Radicut (Edaravone)	Free radical scavenger	Amyotrophic lateral sclerosis[3]	Japan					In-house
Talion (Bepotastine)	Selective histamine H1 receptor antagonist, anti-allergic agent	Pediatric allergic rhinitis	Japan					Japan: Ube Industries (Filed in May 2014)
		Pediatric atopic dermatitis						

Product name (Generic name)	Category	Indications	Region	Stage (Phase 1 2 3 / NDA filed)	Origin (Remarks)
Remicade (Infliximab [recombinant])	Anti-human TNFα monoclonal antibody	Refractory Kawasaki disease[3]	Japan		US: Janssen Biotech
		Behcet's disease with special lesions[3]			
		Pediatric Crohn's disease			
		Pediatric ulcerative colitis			
		Psoriasis: increased dosage			
Imusera (Fingolimod)	S1P receptor functional antagonist	Chronic inflammatory demyelinating polyradiculoneuropathy	Multinational study		In-house: Co-developed with Novartis Pharma in Japan, licensed to Novartis overseas
Tribik (Adsorbed diphtheria–purified pertussis–tetanus combined vaccine)	Vaccine	Prophylaxis of pertussis, diphtheria, and tetanus; Stage 2 vaccination	Japan		Japan: The Research Foundation for Microbial Diseases of Osaka University (BIKEN) (Co-development with BIKEN)
BindRen (Colestilan [INN])	Non-absorbed phosphate binder	Pediatric hyperphosphatemia	Europe		In-house
Cholebine (Colestimide [JAN])	Bile acid signal regulation	Type 2 diabetes mellitus	Japan		In-house
	Non-absorbed phosphate binder	Hyperphosphatemia			

Licensing-Out

Development code (Generic name)	Category	Indications	Region	Stage (Phase 1 2 3 / NDA filed)	Licensee (Remarks)
TA-7284 (Canagliflozin)	SGLT2 inhibitor	Type 2 diabetes mellitus / fixed dose combination with metformin, IR	US	Dec. 2012[4]	US: Janssen Pharmaceuticals
		Type 2 diabetes mellitus / fixed dose combination with metformin, XR	US		
		Diabetic nephropathy	Multinational study		
MP-513 (Teneligliptin)	DPP-4 inhibitor	Type 2 diabetes mellitus	Korea	Sep. 2013	Korea: Handok
FTY720 (Fingolimod)	S1P receptor functional antagonist	Chronic inflammatory demyelinating polyradiculoneuropathy	Multinational study		Switzerland: Novartis (Co-developed with Novartis Pharma in Japan)
T-0047 (Firategrast)	Cell adhesion inhibitor (α4β7 / α4β1 inhibitor)	Multiple sclerosis (MS)	Europe		UK: GlaxoSmithKline
Y-39983	ROCK (rho-kinase) inhibitor	Glaucoma	Japan		Japan: Senju Pharmaceutical
MT-210	5-HT2A / Sigma 2 receptor antagonist	Schizophrenia	Europe		US: Minerva Neuroscience
TA-7906	PDE4 inhibitor	Atopic dermatitis	Japan		Japan: Maruho
MCC-847	Leukotriene D4 receptor antagonist	Asthma	Korea		Korea: SAMA Pharma
TA-8995	CETP inhibitor	Dyslipidemia	Netherlands, Denmark		Netherlands: DEZIMA Pharma
MT-4580	Ca sensing receptor agonist	Secondary hyperparathyroidism in hemodialysis patients	Japan	Phase 1/2	Japan: Kyowa Hakko Kirin
sTU-199 (Tenatoprazole)	Proton pump inhibitor	Gastroesophageal reflux disease	Europe		France: Negma / Sidem
Wf-516	SSRI / 5HT1A receptor antagonists	Depression	Europe		US: Minerva Neuroscience
Y-803	Bromodomain inhibitor	Hematological cancer	US, Europe		Switzerland: OncoEthix (Development code: OTX015)

1. Co-developed with FORUM Pharmaceuticals
2. EnVivo Pharmaceuticals changed its company name to FORUM Pharmaceuticals in April 2014.
3. Orphan drug designated
4. FDA Complete Response Letter (December 2013)

Interview with the Chairman

In this interview, Chairman Michihiro Tsuchiya, who served as president until June 2014, discusses the Company's results to date with the Medium-Term Management Plan 11–15—New Value Creation and the outlook for the years ahead.

Michihiro Tsuchiya
Chairman of the Board &
Representative Director

Q1

Would you discuss the results of the Medium-Term Management Plan 11–15 in terms of the Company's growth strategies?

Launching New Drugs that Have an Impact

First, during my term as president we were able to launch six new drugs in Japan, which was basically in line with plans. We launched a number of drugs that addressed unmet medical needs*, such as Simponi, a treatment agent for rheumatoid arthritis (RA); Lexapro, an antidepressant; Imusera, a multiple sclerosis (MS) treatment agent; and Tenelia, a type 2 diabetes mellitus treatment agent. In addition to drugs developed in-house, some of these drugs involved alliances, such as in-licensing. However, from the perspective of contribution to patients, and from the perspective of management, we expect these drugs to have an impact.

* Unmet medical needs: Medical needs that are not addressed adequately by existing therapies.

Expanding Royalty Revenues

Imusera is a product that was discovered in-house and out-licensed to Novartis, of Switzerland, for overseas markets. In 2010, Novartis received approval in the U.S., the first approval in the world for an oral MS treatment agent. Novartis began sales under the name Gilenya, and in just two years it became a blockbuster drug, with global sales surpassing $1.0 billion. With annual royalty revenues of more than ¥30.0 billion, Gilenya has become a pillar of the Company's revenues.

For further information, please refer to "Close Up: Initiatives to Maximize Product Value and Generate Royalty Revenues."

P44

Seeing the Results of More than 10 Years of Post-Marketing Development

In fiscal 2013, combined sales of core product Remicade, which has been driving our growth, and Simponi, surpassed ¥100.0 billion on an NHI drug price basis, and as a result we were able to achieve one of the targets in the current medium-term plan. I believe this is the result of more than 10 years of post-marketing development initiatives.

Remicade was launched as a treatment agent for Crohn's disease in 2002 and received an additional indication for RA in 2003. It was the first biologic RA treatment agent in Japan, and when it was approved the Ministry of Health, Labour and Welfare mandated an all-patient post-marketing surveillance. The surveillance of 5,000 patients was completed in two years. Subsequently, through cooperation with health care professionals, we steadily accumulated evidence of its effectiveness and safety, and it has grown into a drug that has contributed to a cumulative total of more than 80,000 patients. In addition, we have made steady progress with life-cycle management, such as additional indications for a wide range of autoimmune diseases. Consequently, sales have steadily grown since its launch. Remicade is a good example of successful post-marketing development. Moreover, new drug Simponi has achieved steady market uptake against a background of strong product appeal and the Company's track record in the RA treatment agent market with Remicade.

Q2

What progress has been made with business and structural reforms targeting the establishment of a robust corporate constitution?

Advancing Reorganization of Bases

Since the management integration, the Company has continually worked to implement operational and structural reforms.

We have consolidated our discovery research bases from five sites at the time of the management integration to three, and have taken steps to reorganize and bolster the functions at each base, such as consolidating discovery chemistry functions into two bases. In addition, with the objective of establishing a global-level new drug supply system and building a flexible, efficient manufacturing system that is less susceptible to the influence of changes in the operating environment, we decided to consolidate the five manufacturing bases of Mitsubishi Tanabe Pharma Factory, a domestic production subsidiary, into two bases, the Onoda Plant and the Yoshitomi Plant. Accordingly, in April 2014 we transferred the Ashikaga Plant to CMIC HOLDINGS. Furthermore, in June 2014 we reached a basic agreement for the transfer of the Kashima Plant to Sawai Pharmaceutical on April 1, 2015 (planned). Overseas, to expand production capacity in order to address growth in demand in China and ASEAN markets, we have commenced aggressive capital investment initiatives, such as starting construction of new buildings at plants in China and Indonesia. In addition, we are constructing the headquarters building and a new building at the Kashima Office, and are making steady progress with the consolidation and reorganization of headquarters functions. In these ways, I believe that we are on the right track overall in regard to base reorganization, which had been a pending issue since the management integration.

Specializing in Pharmaceutical Operations

To further concentrate our management resources on our priority fields in the pharmaceuticals business, we transferred our plasma fractionation and fine chemical operations.

We had manufactured and provided plasma fractionation products, which are indispensable on the medical frontlines, through our subsidiary Benesis. However, in 2012 we transferred those operations to the Japan Blood Products Organization, which was established with the objective of achieving national self-sufficiency and an ongoing stable supply for plasma fractionation products.

Moreover, through its fine chemical business the Company had conducted pharmaceutical ingredient manufacturing and sales and operations related to food, such as vitamins and supplements. However, the business environment steadily worsened, and we determined that it would be difficult to continue to develop these operations on our own. We began to steadily transfer these businesses, and the process of withdrawal and reorganization was completed in 2013.

As a result of these initiatives, in fiscal 2013 sales of pharmaceuticals accounted for 99.7% of the Company's net sales. In this way, we reinforced the position of pharmaceuticals as our core business.

Reforms for a Robust Corporate Constitution

In addition to these base reorganization and organizational restructuring initiatives, we have steadily worked to increase the efficiency of work processes and have taken steps to increase efficiency in specific functional areas, such as outsourcing distribution operations. In addition, to advance reforms from the viewpoints of management frameworks and methods of advancing work, we are implementing the Structural Reform Project.

Unfortunately, it is a fact that these operational and structural reforms have included drastic measures that have been painful to implement, such as the closure of plants through the consolidation of manufacturing bases and the optimization of organizations and workforces through the Structural Reform Project. However, the operating environment for domestic pharmaceutical companies is undergoing dramatic change and continues to become more challenging. The influence of generics on long-listed drugs, which had been a revenue base, is increasing, and our domestic earnings capacity is declining. In this environment, we have no choice but to implement reforms for a robust corporate constitution. These initiatives will not produce immediate results, but I believe that they will result in a foundation that supports the growth of the Company over the long term.

Q3

Finally, would you discuss the future outlook for Mitsubishi Tanabe Pharma?

Discovering "Inspiring Pharmaceuticals"

When I became president, I stated the objective of making Mitsubishi Tanabe Pharma an "inspiring company," so that we can make dramatic progress toward becoming a global research-driven pharmaceutical company. I decided that I wanted to move forward together with all employees.

When I say "inspiring company," I mean a company in which all employees have confidence and pride and everyone works together to continually discover and provide "inspiring pharmaceuticals." As I mentioned, in regard to "inspiring pharmaceuticals" we were able to launch a number of new drugs that address unmet medical needs. Furthermore, we expect to launch SGLT2 inhibitor TA-7284, a treatment agent for type 2 diabetes mellitus, in the first half of fiscal 2014 under the product name Canaglu in Japan.

Gilenya, which is being developed and sold overseas by licensee Novartis is also an "inspiring pharmaceutical." I do not think it is necessary for us to handle everything in-house, from discovery to development and sales. What is important is that we maximize the value of a drug and ensure that it contributes to as many patients as possible. TA-7284 licensee Janssen Pharmaceuticals, of the U.S., has commenced sales of TA-7284 under the product name Invokana, which is the first SGLT2 inhibitor in the U.S. Sales of Invokana have recorded steady growth. I was involved with Canaglu / Invokana when I was working as Division Manager of Research Division, and I believe that it has the potential to grow into a blockbuster drug.

Reforming the Corporate Culture

To become a company in which all employees work with confidence and pride, Mitsubishi Tanabe Pharma has taken steps to create a free and open corporate culture. A company is a collection of individuals, and a corporate culture comprises the many employees that work for the company. Accordingly, each individual employee must change. To develop employees who approach the challenges faced by the Company as their own problems and take on the challenge of working toward the resolution of those problems as a direct participant, we revised our personnel system and introduced the new Comprehensive Management System for Human Resources. In addition, we launched Project NVC (New Value Creation) and took steps to foster dynamic organizational units by promoting internal communications. These measures have produced results, and I think that we are seeing the formation of a new corporate culture.

Becoming an "Inspiring Company"

The Company directly tackled a number of problems that affected the foundations of management, such as the Medway and quality control problems. We were the cause of trouble and concern to patients, health care professionals, and many others, and the entire Company has worked to implement initiatives to prevent a recurrence and to restore trust. As a result, in March 2014 the Outside Committee for Recovering Trust Following the Medway and Quality Control Problems, which was composed of outside experts, concluded its activities. This marked a milestone in the Company's implementation of initiatives to address this issue. The Company will not forget these problems. Rather, I believe that the lessons learned must be fully incorporated into the Company's management in the years ahead.

At this point, the Company is still in a very challenging environment. Nonetheless, we have been able to take the first step toward becoming an "inspiring company" by creating "inspiring pharmaceuticals." Moving forward, we will leverage the initiatives that we have already implemented as we continue moving ahead. In regard to our results, there are many indications that our performance is beginning to turn upward.

In terms of reducing consumption of resources and energy, the knowledge-intensive pharmaceutical industry is ideally suited for conditions in Japan. I believe that the pharmaceutical industry will play an important role in driving Japan's growth. Mitsubishi Tanabe Pharma will be one of the companies that supports that growth, and to further enhance our presence as a pharmaceutical company I will continue doing my utmost to support the Company's growth in my role as chairman.

Masayuki Mitsuka
President &
Representative Director

What is ***New Value***?

The First to Deliver Original Value

With the approval of the ordinary general meeting of shareholders and the Board of Directors' meeting held on June 20, 2014, I became president and representative director of Mitsubishi Tanabe Pharma.

Currently, under the Medium-Term Management Plan 11–15, Mitsubishi Tanabe Pharma is implementing reforms to become a company that can continue to create new value. However, the Company's management environment has recently become extremely challenging due to unfavorable trends in the domestic pharmaceutical industry.

At this point, I believe we need to implement reforms to build a robust corporate constitution that can succeed in our dramatically changing operating environment and to become a research-driven pharmaceutical company that works with a sense of speed and is the first to deliver original value to patients, health care professionals, and other stakeholders.

I will strive to provide new value by demonstrating the path that we must follow for new growth, and I will work together with all Group employees to push forward and achieve sustained growth.

In this interview, the Company's new president, Masayuki Mitsuka, discusses future issues under the Medium-Term Management Plan 11–15—New Value Creation and the Company's growth strategies over the medium to long term.

Q1

First, how do you evaluate the Company's results in fiscal 2013?

We exceeded expectations in certain areas, such as the increase in royalty revenues, but domestic sales of ethical drugs were much lower than expected, and our financial results were not satisfactory.

Looking at factors that influenced net sales, Gilenya, a multiple sclerosis (MS) treatment agent licensed to Novartis, of Switzerland, continued to record growth in global sales. In fiscal 2013, Gilenya recorded especially strong sales growth in markets outside of the U.S. As a result, royalty revenues were up ¥14.9 billion year on year.

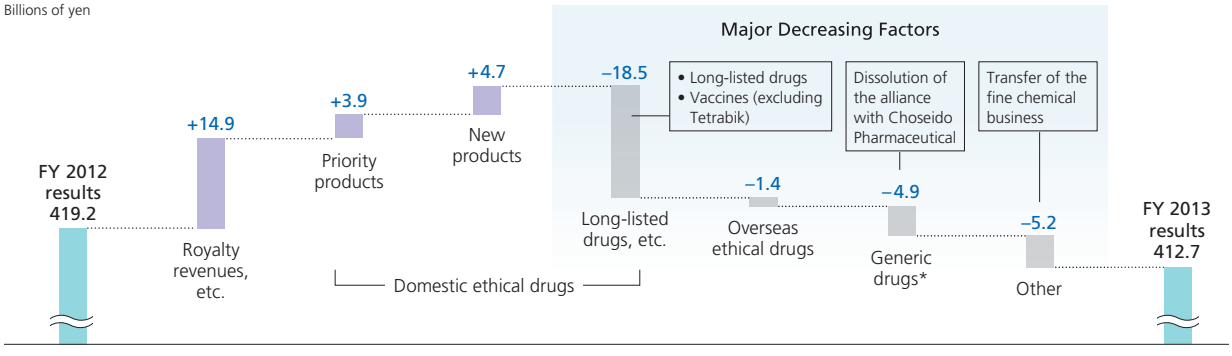
In domestic sales of ethical drugs, higher sales were recorded by priority products Remicade, Maintate, and Kremezin. Including Talion, sales of four priority products were up ¥3.9 billion year on year. In addition, in new products, sales of Telavic, a treatment agent for chronic hepatitis C, declined due to the influence of competing products, and Tenelia, a treatment agent for type 2 diabetes mellitus, did not achieve full-scale growth in sales. However, steady sales growth was recorded by Simponi, a rheumatoid arthritis (RA) treatment agent, and Lexapro, an antidepressant. The sales of the six drugs that have been launched during the period of the Medium-Term Management Plan 11–15 were up by ¥4.7 billion.

Nonetheless, we registered a substantial drop in sales of long-listed drugs, other than priority products, due to the growing influence of generics. Consequently, domestic sales of ethical drugs were down 4.2%, to ¥341.7 billion, and this decline was recorded despite the fact that there was no NHI drug price revision in the year under review. Sales were also affected by the dissolution of our alliance in the generic drug business with Choseido Pharmaceutical and the transfer our fine chemical operations. For fiscal 2013, net sales declined 1.6%, to ¥412.7 billion.

In addition to the decline in net sales, after the integration of plasma fractionation operations, plasma fractionation products changed from an in-house product to a product that is procured from another company. There was also a change in product mix and an inventory write-down. As a result, cost of sales rose ¥3.0 billion, and operating income declined 14.3%, to ¥59.1 billion. In extraordinary income, profit on arbitration award[1] for Remicade was ¥11.0 billion, and net income was up 8.4%, to ¥45.4 billion. This represents the sixth consecutive year of higher profit since the management integration. We exceeded expectations in certain areas, such as the increase in royalty revenues, but domestic sales of ethical drugs were much lower than expected, and our financial results were not satisfactory.

1. In January 2009, in regard to a dispute with Janssen Biotech, of the U.S., the licensor of Remicade, the Company submitted a request for arbitration to the International Chamber of Commerce (ICC) requesting a revision in the supply price in accordance with the development and distribution agreement, and an arbitration decision awarding a reduction in the supply price was received. In accordance with this arbitration decision, the Company received approximately $117 million as an adjustment to the supply price for previous years (April 2008 to March 2013), which was recorded as extraordinary income in fiscal 2013.

FACTORS INCREASING OR DECREASING NET SALES (YOY)



* Sales of Tanabe Seiyaku Hanbai's products, which are composed of generic drugs and the long-listed drugs that were transferred from the Company

Q2

Would you discuss the background to the revision of the numerical objectives for the current medium-term management plan at the time when the results for fiscal 2013 were announced?

There are some areas in which our results have met or exceeded the planned levels, but more importantly the competitive environment in the domestic ethical drugs business, which is the foundation of our revenues, has become extremely challenging.

At the time of the announcement of the plan, our numerical objectives for fiscal 2015—the plan's final year—were net sales of ¥500.0 billion and operating income of ¥100.0 billion. We revised these objectives to net sales of ¥410.0 billion and operating income of ¥65.0 billion.

Looking back at our initiatives in the three years that comprised the first half of the plan, in Japan we were able to launch new products in line with the plan. Simponi has made favorable progress, with combined sales of Simponi and Remicade exceeding ¥100.0 billion on an NHI drug price basis. In addition, royalty revenues from drugs out-licensed overseas have grown into a pillar of revenues, and Gilenya, which is the driver of that growth, is expected to record further growth in the future. Moreover, Invokana, the SGLT2 inhibitor that was launched in the U.S. in 2013, has gotten off to a better start than anticipated, and we expect that it will become a major drug.

In this way, we have had some areas in which progress either met or exceeded the original plan, but more importantly the competitive environment in the domestic ethical drugs business, which is the foundation of our revenues, has become extremely challenging. Long-listed products have had an especially significant influence. The impact of generics has increased rapidly. The NHI drug price revisions implemented in April 2014 have further promoted substitutions for generics, and the competitive environment is expected to intensify further. In new products, we made favorable progress up to the launch stage, but Tenelia and Lexapro have faced challenging conditions after the start of sales, and we were unable to secure a superior position for Telavic in comparison with competing products.

Furthermore, we have not yet achieved growth in the generic drug business or in overseas operations. In addition, other factors include our strategic business reorganization initiatives, such as the transfer of the fine chemical business, and the dissolution of our alliance in the generic drug business. As a result of these various issues, we revised our numerical objectives.

FISCAL 2015 NUMERICAL MANAGEMENT OBJECTIVES

	FY 2011	FY 2013	FY 2015 Objectives
Net sales	¥407.2 billion	¥412.7 billion	¥410.0 billion
Operating income	¥69.0 billion	¥59.1 billion	¥65.0 billion
R&D expenses	¥70.2 billion	¥70.4 billion	¥80.0 billion
Overseas sales ratio*	7.0%	14.4%	15% or more

* On an operating income basis, we are aiming for an overseas sales ratio of 40% in fiscal 2015.

Q3

In consideration of the revision of the numerical objectives, what will be the Company's focus in the remaining two years of the plan?

It will be important to achieve a recovery in the domestic ethical drugs business. We will strive to combine the knowledge of all of the Company's departments and achieve a tangible outcome.

The key will be a recovery in the domestic ethical drugs business. We will work to maintain and expand sales of the following priority products. To that end, first it will be important to ensure that new products are on track for full-scale growth. In particular, Tenelia, which represents our entry into the diabetes field, is facing challenging conditions, but we will step up our aggressive initiatives going forward.

To this point, we have leveraged our strengths in specialized fields where the number of patients is comparatively small. However, diabetes is a field with many patients, and the number of health care professionals writing prescriptions is substantially higher than in other fields. Furthermore, Tenelia was launched as the fifth DPP-4 inhibitor in Japan, and we are facing an intensely competitive environment unlike any we have experienced in the past.

We anticipated this situation, and in 2012 concluded a joint sales agreement with Daiichi Sankyo. In this way, we established a flexible cooperative sales system that will leverage one of the largest sales forces in Japan in the field of diabetes.

In September 2013, limits on the prescription period for Tenelia were removed, and in December 2013 approval was received for a partial change in indication related to its use in combination therapy, making it possible to use Tenelia in combination with all oral diabetes mellitus treatment agents and insulin. In this way, we are starting to see favorable changes in the situation for Tenelia. It has achieved the No. 1 share among patients switching from other drugs, and is closing the gap with the leading original drug among new patients. We expect it to start to record sales growth in fiscal 2014, and will take steps to support substantial growth in sales. In addition, we expect to start sales of SGLT2 inhibitor Canaglu (development code: TA-7284) in the first half of fiscal 2014. With these two drugs—Tenelia and Canaglu—we will provide new treatment options for diabetes and rapidly establish our position in the diabetes field.

In the antidepressant market, Lexapro also faces intense competition, and its adoption has been slower than expected. However, Lexapro is a selective serotonin reuptake inhibitor (SSRI), which are widely used around the world, and it has extremely high product appeal as well as abundant evidence. If we focus on these points, Lexapro has the potential to secure the No. 1 position in the antidepressant market. We are starting to see the results of joint sales initiatives with Mochida Pharmaceutical and joint promotion initiatives with Group member Yoshitomiyakuhin. Aiming to achieve the No. 1 share in the SSRI market, we will strive to achieve a market share of 20% in fiscal 2014.

Also, due to NHI drug price revisions, the combined sales of Remicade and Simponi are expected to fall below ¥100.0 billion in fiscal 2014 on an NHI drug price basis, but we will strive to once again achieve the level of ¥100.0 billion in the future.

Another urgent challenge for the Company is the maintenance of revenues from long-listed products, other than priority products. To that end, I believe we will need to conduct continued efficient promotional activities and to establish a marketing system that can respond flexibly to changes in medicine-related government policies, such as the pricing premium for prescriptions written with generic drug names.

Initiatives targeting the recovery of our domestic ethical drugs business will require marketing capabilities, which will of course center on our MRs. In addition, we will strive to combine the knowledge of all of the Company's departments and achieve a tangible outcome.

Moreover, we will actively advance the Structural Reform Project that we began in fiscal 2013, and will strive to achieve cost reductions of about ¥10.0 billion by the end of fiscal 2016. Of this total, revisions to our purchasing systems and Companywide administrative processes will account for about 60%, and the remaining 40% will result from the reevaluation of organizational systems and businesses.

By steadily generating results from each of these initiatives, we will strive to achieve our numerical objectives.

PRIORITY PRODUCTS

New Products	Vaccines	Existing Products
Simponi	Tetrabik	Remicade
Lexapro	Varicella vaccine	Maintate
Tenelia		Talion
Imusera		Kremezin
Canaglu		

Q4

Would you comment on the direction of product strategies, centered on priority disease areas?

Development will be accelerated in four priority disease areas—diabetes and kidney diseases, autoimmune diseases, and central nervous system diseases, as well as the newly added vaccines.

We will continue to focus our R&D resources on these priority disease areas. Mitsubishi Tanabe Pharma has selected these areas based on such factors as where market growth is expected and where the Company has a powerful product lineup. Leveraging the know-how acquired through product development and marketing, we will strive to develop new drugs that address unmet medical needs[2], launch them quickly, and foster their rapid uptake in the market after launch. We will accelerate development in four priority disease areas—the original areas of diabetes and kidney diseases, autoimmune diseases, and central nervous system diseases, as well as the newly added area of vaccines.

With interest in preventive medicine increasing, the vaccine market is expected to record growth in the future. Some vaccines that are used in medical treatment have been developed, and vaccines are a promising field. We also market vaccines developed and manufactured by BIKEN, and have secured a position of leadership in vaccines in Japan. In September 2013, we acquired Medicago, of Canada, a biopharmaceutical company specializing in research into new vaccines using plant-based virus-like particles (VLPs). Through the use of this superior original technology, we will strive to create new vaccines that can be developed around the world.

In diabetes and kidney diseases, we are moving ahead with the development of TA-7284 (indication: type 2 diabetes mellitus) and MT-3995 (indication: diabetic nephropathy). As I mentioned, we expect to launch TA-7284 in the first half of fiscal 2014, and moving forward we will pursue the development of fixed-dose combination with Tenelia. In autoimmune diseases and central nervous diseases, we are advancing development of MT-1303 (indications: multiple sclerosis, etc.), a successor to Imusera / Gilenya; MP-214 (indication: schizophrenia), and MT-4666 (indication: dementia of Alzheimer's type). In vaccines, through the acquisition of Medicago, we added plant-based vaccines to our product lineup. Furthermore, MT-2301 (Hib vaccine), which we in-licensed from Nuron Biotech, of the U.S., started phase 2 clinical trials in May 2014.

Under the current plan, our targets are to launch 10 new products and advance eight compounds to late-stage development

PRIORITY DISEASE AREAS

	Drugs in development	
Autoimmune diseases	MT-1303	Multiple sclerosis, psoriasis; other autoimmune diseases
Diabetes and kidney diseases	TA-7284	Type 2 diabetes mellitus
	MT-3995	Diabetic nephropathy
Central nervous system diseases	MP-214	Schizophrenia
	MT-4666	Dementia of Alzheimer's type
Vaccines	Plant-based VLP vaccines	Prophylaxis of influenza

by fiscal 2015, the final year of the plan. As of May 8, 2014, we had launched seven products and advanced four compounds to late-stage development. Moreover, targeting the establishment of a system that can discover three compounds each year that start new clinical trials, we will take steps to further strengthen our drug discovery foundation.

In the future, I think that discovery research will likely expand from low-molecular compounds to high-molecular compounds and then to cells. If we limit ourselves to low-molecular compounds, I believe that it will be difficult to continue to discover new drugs that address unmet medical needs. After biologics[3], the Company will take steps to strengthen its technology platform with the addition of other capabilities, and Medicago's plant-based VLP technologies are one example of these types of capabilities. Moving forward, we will take steps to further enhance our development pipeline while utilizing alliances with other pharmaceutical companies, academic institutions, and venture companies as well as collaboration with the Mitsubishi Chemical Holdings (MCHC) Group.

2. Unmet medical needs: Medical needs that are not addressed adequately by existing therapies.
3. 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.

For further information about the acquisition of Medicago, please refer to "Drug Discovery Stage." P40

Q5

I think the remaining two years of the current medium-term management plan will likely be a period of preparation for the next plan. Would you discuss your thoughts about the issues that the Company will face as it focuses on growth over the medium to long term?

Key issues will be reforms in the areas of organizations and activities, domestic sales, and R&D. If we do not push initiatives in these three areas through to completion, the Company will not be able to achieve sustained growth.

There are three major things that we need to do. First, we need to reform our organizations and activities. Second, we need to reform our domestic sales. And third, we need to reform our R&D. In terms of timing, we will implement the reforms in the order listed. This is also in order of increasing difficulty, but we will need to push these reforms through to completion if Mitsubishi Tanabe Pharma is to be able to record sustained growth. We will secure resources through the first and second areas of reforms, and will then invest those resources in the third area of reforms.

In the first area of reforms, the central role will be played by the Structural Reform Project, which I explained previously. We will reevaluate administrative processes, reform purchasing, reevaluate personnel systems, optimize organizations and workforces, and further reevaluate low-profit businesses. In this process of reform, there will be nothing that is off limits. Also, the cost reduction effects of the various business and structural reform initiatives that we implement under the current medium-term management plan, such as business restructuring and the consolidation of manufacturing bases, will become apparent in the future. As rapidly as possible, we will strive to secure resources from successful cost cutting initiatives and reinvest them to the greatest extent possible.

In the second area of reforms, we will take steps to enhance our domestic sales capabilities so that we can succeed against the competition. On a base of information provision activities intended to promote the appropriate use of drugs, we will leverage the distinct appeal of our products to differentiate them from competing products. To that end, I think it will be necessary to reevaluate our previous approach to marketing from the ground up. Due to repeated launches of new products, our MRs, who work on the frontlines of the Company's marketing, are facing an environment that is more competitive than any they have experienced before. In addition, joint sales initiatives with other pharmaceutical companies have provided an opportunity for our MRs to experience approaches to marketing that are different from our own. I expect these factors to become the key to reforms.

In the third area of reforms, R&D, we will start by reconfirming with frontline personnel the issues that we now face. Then, we will enhance our market insight and shift from a seeds-driven approach to a needs-driven approach. To gain acceptance for our products in the market, two things are essential. The first is new value that is clearly differentiated from the patient's point of view, and the second is economic value that surpasses that of existing treatments. We need to understand the entire patient care cycle, not only medical treatment but also such aspects as convalescence and nursing. We also need to be aware from the discovery research stage what kind of value we want to provide. As with marketing, we need to reevaluate our previous approach from the ground up.

In other words, we need to start not from the use of screening to identify compounds that are candidates to become new drugs but from the search for true medical needs. Accordingly, we will continue to utilize alliances, including with other companies and academic institutions, without limiting ourselves to past methods of doing things. In this way, from the discovery research stage we will be able to consider if we can create value that is clearly differentiated from the patient's point of view and economic value that surpasses that of existing treatments. This will facilitate the realization of more effective and more efficient R&D.

Also, in regard to work that has not been completed under the current medium-term management plan, we have not yet developed clear plans for overseas business, centered on the U.S., and for the domestic generic drug business. We will tackle these issues as quickly as possible.

For the implementation of these reforms with a sense of speed, we have decided on the key word "Move" for fiscal 2014. We will use Move in the sense of the activities of all employees and in the sense of Company policies. In this way, we will make great strides in moving forward.

Q6

Finally, would you discuss the Company's relationship with its stakeholders? Please explain the relationship with shareholders and investors as well as the Company's policy for the return of profits.

We will meet the expectations of shareholders by implementing reforms to become a research-driven pharmaceutical company that works with a sense of speed and is the first to deliver original value and by striving to achieve sustained growth.

The core of Mitsubishi Tanabe Pharma's operations are expressed in the corporate philosophy—"We contribute to the healthier lives of people around the world through the creation of pharmaceuticals." In our relationship with stakeholders, the most important thing for the Company is to discover drugs that address unmet medical needs and to provide them to patients around the world, together with accurate information based on global evidence. I believe this is a social responsibility that we must fulfill. In addition, as part of the MCHC Group, we will work to support the realization of *KAITEKI*[4] and contribute to the future of society and the earth. As the core health care company in the MCHC Group, Mitsubishi Tanabe Pharma will contribute to patients, to the development of society, and to the realization of *KAITEKI* through the creation of value in the form of pharmaceuticals.

In addition, to deepen our relationship with stakeholders, we are conducting social contribution activities, centered on initiatives that are related to our business activities, such as aid for R&D activities related to the treatment of disease; support for patients' organizations; and initiatives to support the communities where we have worksites.

Targeting management with a focus on transparency and fairness, we will take steps to further bolster compliance. Pharmaceuticals have a direct effect on the lives of patients and are controlled under a variety of legal systems. It is important that we conduct our business activities in consideration of the spirit of the law rather than simply complying with the letter of the law. We will ensure that our business activities reflect the lessons that we have learned from the Medway and quality control problems. We will also continue working to strengthen corporate governance. To enhance management transparency and objectivity and to strengthen the Board of Directors' oversight function, outside directors were appointed in 2011. The Company receives straightforward opinions from the two outside directors, which further contributes to active discussions.

We recognize shareholder return as one of our most important issues. The Company's basic policy for the return of profits calls for providing a stable, ongoing return to shareholders while striving to maximize enterprise value by aggressively investing in future growth. Under the current medium-term management plan, we will strive to increase the return of profits to shareholders through growth in profits as well as through an increase in the consolidated dividend payout ratio to 50% (40% prior to amortization of goodwill). In consideration of our results in fiscal 2013, we have set dividends at ¥40 per share, the same as in the previous year. Under the current medium-term management plan, this represents an increase of ¥12 per share over the past three years, from ¥28 per share. The dividend payout ratio was 49.4%.

In fiscal 2014, the NHI drug price revisions will have an effect of about ¥29.0 billion on sales, and our forecasts call for a decline in net sales, as described below, but an increase in operating income. We are planning annual dividends of ¥40 per share, the same as in fiscal 2013, with a dividend payout ratio of 55.4%. Moving forward, we will continue working to enhance our return of profits to shareholders, with consideration for the Company's results.

At this point, Mitsubishi Tanabe Pharma faces an extremely challenging operating environment. To make it through this crisis, we are taking on the challenge of implementing reforms to build a strong and robust corporate constitution that can succeed in our dramatically changing operating environment and to become a research-driven pharmaceutical company that works with a sense of speed and is the first to deliver original value to patients, health care professionals, and other stakeholders. Of course, this is not something that I can accomplish on my own. It is essential that we continue to develop the type of core employees who can lead others, generate results, and make sustained efforts. Accordingly, I will take the lead and work together with employees to drive further progress in our reforms. We will do our utmost to meet the expectations of our stakeholders by implementing reforms and achieving sustained growth.

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

FORECASTS FOR FISCAL 2014 (Announced on May 8, 2014)

	FY 2013	FY 2014 (forecast)	Change
Net sales	¥412.7 billion	¥409.0 billion	– 0.9%
Operating income	¥59.1 billion	¥60.0 billion	+1.5%
Net income	¥45.4 billion	¥40.5 billion	– 10.8%

Drug Discovery Stage

Basic Policy at the Drug Discovery Stage

Aiming to be a pharmaceutical company that continually provides new drugs to address unmet medical needs[1] around the world, Mitsubishi Tanabe Pharma has positioned "Bolstering Our Ability to Discover New Drugs" as one of the strategic challenges under the Medium-Term Management Plan 11–15. We are now advancing R&D activities in Japan and overseas in accordance with this strategic challenge. Our targets are to launch 10 new products and advance eight projects to late-stage development by fiscal 2015, the final year of the plan. Furthermore, we have set a target of establishing a system that can discover three compounds each year that start new clinical trials, and to that end we are working to strengthen our development pipeline.

TARGETS OF MEDIUM-TERM MANAGEMENT PLAN 11–15

Newly launched drugs		Projects in late-stage development	
Target	10	Target	8
Actual	7	Actual	4
As of May 8, 2014		As of May 8, 2014	

Working toward the achievement of these targets, we are striving to strengthen our in-house foundation for the discovery process and aggressively taking steps to utilize external resources, such as cooperative ventures with other companies and the in-licensing of products and technologies.

1. Unmet medical needs: Medical needs that are not addressed adequately by existing therapies.

Nurturing Drugs in Priority Disease Areas

Mitsubishi Tanabe Pharma is striving to implement effective, efficient R&D activities by establishing priority disease areas and focusing the allocation of management resources on key R&D projects. Under the current plan, the Company's original group of priority disease areas comprised autoimmune diseases, diabetes and kidney diseases, and central nervous system diseases, and now vaccines have been added to the original group. In vaccines, we have one of the largest franchises in Japan through our cooperative relationship of many years with BIKEN. Furthermore, in September 2013 we acquired Medicago, of Canada, which has new technologies for the manufacture of vaccines.

In these priority disease areas, pharmaceuticals make a strong contribution to treatment and the markets have growth potential. Moreover, we have already established strong market foundations in these areas through the sale of existing drugs. We have also accumulated know-how through our R&D and marketing activities. Consequently, we expect to be able to rapidly launch new drugs and achieve quick market uptake after launch.

Working to Achieve POC More Rapidly

In new drug R&D activities, our basic policy is to conduct development in-house until POC[2] is acquired. The probability of success in new drug development continues to decline, but that probability rises substantially after acquisition of POC. The acquisition of POC also increases the possibility of alliances with other companies, such as out-licensing arrangements. Consequently, the rapid acquisition of POC is the most important step in maximizing the value of a new drug.

To that end, smooth cooperation among organizational units is essential. Through organizational restructuring and other means, Mitsubishi Tanabe Pharma has created a framework in which the Research Division handles discovery research and the Development Division handles clinical development, with the two divisions cooperating from late-stage pre-clinical trials. Furthermore, cooperation with the CMC Division, which handles CMC research[3], has been strengthened, ensuring a smooth transition from pre-clinical trials to clinical trials. In this way, we are aiming to acquire POC more rapidly.

2. Proof of Concept: Confirmation that the mechanism is effective and safe in humans.
3. 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.

NEW DRUGS IN DEVELOPMENT IN THE PRIORITY DISEASE AREAS

	Drugs in development			Marketing products	
Autoimmune diseases	MT-1303	Multiple sclerosis, psoriasis; other autoimmune diseases	→	Remicade	Rheumatoid arthritis, inflammatory bowel disease, psoriasis, etc.
				Simponi	Rheumatoid arthritis
				Imusera	Multiple sclerosis
Diabetes and kidney diseases	TA-7284	Type 2 diabetes mellitus	→	Tenelia	Type 2 diabetes mellitus
				Tanatril	Diabetic nephropathy, etc.
	MT-3995	Diabetic nephropathy		Kremezin	Chronic kidney disease
				BindRen	Hyperphosphatemia
Central nervous system diseases	MP-214	Schizophrenia	→	Lexapro	Depression
	MT-4666	Dementia of Alzheimer's type			
Vaccines	Plant-based VLP vaccines	Prophylaxis of influenza	→	Tetrabik, influenza vaccine, etc.	

For further information, please refer to "Progress with Our Pipeline." P46

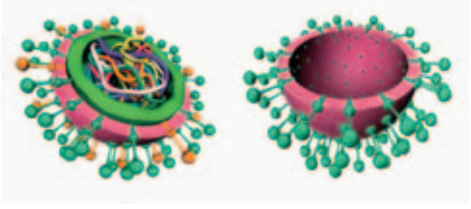
Aiming to Create New Vaccines

In September 2013, we acquired Medicago, of Canada, together with Philip Morris Investments, an affiliate of Philip Morris International. Medicago is a biopharmaceutical company specializing in research into new vaccines using plant-based virus-like particles (VLPs). Medicago has proprietary technology for the manufacture of VLPs through the manipulation of genetic material in plant cells and for the efficient extraction and refining of those VLPs.

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 these vaccines are expected to offer high levels of safety. In 2012, Mitsubishi Tanabe Pharma and Medicago concluded an agreement for joint research into new vaccines using VLP technology. Through this joint research, the two companies strengthened their collaborative relationship and Mitsubishi Tanabe Pharma determined that VLP technology was a valuable technology that could be used to efficiently manufacture a wide range of vaccines, and the Company decided to move ahead with the acquisition. Through the use of this superior VLP technology, we will strive to create new vaccines that can be developed around the world.

Medicago's office building

Interior view



Influenza virus　　VLP vaccine

Utilizing Outside Resources

Collaboration in Discovery Research

In the identification of promising discovery targets, we are engaging in cooperative initiatives involving academic institutions in addition to in-house discovery research. Furthermore, we are actively introducing products and discovery technologies in order to reinforce one of our strengths—our compound optimization capabilities from venture companies. In these ways, with a focus on priority disease areas, we are working to continually strengthen our development pipeline by utilizing external resources through alliances. The field of biologics[4] research has had a growing presence in pharmaceutical markets in recent years. In this field, rather than conduct research on our own, we need to implement research in collaboration with pharmaceutical companies that have special strengths in biologics research and to introduce new technologies.

Specifically, Tanabe Research Laboratories U.S.A. (TRL), our research base in the U.S., is conducting research in collaboration with Covagen, of Switzerland, related to the discovery of bispecific proteins using Covagen's proprietary Fynomer-antibody platform. Unlike typical therapeutic antibodies, which bind to only one type of antigen, bispecific proteins are expected to be next-generation therapeutic antibodies that bind to multiple antigens. Plans call for their use in such areas as the development treatment agents in the field of inflammatory autoimmune diseases.

In vaccines, which we have newly designated as a priority disease area, we are working to create new vaccines, centered on our cooperative relationship with BIKEN. We are also trying to introduce competitive new vaccines and vaccine technologies. In May 2014, phase 2 clinical trials were started for the Hib[5] vaccine that we in-licensed from Nuron Biotech, of the U.S., in 2012. We have also been conducting collaborative research into new vaccines with Medicago since 2012. As described previously, we acquired Medicago in September 2013, and are aiming to develop new vaccines using plant-based VLP technology.

4. 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.
5. Haemophilus influenzae type b

Cooperative Ventures in Clinical Development

We are enhancing our development pipeline through the aggressive in-licensing of promising drug candidates. At the same time, we are also actively out-licensing drug candidates as one effective means of maximizing the value of drugs that we have discovered in-house.

Out-licensed products contribute to our performance through royalty revenues that are received in accordance with the contract with the licensee. In 1997 we licensed[6] FTY720 (indication: multiple sclerosis) to Novartis, of Switzerland, and in 2010 it was launched in the U.S. under the name Gilenya. The royalty revenues have increased, reaching ¥32.2 billion in fiscal 2013. These revenues are driving our growth and have become a pillar of our earnings.

6. Exclusive development and sales rights worldwide, except for Japan

For further information about the out-licensing of drug candidates, please refer to "Close Up: Initiatives to Maximize Product Value and Generate Royalty Revenues." P44

Bolstering the Capabilities of Our Bases

When Mitsubishi Tanabe Pharma was established in 2007, the Company had five discovery research bases in Japan. We subsequently made steady progress in the consolidation of functions, and were able to consolidate discovery research in three bases—the Yokohama Office, the Toda Office, and the Kazusa Office. We took steps to restructure and bolster each function, such as transferring discovery chemistry functions to the Yokohama Office and the Toda Office. In this way, we have increased the speed and efficiency of the discovery research process. In addition, to strengthen discovery research in the field of biologics, we consolidated the Advanced Medical Research Laboratories, which had been dispersed over three bases, into the Yokohama Office and the Toda Office. In addition, we transferred certain functions to the Safety Research Laboratories and the CMC Division.

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, and facilities at the Kashima Office have been bolstered to increase the production capacity for pharmaceutical ingredients. We are now considering the implementation of further measures at the Kashima Office to reinforce manufacturing of the investigational drugs used in clinical trials.

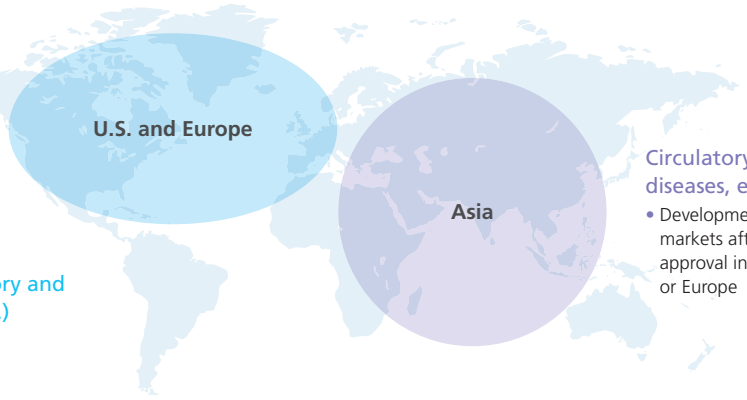
In addition, overseas, Tanabe Research Laboratories U.S.A. (TRL), our research base in the U.S., shifted its research focus from low-molecular compounds to biologics. As a result, TRL is now a discovery research facility specializing in biologics. Moreover, MP Healthcare Venture Management, which handles the Group's corporate venture function in the research field, has shifted the focus of its investment to companies with a promising development pipeline and technologies. To speed up decision-making even further, in 2013 we made MP Healthcare Venture Management a wholly owned subsidiary.

Enhancing Our Global Development System

Through a global development system that has bases in the U.S., Europe, and Asia, we are advancing the development of drugs that meet the needs of each market.

In the U.S. and Europe, the Group is aiming to develop innovative and highly cost-competitive products that respond to unmet medical needs. To advance development in these markets, we will

AREA STRATEGY



Kidney diseases, orphan diseases
- Late-stage development in-house
- Marketing of products that can be sold through in-house marketing system

Other products (circulatory and metabolism diseases, etc.)
- After establishment of POC, use of alliances to rapidly maximize product value

Circulatory and metabolism diseases, etc.
- Development in emerging markets after acquisition of approval in Japan, the U.S., or Europe

work in-house to acquire POC as rapidly as possible, and with consideration for our in-house sales system, we will consider alliances with other companies to quickly launch products and to maximize product value.

In Asia, in line with the needs in each market, we will work to quickly launch products that have been approved in Japan, the U.S., or Europe.

Moreover, we are utilizing a project system for the promotion of global development under which drugs in development with the same active ingredients will, in principle, be handled by the same project leader, regardless of where clinical trials are 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, through the management of projects by active ingredient, we can utilize clinical trial data that transcends national boundaries and increase speed and efficiency in global development.

Consideration for Ethics at the Drug Discovery Stage

Initiatives in Discovery Research

In recent years, research using human tissue and cells provided by patients is increasingly important to gain a better understanding of the pathology of diseases and more accurately predict the efficacy and safety of new drugs. In addition, 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 the Ethics Review Committee, which includes outside members to promote objectivity, impartiality, and transparency. In addition, the committee carefully considers the ethics and scientific validity of research plans. Furthermore, we post the regulations of the Ethics Review Committee and summaries of its proceedings on the Ministry of Health, Labour and Welfare's clinical research ethics committee reporting system and on our website. For testing using animals, the Animal Experiment Committee deliberates the validity of testing plans based on international standards for animal testing, and tests are conducted with consideration for animal welfare.

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), which were formulated in accordance with the spirit of the Declaration of Helsinki. All participants give their voluntary informed consent. In implementing clinical trials, 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. Before a trial begins, the committee confirms its ethical and scientific validity.

Close Up

Initiatives to Maximize Product Value and Generate Royalty Revenues

Gilenya, a treatment agent for multiple sclerosis (MS), has grown into a blockbuster drug in just two years after its launch. This drug was discovered by Mitsubishi Tanabe Pharma, which licensed it overseas to Novartis, of Switzerland. Gilenya royalty revenues have now become a pillar of the Company's earnings. This section will explain Mitsubishi Tanabe Pharma's initiatives to maximize product value, with a focus on royalty revenues.

Gilenya: A Treatment Agent for MS that is Contributing to Patients Around the World

Gilenya has been approved in more than 80 countries and has been prescribed to more than 100,000 patients. In just two years after its launch, it has recorded substantial growth and reached blockbuster status, with annual worldwide sales of more than $1.0 billion.

The number of people with MS is estimated at more than 2.5 million worldwide, but previously all of the treatments, such as interferon, were injections, and there was a high level of unmet medical needs. In this setting, Gilenya was approved in the U.S. in 2010 as the world's first oral MS agent, and sales began. It was subsequently approved and launched in Europe. The distinctive features of Gilenya include a high level of effectiveness and a reduced psychological and physical burden on patients who self-administer injections under existing treatments. Those features have been highly evaluated, and Gilenya's market uptake has made rapid progress.

Imusera, an MS treatment agent
Sold overseas by licensee Novartis under the name Gilenya

Quickly Out-Licensing Overseas to Maximize Product Value

Gilenya was discovered by Mitsubishi Tanabe Pharma, and we licensed it overseas to Novartis in 1997, with Novartis receiving exclusive development and sales rights worldwide, except for Japan. Novartis has developed Gilenya overseas[1]. To maximize the value of Gilenya (development code: FTY720), rather than develop it ourselves we decided it was appropriate to out-license it to a global company.

There are a large number of MS patients in the U.S. and Europe, and if we handled everything from development to sales in-house, clinical development would likely have required tremendous amounts of time and financial resources. In addition, we do not have an adequate in-house sales organization in Europe or the U.S. To rapidly provide this product to patients around the world, it was essential that we collaborate with a global company.

On the other hand, in Japan we conducted joint development with Novartis Pharma, of Japan. By using the evidence obtained through clinical trials conducted overseas by Novartis, we were able to reduce the time required until approval. We launched the product in 2011 under the name Imusera, and since that time it has had favorable uptake in the domestic market.

In this way, Gilenya is one example of success in maximizing the value of a product through collaboration with a global company.

1. Clinical trials for MS commenced in 2003.

Multiple Sclerosis ····· MS is an autoimmune disease that results in lesions on nerve cells, such as on the brain and spinal cord. Its cause is unknown, and its range of symptoms includes numbness and other sensory disturbance, motor disturbance, visual disturbance, and fatigue. If the disease progresses, the arms and limbs may be affected and the use of a wheelchair may be unavoidable in daily activities.

Favorable Progress with Major Products that Will Join Gilenya

With out-licensed products, the Company obtains earnings through royalty revenues in accordance with the contract with the licensee. In fiscal 2013, Gilenya royalty revenues increased to ¥32.2 billion.

Currently, the development of multiple out-licensed products is proceeding around the world. In particular, we have high expectations for TA-7284, a type 2 diabetes mellitus treatment agent discovered in-house. The number of diabetes patients has been estimated at 382 million worldwide[2], and there are an extremely large number of clinical trials for diabetes. Moreover, it is difficult to establish an adequate sales organization overseas. Consequently, as with Gilenya, we decided to out-license TA-7284 overseas to a global company. In 2000, we licensed it to Janssen Pharmaceuticals, of the U.S., granting exclusive development and sales rights worldwide, except for Japan and Asia. Janssen Pharmaceuticals is proceeding with development overseas, and in 2013 it received approval of an indication for type 2 diabetes mellitus in the U.S. As the first SGLT2 inhibitor in the U.S., sales began under the name Invokana. In the same year, TA-7284 was also approved in Europe.

SGLT2 inhibitors reduce blood sugar through an entirely different mechanism from other diabetes treatment agents. In addition, SGLT2 inhibitors do not have problems associated with existing diabetes treatments, such as hypoglycemia, and they also contribute to weight loss. Health care professionals and patients have high expectations for SGLT2 inhibitors as a new choice in diabetes treatment, and TA-7284 is expected to grow into a blockbuster drug. In addition, the Company is advancing development in Japan, and approval was received in July 2014 for an indication of type 2 diabetes mellitus. We expect to start sales in the first half of the fiscal year.

2. Source: Diabetes Net

Royalty Revenues are Growing into a Pillar of Earnings

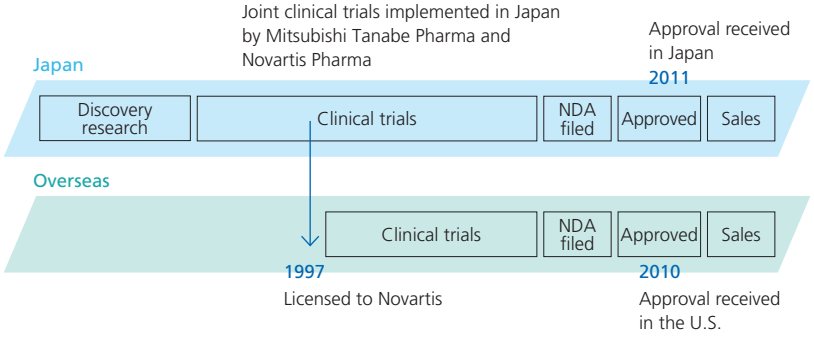
Total royalty revenues in fiscal 2013 were ¥37.6 billion, and they have grown into a pillar of our earnings. At the same time, these revenues are driving growth in overseas sales and are playing an important role in our progress toward being a global research-driven pharmaceutical company.

In addition, TA-1790, a treatment agent for ED, was launched in South Korea in October 2011 by licensee JW Pharma (South Korea) under the product name Zepeed. Licensee Vivus, of the U.S., acquired approval in the U.S. in 2012 and in Europe in 2013. It was launched in the U.S. in March 2013 under the product name Stendra and in Europe in March 2014 under the product name Spedra.

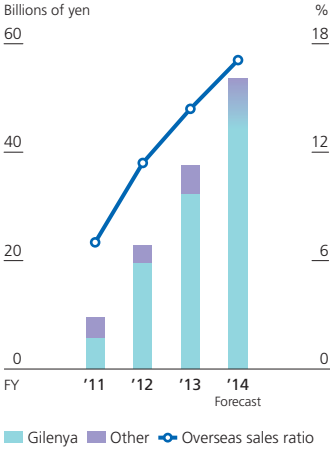
In the future, Mitsubishi Tanabe Pharma will advance development through the optimal method for maximizing the value of each product, with a focus on each product's distinctive characteristics. In this way, we will strive to be a pharmaceutical company that continually provides new drugs to patients around the world.

DEVELOPMENT OF GILENYA / IMUSERA

MS treatment agent discovered by Mitsubishi Tanabe Pharma
Licensed to Novartis in 1997 and launched in the U.S. in 2010



ROYALTY REVENUES, ETC.



Progress with Our Pipeline

PROGRESS IN MAJOR DEVELOPMENT PROJECTS

NEW DRUGS

As of May 8, 2014

Development code	Indications	Region	Phase 1	Phase 2	Phase 3	NDA filed
Autoimmune diseases						
MT-1303	Multiple sclerosis (MS), psoriasis; other autoimmune diseases	Europe				
Diabetes and kidney diseases						
TA-7284	Type 2 diabetes mellitus	Japan				13.05[1]
MT-3995	Diabetic nephropathy	Europe				
		Japan				
		US				
Central nervous system diseases						
MP-214	Schizophrenia	Japan				Phase 2b/3
MT-4666	Dementia of Alzheimer's type	Multinational study[2]				
Vaccines						
Influenza vaccine	Prophylaxis of H5N1 influenza	Canada				
Influenza vaccine	Prophylaxis of seasonal influenza	US				Phase 1/2
Influenza vaccine	Prophylaxis of H7N9 influenza	Canada				

1. Approved in July 2014
2. Co-developed with FORUM Pharmaceuticals

In fiscal 2013, the Company made substantial progress with TA-7284, an SGLT2 inhibitor that was discovered in-house. In May 2013, an application was filed in Japan for an indication of type 2 diabetes mellitus. Approval was received in July 2014. Overseas, we licensed TA-7284 to Janssen Pharmaceuticals, of the U.S., which received approval in Europe in November 2013, and also made progress in development as a combination drug with metformin, an oral diabetes treatment agent, and for diabetic nephropathy.

Also, the Company participated in the global clinical trial implemented by FORUM Pharmaceuticals (formerly EnVivo Pharmaceuticals), of the U.S. Phase 3 clinical trials for MT-4666 have been started for Alzheimer's disease. In addition, accompanying the acquisition of Medicago, of Canada, in September 2013, our development pipeline was enhanced with the addition of vaccines that use Medicago's original technology for the manufacture of plant-based VLPs.

For the fiscal year, R&D expenses were ¥70.4 billion, or 17.1% of net sales.

As of May 8, 2014, the status of progress in major development projects was as follows.

Autoimmune Diseases

MT-1303

Indication: MS, psoriasis; other autoimmune diseases

Like MS treatment agent Imusera / Gilenya, MT-1303 is a sphingosine-1-phosphate (S1P) receptor functional antagonist. By controlling lymphocyte exit from lymph nodes, MT-1303 controls the auto-immune response. It is expected to have reduced side effects on the cardiovascular system while having efficacy similar to that of Imusera. It is being developed as a successor to Imusera, and is in phase 2 clinical trials in Europe and Canada for MS. Leveraging the development know-how cultivated in the development of Remicade and Imusera, we are moving ahead with additional development of MT-1303 for other autoimmune diseases. In addition, it is in phase 2 clinical trials in Europe for psoriasis and in phase 1 clinical trials in Japan, Europe, and the U.S. for inflammatory diseases and autoimmune diseases.

Diabetes and Kidney Diseases

TA-7284 (Canagliflozin)

Indication: Type 2 diabetes mellitus

TA-7284 inhibits SGLT2, a transporter that is involved in the reabsorption of glucose in the renal tubules. In this way, glucose is excreted outside the body with urine, and the blood glucose level is lowered. TA-7284 is a type 2 diabetes mellitus treatment agent with a new mechanism of action that does not work through insulin. In addition, it has a weight reduction effect that is not seen with other oral diabetes treatment drugs. Mitsubishi Tanabe Pharma has been conducting development in Japan, where approval was received in July 2014 for type 2 diabetes mellitus. Mitsubishi Tanabe Pharma plans to begin sales under the name Canaglu. Overseas, licensee Janssen Pharmaceuticals received approval for TA-7284 in March 2013, making TA-7284 the first SGLT2 inhibitor approved in the U.S. Janssen Pharmaceuticals has begun sales under the name Invokana. Approval was received in Europe in November 2013 and sales have commenced. Furthermore, in the U.S., Janssen Pharmaceuticals began phase 3 clinical trials for diabetic nephropathy and fixed dose combination with metformin (extended release preparation). In April 2014, Janssen Pharmaceuticals received approval for fixed dose combination with metformin (immediate release preparation) in Europe. The Company participated in a multinational study for diabetic nephropathy conducted by Janssen Pharmaceuticals.

MT-3995

Indication: Diabetic nephropathy

MT-3995 is a selective mineralocorticoid receptor antagonist. It inhibits the binding of aldosterone to the mineralocorticoid receptor. As a result, MT-3995 inhibits the increase of protein in the urine. It is expected that its use will then 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. Currently, for diabetic nephropathy it is in phase 2 clinical trials in Japan and Europe and phase 1 clinical trials in the U.S.

Central Nervous System Diseases

MP-214 (Cariprazine)

Indication: Schizophrenia

MP-214 is a dopamine D3 / D2 receptor partial agonist in-licensed from Gedeon Richter, of Hungary. It is a new type of schizophrenia treatment agent that differs from existing agents. In addition to the dopamine D2 receptor, it also acts on the D3 receptor, and consequently it is expected to be effective not only against positive symptoms, such as hallucinations and paranoia, but also against negative symptoms, such as depression and cognitive function disorders. In addition, because side effects like Parkinson's disease are limited, it is expected to be usable for a long period of time. In Europe and the U.S., the licensor Gedeon Richter and Forest Laboratories, of the U.S., are moving ahead with development. In November 2012, Forest Laboratories filed an application in the U.S. for schizophrenia and mania. Currently, it is in phase 2b/3 clinical trials in Japan.

MT-4666

Indication: Dementia of Alzheimer's type

MT-4666, which the Company licensed from FORUM Pharmaceuticals (formerly EnVivo Pharmaceuticals), of the U.S., is an α7nACh receptor agonist. MT-4666 selectively activates the α-7 nicotinic acetylcholine receptors, which are located mainly in the cerebral cortex and the hippocampus and play a significant role in cognitive function. It improves cognitive function by activating acetylcholine and glutamic acid signal transmission. MT-4666 is expected to lessen side effects, such as nausea and vomiting, that are seen with existing acetylcholinesterase inhibitors, and accordingly is expected to be used in combination with those drugs. It acts not only on presynaptic receptors but also on post-synaptic receptors, and even if symptoms progress and the amount of acetylcholine decreases, its efficacy is expected to be resistant to weakening. In phase 2b clinical trials conducted overseas by FORUM Pharmaceuticals, the licensor, it showed favorable results with cognitive function and clinical symptoms in Alzheimer's disease. It is currently in phase 3 multinational trials conducted by the Company and FORUM Pharmaceuticals for dementia of Alzheimer's type.

Vaccines

Plant-based VLP vaccines

Indications: Prophylaxis of influenza (H5N1), seasonal influenza, and influenza (H7N9)

These vaccines use the plant-based VLP manufacturing technology of Medicago, which the Company acquired in September 2013. 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. Currently, we are implementing a phase 1/2 clinical trial in the U.S. for prevention of seasonal influenza, a phase 2 clinical trial in Canada for prevention of influenza (H5N1), and a phase 1 clinical trial in Canada for prevention of influenza (H7N9).

Post-Marketing Development Stage

Basic Policy at the Post-Marketing Development Stage

At the post-marketing development stage, our initiatives are focused on "Advancing Domestic Operations, Centered on New Drugs," which is one of the strategic challenges in the Medium-Term Management Plan 11–15. We have launched six new drugs under this plan, and in the first half of fiscal 2014 we expect to launch Canaglu (development code: TA-7284), an SGLT2 inhibitor (indication: type 2 diabetes mellitus).

In fiscal 2013, steady gains in sales were recorded by Simponi, a treatment agent for rheumatoid arthritis (RA), and Lexapro, a treatment agent for depression. Tenelia, a treatment agent for type 2 diabetes mellitus, did not record strong, full-scale growth in the year under review, but in September 2013 limits on the prescription period were removed, and in December 2013 Tenelia received approval in Japan for a partial change in indication related to its use in combination therapy, making it possible to use Tenelia in combination with all oral diabetes mellitus treatment agents and insulin. Consequently, we expect Tenelia to record growth in the future.

In addition to these new products, we have positioned Remicade, Talion, Maintate, Kremezin, Imusera, Tetrabik, and our varicella vaccine as our priority products, and are working aggressively to expand their sales. In fiscal 2013, sales of Remicade continued to increase, and sales of Remicade and Simponi combined surpassed ¥100.0 billion on an NHI drug price basis. Maintate and Kremezin also registered higher sales.

In the future, to rapidly maximize the product value of our new drugs and priority products, we will continue to steadily implement alliances with other companies and life-cycle management initiatives. In addition, we will provide the evidence needed for the treatment of patients and steadily work to receive approval of additional indications and formulations. Furthermore, as measures to promote the use of generics accelerate, we will also take steps to maintain revenues and profits of long-listed drugs other than priority products.

Through these initiatives, we will strive to contribute to the treatment of patients and to improving their quality of life (QOL)[1] by providing them with accurate information based on global evidence and with more products that address unmet medical needs[2].

1. Quality of life (QOL): Benchmark that addresses whether patients can enjoy their daily lives with a sense of fulfillment and satisfaction, without a decline in the quality of their daily lifestyles.
2. Unmet medical needs: Medical needs that are not addressed adequately by existing therapies.

For further information, please refer to "Overview of Domestic Core Ethical Drugs and Sales Trends." P56

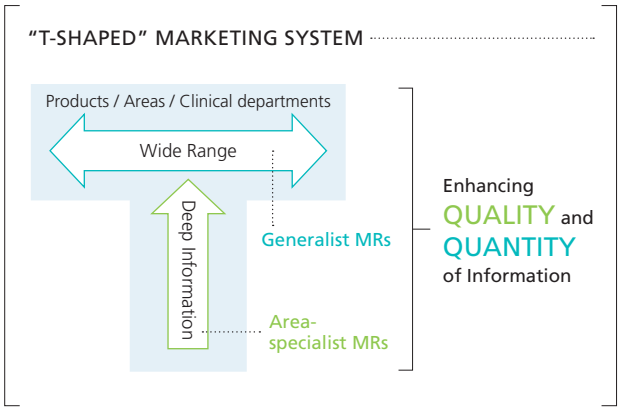
Establishing Information Provision Systems

Building a "T-Shaped" Marketing System

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, differs from the appropriate method then there is a possibility that sufficient effectiveness will not be obtained or 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 medical representatives (MRs).

During the period of the current medium-term management plan, we have launched a large number of new products. To ensure the steady uptake of these new drugs in the market, we have established a "T-shaped" marketing system. Under this information provision system, generalist MRs, who are responsible for a wide range of clinical departments, are supported by area-specialist MRs, who have deep levels of knowledge in specific areas. In this way, we are working to enhance the quality and quantity of the information that we provide. Specifically, the Company's generalist MRs, who are located throughout the country, 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, we accurately provide information about a wide range of products with only a limited number of MRs.

In addition, in our information provision and other promotion activities, we strictly follow the Ethical Pharmaceutical Promotion Code of the Japan Pharmaceutical Manufacturers Association. This code stipulates the manner in which promotions should be conducted and procedural standards for promotions. 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 strive to conduct information provision activities with full consideration for the rights of patients.



Utilizing Alliances

To foster rapid market uptake for new products, we use strategic alliances with pharmaceutical companies that have strengths in specific disease areas. In entering the field of diabetes, in March 2012 we concluded a joint sales agreement with Daiichi Sankyo. In September 2012, we launched Tenelia and began joint sales. In addition, we have also concluded an agreement with Daiichi Sankyo for Canaglu, an SGLT2 inhibitor that is expected to be launched in the first half of fiscal 2014. Based on that agreement, we will leverage one of the largest sales forces in Japan in the field of diabetes and conduct detailed information provision activities.

Moreover, we are conducting joint sales of RA treatment agent Simponi with Janssen Pharmaceutical and joint sales of depression treatment agent Lexapro with Mochida Pharmaceutical. For Lexapro, Mitsubishi Tanabe Pharma and Mochida Pharmaceutical are implementing joint promotional activities with Yoshitomi-yakuhin, a member of the Mitsubishi Tanabe Pharma Group that has strengths in the psychiatric field.

Maintaining Revenues and Profits from Long-Listed Products

The influence of generics is increasing, and the revenues and profits from long-listed products is rapidly declining. Maintaining those revenues and profits is an important challenge for the Company. Long-listed products include many drugs that make a strong contribution to medical treatment, such as highly evaluated drugs that have been widely used on the medical frontlines for many years and drugs for which there are no substitutes. We are effectively promoting these long-listed products by conducting

Sales of ¥100.0 Billion on an NHI Drug Price Basis Due to Post-Marketing Development Initiatives

More than 10 years have passed since Remicade was launched in Japan for Crohn's disease in 2002 and received an indication for RA in 2003. Over that period, Remicade has contributed to the treatment of RA and other inflammatory autoimmune diseases and has been used by a cumulative total of more than 80,000 patients in Japan. As a result, we have accumulated evidence regarding effectiveness and safety and have built relationships of trust with health care professionals. In addition, to expand the product value of Remicade we have actively worked to secure additional indications and changes in administration / dosage, and as a result sales reached ¥76.3 billion in fiscal 2013.

Simponi, which was launched in 2011, is an anti-TNF drug with the same mechanism of action as Remicade and an indication of RA. The method of administration differs from Remicade, which is an intravenous injection, and Simponi offers simple administration with just one subcutaneous injection every four weeks. Under the current medium-term management plan, we decided to leverage the advantage of having two biological products with different methods of administration, and aimed for combined sales of ¥100.0 billion on an NHI drug price basis. Due to the results of the post-marketing development initiatives that we have implemented, such as information provision activities with a focus on proper usage, we achieved this goal in fiscal 2013.

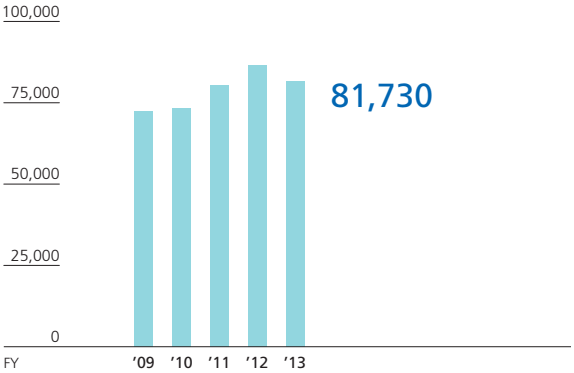
information provision activities through a multichannel approach that does not rely on MRs. In this way, we are further increasing the value of these products.

As one facet of those activities, 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 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 80,000 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	14.7%
Safety (precautions for use)	13.4%
Usage and dosage	12.4%
Stability	9.3%
Requests for printed materials	6.2%

Advancing Life-Cycle Management

To maximize product value, we continually implement development targeting the acquisition of additional indications. In December 2013, Tenelia, one of our new products, received approval in Japan for a partial change in indication related to its use in combination therapy, making it possible to use Tenelia in combination with all oral diabetes mellitus treatment agents and insulin. In June 2013, Maintate received an additional indication in Japan for atrial fibrillation (tachycardiac), and in December an application was filed in Japan for Telavic for chronic hepatitis C (genotype 2).

In addition, in April 2013 the Company started phase 3 clinical trials for an indication of pediatric atopic dermatitis for Talion in Japan. In June 2013, the Company started phase 3 clinical trials for treatment of pediatric hyperphosphatemia for BindRen in Europe. Remicade, which plays a central role in our life-cycle management strategy, is in phase 3 clinical trials in Japan for additional indications for refractory Kawasaki disease, Behcet's disease with special lesions, pediatric Crohn's disease, and pediatric ulcerative colitis, as well as a partial change in administration / dosage for psoriasis (increased dosage).

Addressing a Wide Range of Medical Needs

Medical needs, which are diversifying, include not only the provision of drugs that address unmet medical needs but also progress in the area of cost effectiveness. In response to this wide range of needs, we are working in the areas of vaccines, generic drugs, and OTC products.

In vaccine operations, we are marketing vaccines developed and manufactured by BIKEN, and we maintain a position of leadership in vaccines in Japan. We are taking steps to further strengthen our domestic foundation in this field, centered on our relationship with BIKEN. In addition, by using the VLP technology of Medicago, of Canada, which we acquired in September 2013, we are working to create new vaccines that can be developed globally. (For further information about the acquisition of Medicago, please refer to page 41.)

In October 2012, we launched Tetrabik[3], a combined vaccine for four diseases that we developed jointly with BIKEN. Also, in April 2014 we started phase 3 clinical trials of Tribik[4] for an indication of prophylaxis of pertussis, diphtheria, and tetanus (second stage vaccination) with BIKEN. We are also taking steps to support education about vaccination, such as establishing a health support website about vaccines. In this way, in addition to discovering and providing drugs used in the treatment of diseases, we are also working to contribute to a higher QOL for patients through this type of preventive medicine.

In the generic drugs business, the Group is making the most of its marketing foundation. These initiatives, which are centered on Tanabe Seiyaku Hanbai, a sales company, also include Mitsubishi Tanabe Pharma, which handles new drugs, and Yoshitomiyakuhin, which has strengths in the psychiatric field. Through these initiatives, we are working to provide Reliable Generics that can be used with peace of mind against a background of high-quality information

and a stable supply of quality drugs. Measures to promote the use of generic drugs have been further strengthened, and we will work to enhance our presence in the generic drug market by responding steadily when major drugs go off patent.

3. Combined vaccine for four diseases that combines a vaccine for three diseases—diphtheria, pertussis, and tetanus—with an inactivated polio vaccine
4. Combined vaccine for three diseases—pertussis, diphtheria, and tetanus

Overseas Pharmaceutical Sales

Mitsubishi Tanabe Pharma also has sales bases overseas, with sales-related companies in Europe (the U.K. and Germany) and in Asia (China, South Korea, Taiwan, and Indonesia). In addition, the Company is implementing drug information provision activities that draw on our alliances with other companies. We are working to increase the quality of information provision by holding periodic training for MRs involved in promotion activities.

In Europe, we market Argatroban, a selective antithrombin agent (brand name: Novastan HI Injection in Japan). This drug, which is currently sold in 12 countries in Europe, including Germany and France, is a treatment agent for heparin-induced thrombocytopenia (HIT) type II. In April 2013, we began sales in Germany and Austria for BindRen (brand name: Cholebine in Japan), a treatment agent for hyperphosphatemia. BindRen was launched in the U.K. in November 2013. Moving forward, we will steadily strengthen our sales foundation in Europe, centered on Argatroban and BindRen.

In Asia, we continue to strengthen our local MR workforces. In addition, by introducing drugs sold in Japan and expanding the range of drugs sold through our in-house sales network in line with the characteristics and needs of local markets, we will reinforce our business platform in Asia.

Aiming to Provide a Stable Supply of Drugs

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.

Initiatives in Procurement

In procuring the raw materials for pharmaceuticals, we are committed to engaging in fair, transparent activities with our suppliers. In accordance with the standards that we have established—our Purchasing Principles and the MTPC Group Purchasing Compliance Code of Conduct—we conduct purchasing activities with a strict observance of related laws and regulations and with consideration for such factors as environmental conservation and observance of human rights.

In selecting (changing) raw materials for pharmaceuticals, we consider supplier selection standards developed in-house and conduct on-site confirmations of manufacturing sites prior to the selection (change) and after the start of transactions. We make decisions after evaluating such factors as the capabilities of the raw materials manufacturer in such areas as quality assurance, technical capabilities, customer focus, and management capabilities.

The Company is also focused on reinforcing its supply chain by establishing a business continuity management (BCM) system and advancing communication with suppliers. Specifically, by establishing rules, such as inventory management standards and information cooperation standards that take into account the emergence of unusual situations, we have established a BCM system and built a supply system that can provide a stable supply of drugs to patients. In addition, with reference to the Corporate Behavior Charter of the Mitsubishi Chemical Holdings Group, we use a questionnaire for suppliers regarding areas in which we wish to work together with them, and in addition we ask them to provide information about raw material procurement. Based on our evaluations of this information, we make suggestions to suppliers regarding improvement initiatives.

Initiatives in Production

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 practices (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[5], works together with the Group's production plants to develop production technologies designed to support the stable, low-cost manufacturing of high-quality products.

Currently, our global manufacturing system has six production plants in Japan and five 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 and Mitsubishi Pharma (Guangzhou) manufacturing intravenous (IV) solutions in China. Mitsubishi Tanabe Pharma Korea and Taiwan Tanabe Seiyaku handle products for their respective markets as well as products for Japan. Also, Tanabe Indonesia serves as a manufacturing base for Southeast Asia.

In addition, 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. In August 2013, we decided to consolidate the five 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 April 2014 we transferred the Ashikaga Plant to CMIC HOLDINGS, and in June 2014 we reached a basic agreement for the transfer of the Kashima Plant to Sawai Pharmaceutical on April 1, 2015 (planned). We also plan to close the Osaka Plant in fiscal 2017, and we are moving forward with the transfer of the plant's products and other preparations. Moreover, we will proceed with the construction of a new pharmaceutical production building at the Yoshitomi Plant, and,

in fiscal 2015 and 2016, with the rebuilding of injection drug production facilities at the Onoda Plant. 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.

5. 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.

Initiatives in Distribution

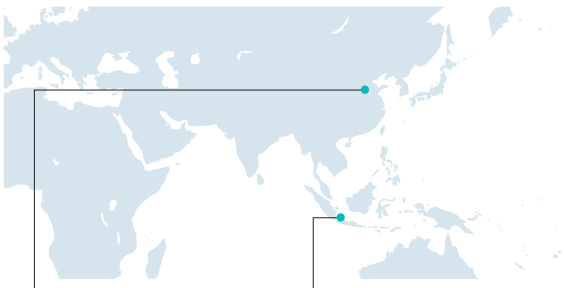
As a pharmaceutical company, Mitsubishi Tanabe Pharma is working to steadily and accurately provide high-quality pharmaceuticals, when they are needed and to the patients who need them. We have developed a dual-base supply system that ships drugs from distribution centers in eastern and western Japan. 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. Under this system, we are able to quickly and accurately fill purchase orders.

We are also implementing initiatives in the area of quality control in the distribution process. In addition to conducting operations in accordance with the Pharmaceutical Affairs Law of Japan, the distribution centers prepare guidelines and procedure manuals to ensure that pharmaceuticals are appropriately managed. In this way, the distribution centers support the maintenance of distribution quality. 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 establishing terminals specially designed for pharmaceuticals, using specialized pharmaceutical transport vehicles, and implementing strict temperature control. In these ways, we have built a transport system that can provide a stable supply of high-quality pharmaceuticals.

In 2012, the distribution operations that had previously been handled at distribution centers by MP Logistics, a Group company, were contracted out to Collabo-Create. The shift to Collabo-Create's new distribution centers was completed in May 2014, and we have now contracted out all of our distribution operations. In this way, we will increase the level of various services, respond flexibly to changes in the environment inside and outside the Company, and continue to reduce distribution costs, all while maintaining a stable supply and quality assurance.

BOLSTERING PRODUCTION BASES

Increasing production capacity to meet demand growth in China and the ASEAN region

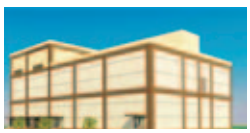


New pharmaceutical production building

Tianjin Tanabe Seiyaku

Location: Tianjin (China)
Start of construction: FY 2013
Planned completion: FY 2014

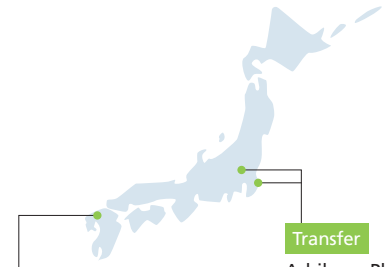
New pharmaceutical production building



Tanabe Indonesia

Location: Bandung (Indonesia)
Start of construction: FY 2013
Planned completion: FY 2014

Enhancing the new-drug supply system and realizing an optimal production system



New pharmaceutical production building

Yoshitomi Plant, Mitsubishi Tanabe Pharma Factory

Location: Fukuoka Prefecture
Start of construction: FY 2014
Planned completion: FY 2016

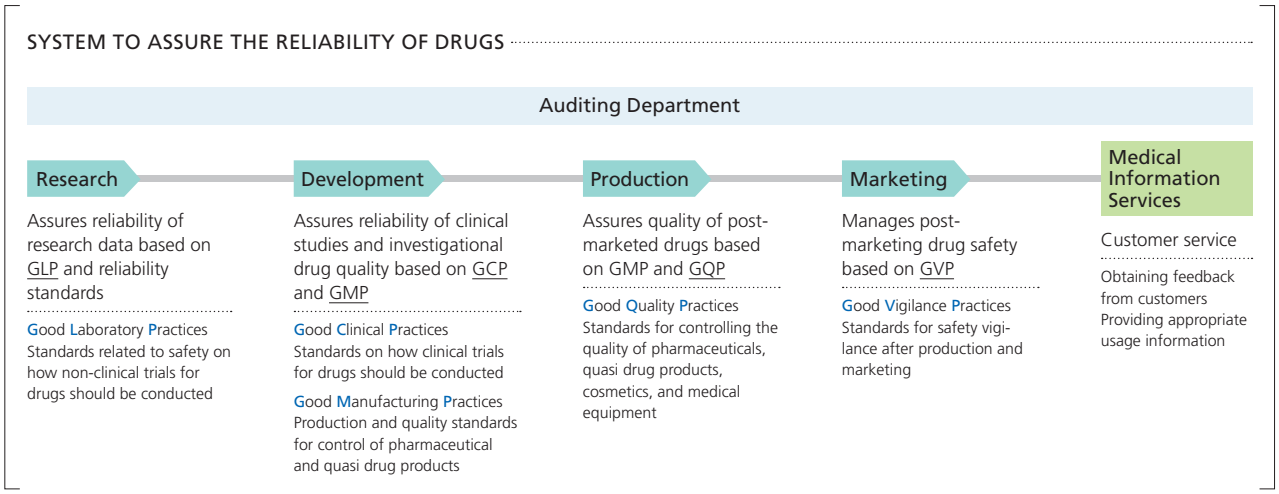
Transfer

Ashikaga Plant, Mitsubishi Tanabe Pharma Factory

Location: Tochigi Prefecture
Transfer: FY 2014
The party to transfer:
CMIC HOLDINGS

Kashima Plant, Mitsubishi Tanabe Pharma Factory

Location: Ibaraki Prefecture
Transfer: FY 2015 (planned)
The party to transfer:
Sawai Pharmaceutical



Enhancing Our System to Assure the Reliability of Drugs

To ensure that our pharmaceuticals can be used with peace of mind, we have built a system to assure efficacy, safety, and quality at all stages of the pharmaceutical life cycle, such as research, development, production, and marketing.

Rigorous Compliance with Laws and Regulations

Divisions related to the processes from pharmaceutical research through post-marketing activities must implement their operations in rigorous compliance with laws, regulations, and guidelines. Independent supervisory units—the Quality Audit Section and the Product QA Section—provide objective appraisals of compliance and offer suggestions and instructions on improvement, as appropriate. In addition, to ensure that investigator-initiated trials and drug information provision meets compliance standards, we have added the Medical Affairs Department in the Pharmacovigilance & Quality Assurance Division. These initiatives help to assure the reliability of the efficacy and safety data obtained through discovery research, clinical trials, and post-marketing surveillance, as well as the quality of investigational drugs, which are used in clinical trials, and of post-marketing products.

Managing Safety through Post-Marketing Surveillance

Following the confirmation of efficacy and safety in clinical trials, product sales begin after the receipt of manufacturing and sales approval from the regulatory authorities. 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, even in the post-marketing stage the Company confirms efficacy and safety. In this way, we are working to accurately understand information about pharmaceutical efficacy and safety through the accumulation and analysis of this data. Moreover, the provision of this information to health care professionals and others helps to support the safer, more-effective use of pharmaceuticals.

During the current medium-term management plan, Mitsubishi Tanabe Pharma has launched Imusera, a treatment agent for multiple sclerosis, and Telavic, a treatment agent for chronic hepatitis C. These are drugs that require special care in prescribing, and consequently all-patient post-marketing surveillance initiatives are conducted for these drugs. Also, in 2014 we expect to launch Canaglu, a diabetes treatment agent with an entirely new mechanism. Making full use of the valuable know-how that we cultivated with Remicade and Telavic, we will rigorously implement safety measures. We are working to promote the appropriate use of these products by steadily implementing post-marketing surveillance activities.

Product Quality Assurance

In manufacturing pharmaceuticals, we promote quality assurance for the products that we manufacture, and strive to increase quality through the formulation of quality targets and the implementation of quality assurance plans. These activities are conducted in strict compliance with laws, regulations, and guidelines and in accordance with the Mitsubishi Tanabe Pharma Group Quality Policy, which we established independently. In addition, aiming to unify our quality assurance standards on a global basis, we have formulated quality assurance standards for Mitsubishi Tanabe Pharma and all manufacturing bases in the Group. Mitsubishi Tanabe Pharma is sensitive to feedback from the frontlines, and the Company calls on nurses and pharmacists to hear about how its products are being used and under what conditions. We are working to reflect that feedback in our quality improvement initiatives. Mitsubishi Tanabe Pharma will continue to implement measures to prevent a recurrence of the Medway problem and quality control problems, as well as business improvement measures. Moving forward, we will strive to provide a stable supply of high-quality pharmaceuticals that can be used by patients with peace of mind.

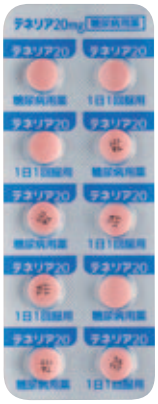
Close Up

Increasing Our Presence in the Diabetes Field

The launch of Tenelia, the first DPP-4 inhibitor that originated in Japan, provided the Company with an opportunity to enter the diabetes field in Japan.
A year has passed since we began joint sales with Daiichi Sankyo. Limits on the prescription period have been removed, and we are beginning to make progress toward full-scale growth.
We also anticipate the launch of Canaglu, a new SGLT2 inhibitor with high potential, and are poised to further enhance our presence in the diabetes field.

Entering the Diabetes Field with the Launch of Tenelia, a DPP-4 Inhibitor

In September 2012, we entered the diabetes field in Japan with the launch of Tenelia, a treatment agent for type 2 diabetes mellitus. It has been estimated there are more than 20 million people in Japan with diabetes or incipient diabetes. Tenelia, discovered and developed by the Company, is the first DPP-4 inhibitor that originated in Japan. Its blood glucose lowering action is sustained for 24 hours with once-a-day administration. There are many competing treatment agents, and to deliver the value of this drug, together with accurate information, to as many patients as possible, the Company concluded a joint sales agreement with Daiichi Sankyo. Information provision activities are now being conducted with one of the largest MR workforces in Japan.



Tenelia, a type 2 diabetes mellitus treatment agent
Tenelia, discovered and developed by the Company, is the first DPP-4 inhibitor originating in Japan.

Moving on to a Phase of Full-Scale Growth

In a fiercely competitive environment, Tenelia did not reach the phase of full-scale growth in fiscal 2013, and its sales were ¥0.8 billion. However, in September 2013, one year after its launch, limits on the prescription period were removed. In addition, in December 2013, approval was received for a partial change in indication related to its use in combination therapy. It can now be used in combination with all oral diabetes treatment agents and insulin injections, making it one of the easiest-to-use DPP-4 inhibitors available in Japan. Tenelia has achieved the No. 1 share among patients switching from other drugs, and it is closing the gap with the DPP-4 inhibitor that has the leading share among new patients. It has now moved on to a phase of full-scale growth, and we are forecasting sales of ¥6.7 billion in fiscal 2014.

DPP-4 Inhibitors ····· In recent years, many companies have launched new products in this category, and DPP-4 inhibitors are now the mainstream drug used in the treatment of diabetes. DPP-4 is an enzyme that breaks down a gastrointestinal hormone that promotes insulin secretion. By inhibiting the action of this enzyme, DPP-4 inhibitors demonstrate blood glucose lowering action by strengthening the secretion of insulin, which has the effect of reducing blood glucose.

SGLT2 Inhibitors ····· SGLT2 inhibitors are the focus of high expectations as the next generation of diabetes treatment agents. SGLT2 is a type of protein that has the action of promoting the absorption into the blood of glucose in the urine in the kidney, and by inhibiting that action, SGLT2 inhibitors promote excretion of glucose in the urine, thereby improving blood glucose. In this way, SGLT2 inhibitors have a new mechanism of action that does not work through insulin. In addition to its strong blood glucose lowering effect, it is expected to have a low hypoglycemia risk.

Canaglu (Canagliflozin): A New, High-Potential SGLT2 Inhibitor

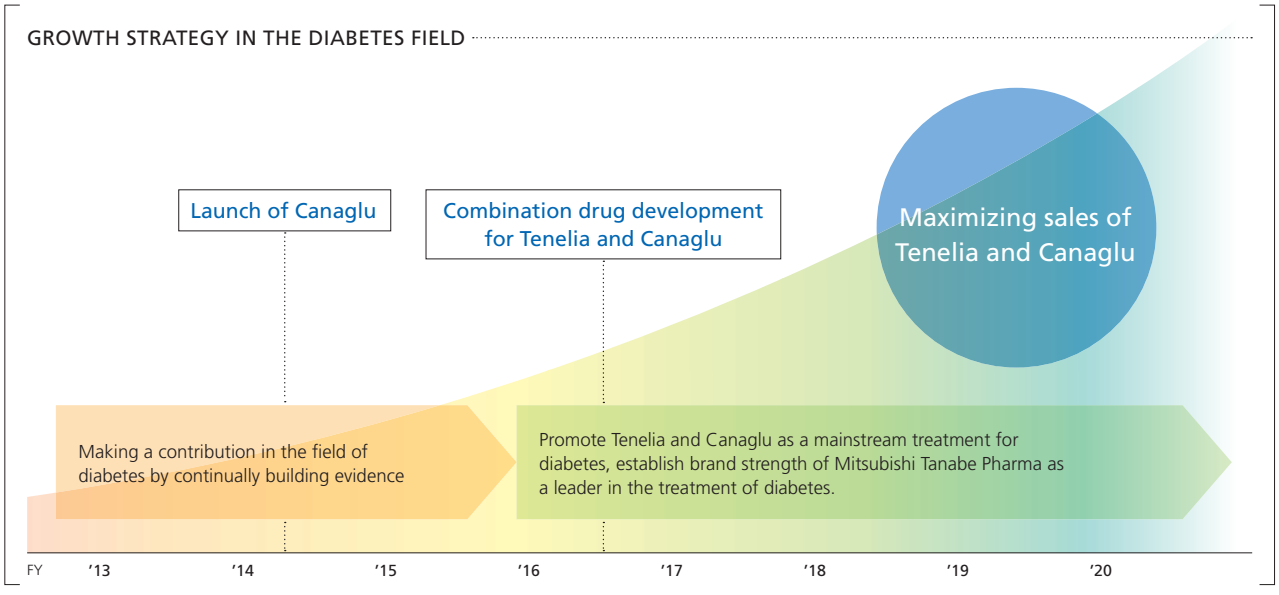
In addition to Tenelia, we also have high expectations for Canaglu (development code: TA-7284), which we are aiming to launch as rapidly as possible to support the Company's growth in the diabetes field. Approval was received in July 2014. Like DPP-4 inhibitors, SGLT2 inhibitors have the potential to foster a paradigm shift in drug treatments for diabetes. Physicians specializing in diabetes have high expectations for SGLT2 inhibitors, as do many other health care professionals and patients. Canaglu is an SGLT2 inhibitor that was discovered in line with a concept developed by Mitsubishi Tanabe Pharma—"direct excretion of excess blood sugar outside the body." In March 2014, researchers from the Company received the Pharmaceutical Society of Japan Award for Drug Research and Development '14 for their work on Canaglu.

We have out-licensed Canagliflozin to Janssen Pharmaceuticals, of the U.S., for overseas markets. In March 2013, it became the first SGLT2 inhibitor to receive approval of an indication for type 2 diabetes mellitus in the U.S., and sales have begun under the name Invokana. It is the first SGLT2 inhibitor in the U.S. In Japan, we anticipate the start of sales in the first half of fiscal 2014, and the fact that it already has a track record in the U.S. will be a major strength in information provision activities following its launch.

Canaglu will be launched in an environment marked by intense competition, with a large number of competing drugs being introduced in the same period. However, as with Tenelia, we will sell Canaglu through a tie-up with Daiichi Sankyo. On that basis, we will provide appropriate usage information and strive to nurture Canaglu into a major drug.

Building a Presence in the Diabetes Field

DPP-4 inhibitors and SGLT2 inhibitors are expected to play key roles in the future of oral diabetes treatment agents, and with the launch of Canaglu, Mitsubishi Tanabe Pharma will have strong products, originated in-house, in both of these categories. Mitsubishi Tanabe Pharma will be one of only two companies in the world in that position. Leveraging this advantage, we will focus on implementing post-marketing development of these two drugs, which have different mechanisms of action, and thereby making a contribution to the health of diabetes patients. In the future, we will also consider a combination drug including both of these products. By maximizing the value of these two drugs, we will enhance our presence in the diabetes field and strive to establish a brand for Mitsubishi Tanabe Pharma as a leader in the treatment of diabetes.

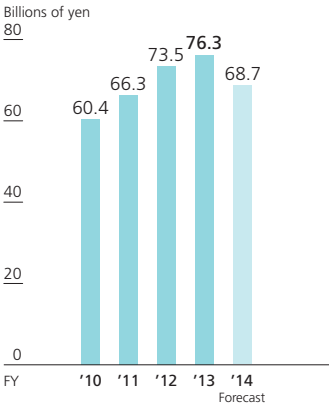


Overview of Domestic Core Ethical Drugs and Sales Trends

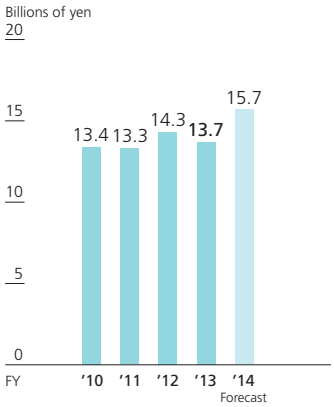
The sales forecasts in this section were announced on May 8, 2014.

SALES OF PRIORITY PRODUCTS

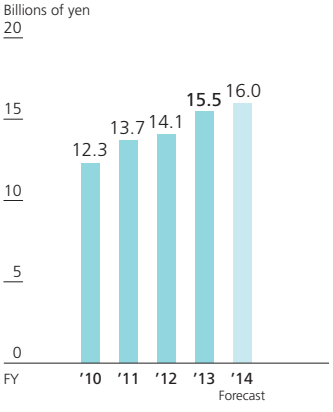
REMICADE



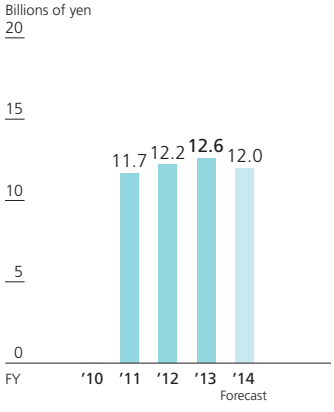
TALION



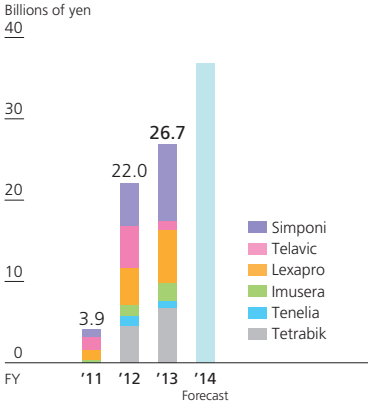
MAINTATE



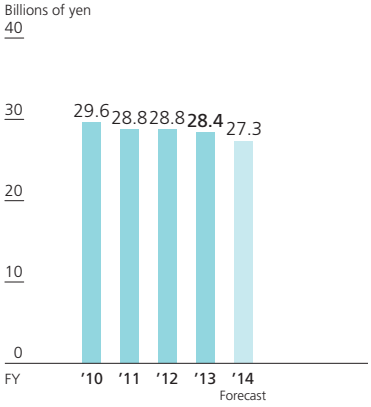
KREMEZIN



SALES OF NEW PRODUCTS



SALES OF VACCINES*



* Including sales of Tetrabik, a new product

Priority Products

Remicade Infliximab

Domestic Sales:

¥76.3 billion

(overseas sales: ¥30 million)

Treatment of rheumatoid arthritis (RA), Crohn's disease, psoriasis, ulcerative colitis, Behcet's disease with refractory uveoretinitis, and ankylosing spondylitis

Overview

Launch: May 2002

Origin: Janssen Biotech (U.S.)

Development: Mitsubishi Tanabe Pharma

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 (increase of the dosage, shortening of the 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 for patients with no safety problems. This change has reduced the burden on patients and increased convenience on the medical frontlines. Currently, phase 3 clinical trials are being conducted for multiple indications, such as Behcet's disease with special lesions, and for a change of administration / dosage for psoriasis (increase of the dosage).

Sales trend

Sales in fiscal 2013 rose 3.9%, to ¥76.3 billion. Competing products have been launched in the market for RA agents, and in the market for inflammatory bowel disease (IBD) agents, competing products have obtained indications for ulcerative colitis. As a result, the market environment has become increasingly competitive. Nonetheless, the increased dosage for Crohn's disease has become the standard dosage, and we are making steady progress in the acquisition of new patients with ulcerative colitis. In fiscal 2014, we will strengthen our initiatives in the IBD field, including ulcerative colitis, and work to further increase the number of patients using this drug. The sales forecast for fiscal 2014 is ¥68.7 billion, a decline of 10.0%.

Maintate Bisoprolol

Domestic Sales:

¥15.5 billion

(overseas sales: ¥0.2 billion)

Treatment of hypertension, angina pectoris, extrasystole, chronic heart failure, and atrial fibrillation

Overview

Launch: November 1990

Origin: Merck Serono (Germany)

Development: Mitsubishi Tanabe Pharma

Maintate is a representative β blocker used in more than 100 countries around the world. It exhibits high selectivity for β1 receptor and excellent pharmacokinetics profiles. Maintate has high efficacy and safety, and there is abundant evidence for its cardioprotective action. It is also recording the highest growth in the domestic β blocker market (oral administration, original drugs only), where it has the No. 2 market share. Maintate received an additional indication for chronic heart failure in 2011 and for atrial fibrillation (tachycardiac) in 2013. It is the only β blocker with indications for heart failure and atrial fibrillation.

Sales trend

In fiscal 2013, sales rose 9.6%, to ¥15.5 billion. The domestic β blocker market has leveled off, and generics have made substantial progress, but in June 2013 Maintate received an additional indication of atrial fibrillation, a first for a major β blocker, giving Maintate a new differentiating factor from competing products. The hypertension treatment guidelines were revised in April 2014, and the position of β blockers in the revised guidelines was clarified. Accordingly, we will work to achieve the fiscal 2014 plan by strengthening our marketing activities in the target market and taking additional steps to further increase awareness of the additional indication for atrial fibrillation. The sales forecast for fiscal 2014 is ¥16.0 billion, an increase of 3.5%.

Talion Bepotastine

Domestic Sales:

¥13.7 billion

(overseas sales: ¥0.8 billion)

Treatment of allergic disorders

Overview

Launch: October 2000
Origin: Ube Industries
Development: Co-development with Ube Industries

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. In 2007, an additional formulation, orally disintegrating tablets, was approved. This formulation makes it easier for patients to take the drug. Currently, applications have been filed in Japan for indications of pediatric allergic rhinitis and pediatric atopic dermatitis.

Sales trend

In fiscal 2013, sales were down 4.4%, to ¥13.7 billion. Pollen levels declined substantially, and as a result the anti-histamine market recorded a significant contraction, with an adverse effect on sales of Talion. On the other hand, several generics of competing products have been launched, and Talion's market share is increasing. In fiscal 2014, we anticipate improved results due to an increase in prescriptions in the field of dermatitis, a growth driver, and to typical pollen levels. The forecast for sales in fiscal 2014 is ¥15.7 billion, an increase of 14.6%.

Kremezin Spherical carbon adsorbent

Domestic Sales:

¥12.6 billion

Treatment of chronic kidney disease

Overview

Start of sales by the Company: April 2011
Origin: Kureha
Development: Kureha

Kremezin is an oral absorptive charcoal consisting of porous spherical activated carbon of high purity. Kremezin, which absorbs and excretes uremic toxins out of the body in chronic kidney disease, improves the symptoms of uremia and controls the progress of kidney damage. It has the effect of delaying the commencement of dialysis, and has been highly evaluated on the medical frontlines. It was introduced to the Japanese market in 1991 as the world's first ethical drug for chronic kidney disease. Mitsubishi Tanabe has handled sales of Kremezin since the marketing rights were transferred from Daiichi Sankyo to the Company in 2011.

Sales trend

In fiscal 2013, sales were up 3.0%, to ¥12.6 billion. In fiscal 2014, the Company will work to contribute to delaying the commencement of dialysis by fostering awareness of Kremezin's merits as an ethical drug and advancing activities to improve medication adherence. The sales forecast for fiscal 2014 is ¥12.0 billion, a decrease of 4.4%.

Major New Products

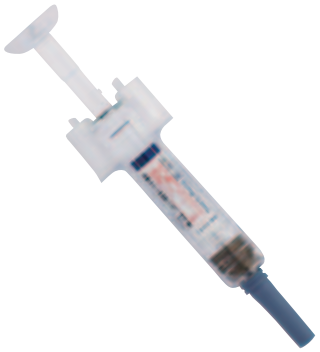
Simponi Golimumab

Domestic Sales:

¥9.4 billion

(overseas sales: ¥0.5 billion)

Treatment of rheumatoid arthritis (RA)



Overview

Launch: September 2011

Origin: Janssen Biotech (U.S.)

Development: Co-development with Janssen Pharmaceutical

Simponi is a human TNFα monoclonal antibody that targets TNFα, an inflammatory cytokine. It has an indication for RA (including prevention of articular structural damage). 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. We are conducting joint sales with Janssen Pharmaceutical. In addition, Janssen Pharmaceutical is currently conducting phase 3 clinical trials for ulcerative colitis.

Sales trend

In fiscal 2013, sales were up 77.5%, to ¥9.4 billion. In fiscal 2013, competing subcutaneous injections will be launched, and competition in the RA subcutaneous market is intensifying. However, the number of facilities using Simponi is increasing. In addition, distinctive characteristics of Simponi include simple administration—subcutaneous injection once every four weeks—and the ability to use larger dosages (100mg). Those characteristics have been well received, and we expect to make further progress in acquiring newly registered patients. The sales forecast for fiscal 2014 is ¥12.0 billion, an increase of 28.1%.

Tetrabik

Domestic Sales:

¥6.7 billion

Combined vaccine for four diseases (Prevention of pertussis, diphtheria, tetanus, and polio)

Overview

Launch: October 2012

Origin, manufacturing, and distribution: The Research Foundation for Microbial Diseases of Osaka University (BIKEN)

Tetrabik is a combined vaccine for four diseases that combines an existing DPT vaccine (diphtheria, pertussis, and tetanus) with an inactivated polio vaccine. Simultaneous immunization with multiple vaccines is expected to lead to reductions in the burden on people receiving vaccinations and to increases in the vaccination rate. In periodic vaccinations, it is used a total of four times. Also, a live polio vaccine was traditionally used in polio preventive vaccinations, and there were extremely rare cases of vaccine-related paralysis. However, Tetrabik features a high level of safety because an inactivated polio vaccine does not have that risk.

Sales trend

Sales in fiscal 2013 rose 48.3%, to ¥6.7 billion. In the future, the transition from a combined vaccine for three diseases to a combined vaccine for four diseases is expected to progress rapidly, and accordingly the forecast for sales in fiscal 2014 is ¥7.6 billion, an increase of 13.1%.

Lexapro Escitalopram

Domestic Sales:

¥6.5 billion

Treatment of depression

Overview

Launch: August 2011
Origin: H. Lundbeck (Denmark)
Development: Mochida Pharmaceutical

Lexapro is a selective serotonin reuptake inhibitor (SSRI). It was launched in 2002 in Europe and the U.S. It is currently approved in 97 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 since 2011.

Sales trend

In fiscal 2013, sales were up 42.0%, to ¥6.5 billion. Since the limits on the prescription period were removed in August 2012, it has steadily expanded its market share. The market for new antidepressant drugs has been affected by the launch of generic versions of major products, and in fiscal 2014 the market is expected to follow a flat trend. In this environment, to increase awareness of the clinical efficacy of Lexapro, we will work together with Mochida Pharmaceutical to further strengthen information provision activities and to enhance Lexapro's market presence. The sales forecast for fiscal 2014 is ¥9.4 billion, an increase of 45.5%.

Imusera Fingolimod

Domestic Sales:

¥2.3 billion

Treatment of multiple sclerosis (MS)

Overview

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

Imusera is a first-in-class drug that controls inflammation in the brain and spinal cord in MS. It inhibits the receptor function of 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 in Japan. We are marketing this product under the name Imusera, while Novartis Pharma is marketing it under the name Gilenya. Overseas, Novartis, 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 100,000 patients.

Sales trend

In fiscal 2013, sales were up 81.2%, to ¥2.3 billion. Since the limits on the prescription period were removed in December 2012, sales have grown significantly, and together, Imusera and Gilenya have the No. 1 share of the MS treatment agent market. An all-patient surveillance was required as a condition of its approval, and the number of registered patients has surpassed the target for Novartis Pharma and Mitsubishi Tanabe Pharma of 1,000. We anticipate continued favorable growth in prescriptions, and the sales forecast for fiscal 2014 is ¥36.0 billion, an increase of 58.8%.

Tenelia Teneligliptin

Domestic Sales:

¥0.8 billion

Treatment of type 2 diabetes mellitus

Overview

Launch: September 2012
Origin: Mitsubishi Tanabe Pharma
Development: Mitsubishi Tanabe Pharma

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. 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. In addition, it does not have problems associated with conventional diabetes treatments, such as hypoglycemia and weight gain. Its kidney excretion rate is low, so it is not necessary to adjust the dosage for patients with impaired kidney function. In September 2013, limits on the prescription period were removed. In December 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

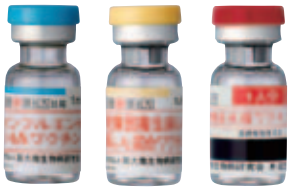
In fiscal 2013, sales were down 34.5%, to ¥0.8 billion. Competition in the DPP-4 inhibitors market is intense, but by implementing joint promotional activities with Daiichi Sankyo we have achieved solid increases in the number of administrations. Prescriptions are recording strong growth following the removal of the limits on the prescription period in September 2013 and the removal of the limits on combined use in December 2013. The sales forecast for fiscal 2014 is ¥6.7 billion, an increase of 743.8%.

Vaccines

Domestic Sales:

¥28.4 billion

Including sales of Tetrabik, a new product



Overview

The Company sells vaccines developed and produced by BIKEN. As described above, in fiscal 2013 Tetrabik recorded solid sales, which rose year on year. However, sales of Mearubik, a live attenuated measles and rubella combination vaccine, were down ¥2.0 billion, to ¥6.0 billion, due to a reduction in the number of people receiving vaccinations as a result of a change in vaccination regulations. Consequently, overall sales of vaccines were down 1.3%, to ¥28.4 billion. In fiscal 2014, from fall 2014 the varicella vaccine will be included in the Japanese government's recommended periodic vaccinations, and on that basis the Company will work to increase varicella vaccine sales. In addition, the Company anticipates an increase in sales of Tetrabik, but market conditions are expected to remain challenging. Consequently, the sales forecast for vaccines overall in fiscal 2014 is ¥27.3 billion, down 3.9%.

ESG Section

Mitsubishi Tanabe Pharma is implementing ESG (Environment, Society, Governance) activities as initiatives to support value creation. Also, through these types of initiatives, we will contribute to the realization of *KAITEKI*, which is a goal of the Mitsubishi Chemical Holdings Group. This section introduces major initiatives related to corporate governance and internal control as well as social and environmental activities.

Corporate Governance and Internal Control

Our philosophy is "to contribute to the healthier lives of people around the world through the creation of pharmaceuticals," and we strive to be a global research-driven pharmaceutical company that is trusted by communities. To realize our philosophy, fundamental policies for the maintenance of internal control systems have been established by the Board of Directors. We are implementing a range of initiatives to strengthen our corporate governance and internal controls. Also, once a year reports are made to the Board of Directors on the current status of the fundamental policies, and revisions are made if necessary.

Corporate Governance

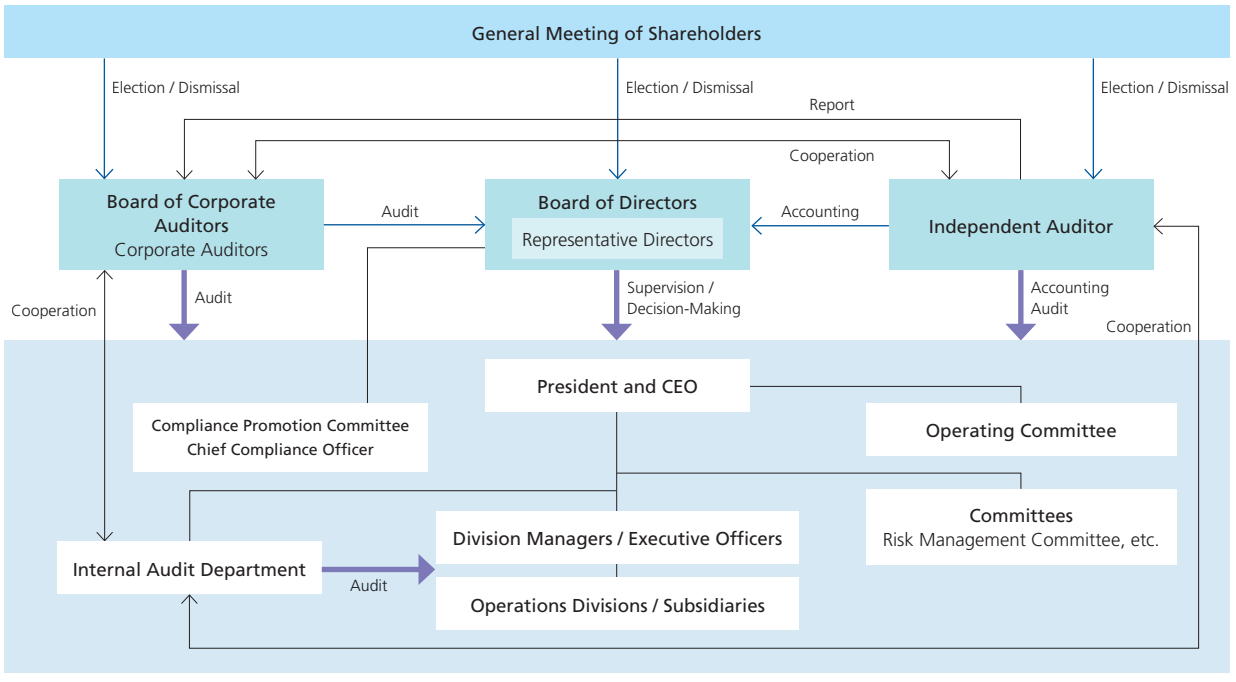
Corporate Governance

The Company has adopted the corporate auditor 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, the Company utilizes Outside Directors, and two Outside Directors with high levels of independence have been appointed. These Directors have abundant experience as corporate managers and wide-ranging knowledge in science, technology, and corporate governance. Under this management system and auditing system, the Company has identified its most important issues as fulfilling its responsibilities to shareholders and all other stakeholders and working to maximize enterprise value. To that end, the Company works to ensure efficiency and speed in management decision-making and to ensure transparency and objectivity in management by enhancing the supervision and auditing conducted by the Outside Directors and by enhancing the auditing system, centered on the Corporate Auditors. In these ways, the Company is working to establish a corporate governance system that can earn the trust of society.

Corporate Governance System

The Board of Directors has eight members, two of whom are Outside Directors. Regular meetings of the Board of Directors are held once a month, and in addition are held flexibly as needed. The Board makes decisions about business execution and supervises operational execution. The Company has adopted the corporate officer system for the execution of Company business and clarified the distinction between the decision-making / auditing function and the executive function. The Operating Committee, which includes the President and CEO, Senior Managing Executive Officers, Managing Executive Officers, and Executive Officers who are appointed by the President and CEO, meets two or more times per month as a general rule. The committee discusses issues of importance to the overall execution of Company business, and important matters are brought up for discussion in the Board of Directors' meeting.

CORPORATE GOVERNANCE SYSTEM (As of June 23, 2014)



Auditing System

The Board of Corporate Auditors has four members, two of whom are Outside Corporate Auditors. The Board of Corporate Auditors receives reports on the progress of audits by all Corporate Auditors and the independent auditor. A lawyer, who is a legal specialist, and a person with experience in banks or securities companies are nominated to be Outside Corporate Auditors. In this way, the Company has established an auditing system with high levels of independence and specialized skills.

Corporate Auditors attend important meetings, such as meetings of the Board of Directors and the Operating 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 Board of Corporate Auditors works to maintain close ties with the independent auditor and the internal auditing divisions and to strengthen the auditing function. The Corporate Auditors also receive explanations of audit plans and policies and quarterly reports on audit implementation and results from the independent auditor, as well as 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 reports on the execution of audits by the independent auditor. Also, in regard to audit plans, progress, and results, the Corporate Auditors exchange opinions with the 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.

To provide support for the Corporate Auditors in the execution of their duties, including the duties of the Outside Corporate Auditors, the Company has established the Corporate Auditors' Office, which is independent from business execution. The Corporate Auditors' Office has three 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 15 employees.

The Company has taken steps to facilitate proper audits, appointing Ernst & Young ShinNihon LLC as its independent auditor and providing accurate management information.

Nomination of Outside Directors / Corporate Auditors

To enhance management transparency and objectivity and to strengthen the Board of Directors' supervisory function, two Outside Directors have been nominated. Furthermore, two Outside Corporate Auditors have been nominated. From an independent

NAME OF OUTSIDE OFFICERS, RELATIONSHIPS BETWEEN OUTSIDE OFFICERS AND THE COMPANY, AND REASON FOR NOMINATION

	Relationships between outside officers and the Company	Reason for nomination
Shigehiko Hattori Outside Director	Shigehiko Hattori is Representative Director, Chairman of the Board of Shimadzu and an Outside Director of Sapporo Holdings, Brother Industries, and Meiji Yasuda Life Insurance. The Company has a business transaction relationship with Shimadzu. However, this relationship comprises ordinary transactions, such as the maintenance and repair of research equipment, and the annual amount of these transactions is less than 0.1% of Shimadzu's consolidated net sales. There is no special relationship that would influence Shigehiko Hattori's independence as an outside officer.	Shigehiko Hattori was nominated as Outside Director on account of the Company's judgment that his abundant experience as a corporate manager and his wide-ranging knowledge in science and technology are suitable for an outside director.
Shigetaka Sato Outside Director	Shigetaka Sato is Chairman, Advisory Council, of Keihan Electric Railway, an outside corporate auditor of Asahi Kogyosha and Chairman, Osaka Chamber of Commerce and Industry. There is no special relationship that would influence Shigetaka Sato's independence as an outside officer.	Shigetaka Sato was nominated as Outside Director on account of the Company's judgment that his abundant experience as a corporate manager and his wide-ranging knowledge in corporate governance are suitable for an outside director.
Masanao Iechika Outside Corporate Auditor	The Company has a business transaction relationship with Daiichi Law Office, at which Masanao Iechika works as an executive partner. However, this relationship comprises a legal advice contract with attorneys other than Masanao Iechika, and there is no special relationship that would influence Masanao Iechika's independence as an outside officer.	Masanao Iechika was nominated as Outside Corporate Auditor on account of the Company's judgment that his abundant experience and advanced knowledge with a focus on social responsibility are suitable for an outside corporate auditor.
Takashi Nishida Outside Corporate Auditor	Takashi Nishida previously worked at The Bank of Tokyo-Mitsubishi UFJ and is currently an outside corporate auditor at Mitsubishi Tanabe Pharma's parent company Mitsubishi Chemical Holdings Corporation. The Company has business transaction relationships with both of these companies. The relationship with The Bank of Tokyo-Mitsubishi UFJ comprises ordinary banking transactions and the relationship with Mitsubishi Chemical Holdings Corporation is described on page 65 in "Other Special Matters that May Have a Significant Impact on Corporate Governance." There is no special relationship that would influence Takashi Nishida's independence as an outside officer.	Takashi Nishida was nominated as Outside Corporate Auditor on account of the Company's judgment that his abundant experience in the banking and securities industries and his wide-ranging knowledge developed in those industries are suitable for an outside corporate auditor.

perspective, these Outside Corporate Auditors implement audits regarding the legality and soundness of management.

In nominating outside officers, the Company has not established standards, etc., regarding independence. The outside Directors / Corporate Auditors have been nominated in consideration of the reason for nomination and relationships with the Company, as described on page 64. These four people have been designated as Independent Directors / Corporate Auditors, and from the perspective of Independent Directors / Corporate Auditors, they offer opinions and advice at meetings of the Board of Directors and meetings of the Board of Corporate Auditors in regard to the Company's management.

Compensation of Directors and Corporate Auditors

The Company has adopted a method of calculating director compensation that reflects the Company's results. The compensation amount is determined by the Board of Directors within a range fixed at the General Meeting of Shareholders and as provided for by the basic formula for the calculation of compensation for the Board of Directors. This is to ensure the transparency of compensation-related decision-making.

In fiscal 2013, Directors' basic compensation (for six Directors; excluding Outside Directors) amounted to ¥311 million and Corporate Auditors' compensation (for two Corporate Auditors; excluding Outside Corporate Auditors) totaled ¥68 million. Basic compensation for Outside Directors / Corporate Auditors (for five Outside Directors / Corporate Auditors) was ¥43 million.

The Company and consolidated subsidiaries paid ¥75 million and ¥13 million, respectively, to Ernst & Young ShinNihon LLC as compensation for auditing and verification.

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

In regard to the independence of the Company from its parent company, Mitsubishi Chemical Holdings Corporation (MCHC), both companies have agreed that, in principle, for 10 years from October 1, 2007, the Company will remain listed and 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 Company believes that it has secured its independence from its parent company.

MCHC is a holding company, and accordingly, between MCHC and the Company, 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. The Company has concluded a contract with MCHC under which the Company provides payment to MCHC for Group management expenses in an amount equivalent to the benefits received based on the brand value and comprehensive strengths of MCHC. However, the amount of those payments is not significant.

In regard to transactions between the Company and other companies in the MCHC Group, in making decisions the highest priority is given to increasing the enterprise value of the Group in order to maximize the benefit to all of the Company's shareholders.

Since it received an administrative action in April 2010 regarding the approval, manufacturing, and quality control for Medway Injection, the Company has implemented business improvement initiatives, with its highest priority being the recovery of trust from society and the prevention of recurrence. In addition, the Company established the Outside Committee for Recovering Trust Following the Medway and Quality Control Problems, which is composed of outside experts. The committee verified the progress of rectification measures and recurrence prevention measures and offered its opinions. In this way, the Company increased the effectiveness of these measures. In March 2014, the committee had fulfilled its initial role and its activities were concluded. The Company received the committee's final report, which included a summary of its activities and its advice and opinions provided to the Company. The details of that report are disclosed on the Company's website.

Moving forward, the Company will draw on the lessons it has learned and continue working sincerely to restore the trust of society and prevent a recurrence.

Risk Management and Compliance

Risk Management System

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.

In addition, the Company has formulated the Regulations on Managing Business Continuity in a Large-scale Disaster. To address the risk of a large-scale disaster, such as an earthquake, tsunami, typhoon, snowstorm, flooding, or pandemic, and related risks, the Company has established the Mitsubishi Tanabe Pharma Disaster Management Committee and Regional Disaster Management Committees and is working to implement disaster prevention and reduction measures.

Moreover, the Company has formulated a business continuity plan and established a system facilitating the implementation of

activities with a focus on business continuity and rapid restoration in the event of an emergency, with the central role in the disaster countermeasures center filled by the Mitsubishi Tanabe Pharma Disaster Management Committee.

Compliance 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 Code of Conduct, 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 the establishment of the Compliance Promotion Committee and the Internal Controls & Compliance Department, both of which are led by the Chief Compliance Officer. A total of 200 compliance implementation personnel, including managers and staff, meet semiannually. 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.

In regard to antisocial elements, the Group follows a resolute approach with no compromise. The provision of gains and any other relationships with groups that act in an antisocial manner are forbidden. In addition, we have formulated guidelines for checking suppliers for any possible affiliations with such antisocial elements. In this way, we have established a system for eliminating transactions with antisocial elements.

Furthermore, we have established an internal notification system that operates as an internal system for reporting on legal violations and other compliance issues. We have established internal and external hotlines for reports and consultations, and are working to respond to a wide variety of needs for consultation, including for the employees of Group subsidiaries. The number of responses is released on the intranet twice a year, and recent trends and noteworthy examples are reported through Company-wide training. In fiscal 2013, 51 hotline consultations were handled.

To ensure a solid compliance foundation, the Company is conducting a range of training, including top seminars for Directors and officers, Companywide training for all employees, and human rights training, as well as department-level training that deals with issues specific to the operations of each department. In fiscal 2013, Companywide training sessions were held a total of 206 times, and 7,283 people participated. For Group subsidiaries, we are taking steps to build a system to ensure appropriate operational activities are implemented in a seamless manner with the Company, such as building a system for the application of the Group's Compliance Program.

Furthermore, we conduct compliance progress checks once a year, and implement monitoring of such factors as compliance awareness and workplace environments. The response rate for the awareness survey conducted in fiscal 2013 stood at 88.6%, with 6,629 responses. In answer to the question, "Is awareness of the importance of compliance widespread throughout your workplace?", a combined total of 97.4% responded that awareness was "widespread" or "fairly widespread."

In addition, the Group consults regularly with relevant departments concerning action programs to strengthen risk management and compliance systems at Group companies outside Japan. Through these consultations, we are sharing policies that are important in Group management while respecting diversity, such as the cultures, laws, and business practices that differ by country.

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.

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.

Responding to Transparency Guidelines

In March 2011, the Japan Pharmaceutical Manufacturers Association formulated and released the Transparency Guideline for the Relation between Corporate Activities and Medical Institutions, which addresses information disclosure for such matters as monetary payments from pharmaceutical companies to medical institutions. In response, 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 follow a policy of releasing related information on the Company's website after the announcement of financial results. This information includes payments to medical institutions as R&D expenses, support for academic research, manuscript writing fees, provision-related expenses, and hospitality and other expenses. In regard to guidelines related to cooperative work with patient organizations, as of April 2013, we formulated our guidelines for transparency in relationships with patient organizations as well as detailed rules. In accordance with these guidelines and rules, from fiscal 2013, information regarding the funds and labor provided to these patient organizations will be provided on the Company's website, as with the transparency guidelines for medical institutions.

In addition, in May 2014 the Company formulated Scholarship and Donation Regulations and determined the method that will be used to manage conflicts of interest related to scholarships and donations. Decisions will be made about the provision of scholarships and donations after confirmation and documentation, from the viewpoint of conflicts of interest, of all types of contractual relationships with the parties being considered for the receipt of the scholarships and donations. Our general policy is not to provide scholarships or donations for clinical trials involving our products.

Accountability to Stakeholders

Promoting Accountability

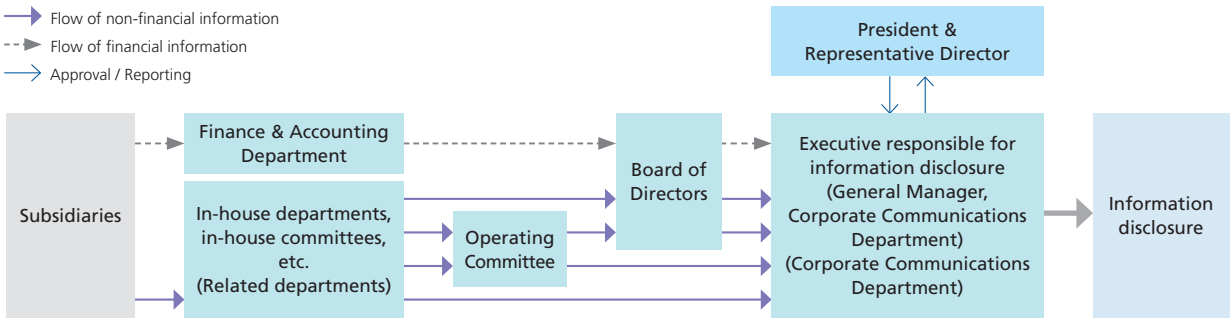
In order to promote understanding of the Company and to obtain fair evaluations of the Company, Mitsubishi Tanabe Pharma strives to disclose in a fair, timely, and appropriate manner important Company information related to its activities, such as its management policies, management objectives, and financial 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 ensure that both the content and timing of our information disclosure is fair to all stakeholders. Moreover, as a member of society, we take feedback from all stakeholders seriously, strive to share information with stakeholders, and work to deepen mutual understanding.

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, R&D presentations, 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, for the first time ever we began to hold presentations for individual investors in 2013. These were offered at a number of locations throughout Japan. Furthermore, as an initiative related to corporate social responsibility, we make our CSR Activities Report available on the Company's website.

In-House Information Disclosure System

The Company has established an in-house system to implement Companywide disclosure of company information in a timely and appropriate manner—the Mitsubishi Tanabe Pharma In-House Information Disclosure System. The executive responsible for information disclosure will control the in-house system, which was established in accordance with information disclosure regulations; will determine whether or not disclosure of company information is appropriate; and will implement disclosure.

MITSUBISHI TANABE PHARMA IN-HOUSE INFORMATION DISCLOSURE SYSTEM (As of June 23, 2014)



Board of Directors and Auditors

As of July 1, 2014

From left: Shigehiko Hattori, Kouji Nakamura, Yoshiaki Ishizaki, Michihiro Tsuchiya, Masayuki Mitsuka, Kenkichi Kosakai, Takashi Kobayashi, and Shigetaka Sato

Board of Directors

Michihiro Tsuchiya

Chairman of the Board & Representative Director

1976 Entered the Company
(former Tanabe Seiyaku Co., Ltd.)
2009 President & Representative Director,
Chief Executive Officer, the Company
2014 Chairman of the Board & Representative Director

Masayuki Mitsuka

**President & Representative Director,
Chief Executive Officer**

1982 Entered Mitsubishi Chemical Industries Ltd.
(currently, Mitsubishi Chemical Corporation)
2014 President & Representative Director,
Chief Executive Officer, the Company
Director, Mitsubishi Chemical Holdings Corporation
Director, The KAITEKI Institute, Inc.

Kouji Nakamura

Board Director, Senior Managing Executive Officer
Division Manager of Production Division
Environment & Safety Department

1976 Entered the Company
(former Tanabe Seiyaku Co., Ltd.)
2014 Director, Senior Managing Executive Officer,
the Company

Takashi Kobayashi

Board Director, Managing Executive Officer
Division Manager of Research Division

1980 Entered the Company
(former Tanabe Seiyaku Co., Ltd.)
2012 Director, Managing Executive Officer,
the Company

Yoshiaki Ishizaki

Board Director, Managing Executive Officer
Division Manager of Pharmacovigilance &
Quality Assurance Division
Internal Controls & Compliance Department
Chief Compliance Officer

1978 Entered the Company
(former Yoshitomi Pharmaceutical Industries, Ltd.)
2014 Director, Managing Executive Officer, the
Company

Kenkichi Kosakai

Board Director

1976 Entered Mitsubishi Chemical Industries Ltd.
(currently, Mitsubishi Chemical Corporation)
2014 Director, the Company
Managing Executive Officer, Mitsubishi Chemical Holdings Corporation
President & Representative Director,
Mitsubishi Chemical Holdings Corporate Staff, Inc.

Shigehiko Hattori

Board Director (outside)

1964 Entered Shimadzu Corporation
2003 President and Representative Director,
Shimadzu Corporation
2009 Chairman of the Board and Representative
Director, Shimadzu Corporation
2011 Director, the Company
2012 Outside Director, Sapporo Holdings Ltd.
Outside Director, Brother Industries, Ltd.
Director, Meiji Yasuda Life Insurance Company

Shigetaka Sato

Board Director (outside)

1965 Entered Keihan Electric Railway Co., Ltd.
2001 President & Representative Director,
Keihan Electric Railway Co., Ltd.
2009 Outside Auditor, Asahi Kogyosha Co., Ltd.
2010 Chairman, Osaka Chamber of Commerce and Industry
2013 Chairman, Advisory Council,
Keihan Electric Railway Co., Ltd.
Director, the Company

From left: Kenichi Yanagisawa, Koichi Fujisawa, Masanao Iechika, and Takashi Nishida

Auditors

Koichi Fujisawa

Corporate Auditor (standing)

1975 Entered Mitsubishi Petrochemical Co., Ltd. (currently, Mitsubishi Chemical Corporation)
2011 Corporate Auditor (standing), the Company

Kenichi Yanagisawa

Corporate Auditor (standing)

1973 Entered the Company (former Tanabe Seiyaku Co., Ltd.)
2012 Director, Senior Managing Executive Officer, the Company
2014 Corporate Auditor (standing), the Company

Masanao Iechika

Corporate Auditor (outside)

1962 Registered lawyer
1994 Corporate Auditor, the Company

Takashi Nishida

Corporate Auditor (outside)

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

Social and Environmental Activities

In accordance with the Mitsubishi Tanabe Pharma Group Declaration on Corporate Citizenship, as a good corporate citizen, the Mitsubishi Tanabe Pharma Group is implementing activities reflecting consideration for the local community and local environment to contribute to the resolution of problems related to health and living environments in the countries and regions where the Group conducts business. This section introduces major initiatives related to social contribution activities, environmental conservation, and employees.

In regard to the social contribution made by pharmaceutical operations, please refer to "Business Strategy Section." P22

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

Contributing to Local Communities

In accordance with the Mitsubishi Tanabe Pharma Group Declaration on Corporate Citizenship, we will proactively implement corporate citizenship activities in the countries and regions where we conduct business activities. At the Kashima Office, as an activity to help patients and families find more joy and satisfaction in their lives, we are supporting CP Soccer (soccer played by seven people with cerebral palsy), which is a Paralympic sport. In fiscal 2013, the Kashima Office (Yodogawa Ward, Osaka City) continued to support a CP soccer tournament by making the office grounds available. In Indonesia, as an activity to increase health and welfare in emerging countries, we are supporting health and medical care in Sujung Village, Tirtayasa Sub-district, Serang District, Banten Province. In fiscal 2013, a community health center was constructed. This center has been used by 400 people for general diagnosis and treatment, and 20 babies have been born there. In fiscal 2014, we will continue to provide tangible and intangible support to help improve the social infrastructure of Sujung Village.

CP soccer (soccer played by seven people with cerebral palsy)

Community health center constructed in Sujung Village, Indonesia

Support for Volunteer Activities

Mitsubishi Tanabe Pharma sponsors the MSC Volunteer Salon, an event held every other month that provides opportunities for people interested in volunteer activities to interact with active volunteers. The MSC Volunteer Salon features introductions to the activities of volunteer organizations, information useful in daily life, seminars about exercise, and small concerts. It also coordinates the collection of used stamps and telephone cards and donates them to domestic welfare and other institutions, thereby supporting the operation of those institutions. Furthermore, as a means of fostering patient-centered health care, Mitsubishi Tanabe Pharma shares information with patients' associations and provides assistance for volunteer activities, such as at general assemblies of patients' associations and medical lecture meetings.

Implementing Donation and Assistance Activities

With the objective of contributing to medical treatment and public health in Japan, 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. In fiscal 2013, we provided a total of about ¥200 million to these foundations. In addition, we marked our fifth anniversary in 2012 by establishing the Mitsubishi Tanabe Pharma Tenohira Partnership Program, which supports associations of patients with incurable diseases. The program provides aid to associations and support groups for patients with incurable diseases. We support these groups' efforts to enhance patients' quality of life, such as through improved medical treatment and career prospects. In fiscal 2013, the program provided aid to 12 organizations.

Also, since 1971 the Company has been donating OTC drugs, including Mitsubishi Tanabe Pharma products, to Kodomo-no-kuni (Children's Land), which is operated by the Kodomo-no-kuni Association, a social welfare service organization.

Initiatives Related to Environmental Conservation

Environmental Safety Management

In order to help protect the global environment and create a sustainable society, Mitsubishi Tanabe Pharma is working to become even more aware of how every aspect of its business operations impacts the environment and to reduce the environmental burden of its operations.

In accordance with the Mitsubishi Tanabe Pharma Environmental Safety Philosophy and the Policy on Environmental Safety Activities, which we formulated independently, we work proactively and aggressively to ensure that our operations are environmentally friendly. Furthermore, the Group discloses information related to the environment and promotes dialogue with the public in its initiatives aimed at contributing to the environment and society.
In regard to the scope of environmental information collection and disclosure, the Group collects and discloses information regarding the manufacturing, research, and distribution facilities of Mitsubishi Tanabe Pharma and its domestic consolidated subsidiaries, as well as the manufacturing and research facilities of its 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 Operating Committee. The Liaison Council for Environmental Safety plans and carries out activities in response to issues relating to the environmental safety of the Mitsubishi Tanabe Pharma Group. In addition, the Environmental Safety Division has been established as a full-time specialized organization. This system promotes the management of environmental issues both in and outside Japan.

Under this management system, we formulated the Medium-Term Environmental Action Plan, which covers the five-year period from fiscal 2011, and are working to achieve key objectives in four areas.

MEDIUM-TERM ENVIRONMENTAL ACTION PLAN (from fiscal 2011 to fiscal 2015)

Area	Objectives	Fiscal 2013 results
Energy conservation and global warming mitigation	• Reduce CO_2 emissions for fiscal 2015 by at least 30% compared to the fiscal 2005 level	• Reduced CO_2 emissions by 40.4% compared to the fiscal 2005 level (6.8% reduction compared to the fiscal 2012 level) • Increased number of hybrid vehicles used by sales personnel to 1,259, from 1,113 in fiscal 2012 • Performed energy conservation analyses at Mitsubishi Tanabe Pharma Factory's Kashima Plant (Ministry of the Environment, analysis of potential energy saving and CO_2 emission reduction) and Ashikaga Plant (analysis by external institution)
Reduction of waste, reuse and recycling of resources	• Promote zero emissions (final waste disposal rate of less than 0.5%) and continually reduce waste and emissions output and final waste disposal • Fulfill the responsibility of a waste-discharging enterprise for handling waste correctly and ensuring proper treatment by contractors	• Achieved a final waste disposal rate of 0.61% (0.43% in fiscal 2012) • Promoted recycling and effective use of resources • Performed 40 on-site inspections of waste collection and transportation companies and intermediate and final disposal sites
Chemical substance emissions reductions	• Properly manage chemical substances and continually reduce their discharge into the environment	• Reduced emissions of PRTR substances into the air by 10% compared to the fiscal 2012 level and maintained emissions of water at the same level as the previous year
Enhancement of environmental management	• Improve environment-related risk management at company facilities • Maintain zero environmental accidents	• Conducted environmental safety audits at 15 Group worksites in and outside Japan • At overseas worksites, conducted environmental compliance audits at two worksites by outside experts • Conducted online environmental training courses • Conducted practical training in laws and regulations for waste management • Had zero environmental accidents and four incidents

ISO 14001 Certification

The Mitsubishi Tanabe Pharma Group's principal production sites have acquired either ISO 14001 certification or other certifications established by relevant local municipalities, and the Group has established and is rigorously operating an environmental management system. Furthermore, in research facilities and offices we are working to implement appropriate environmental management in accordance with the nature and scale of the environmental burden associated with business activities. In this way, these facilities and offices are implementing activities that reflect consideration for the environment.

Environmental Safety Audits

The Group conducts environmental safety audits at its manufacturing and research facilities in Japan and overseas to confirm that the environmental management systems are functioning effectively. In the audits implemented in fiscal 2013, no items were indicated as entailing major environmental risk. In addition, in fiscal 2012 the Group commenced environmental audits at overseas manufacturing sites. These audits are related to strict observance of laws and regulations. The results of audits are reported to management leaders and shared on a Groupwide basis in order to further enhance related activities.

Environmental Accounting

Mitsubishi Tanabe Pharma works to promote effective and efficient environmental management by ascertaining and analyzing the costs and effects of environmental conservation activities and the impact these activities have on economic performance. Environmental conservation costs for fiscal 2013 were ¥201 million in investments and ¥1,120 million in running costs. The economic benefit of environmental conservation measures was ¥50 million.

Notes regarding calculations for fiscal 2013 data:

1. Data was calculated according to the *Environmental Accounting Guidelines* (2005 edition) published by the Ministry of the Environment of Japan.
2. Calculation period: April 1, 2013 to March 31, 2014
3. Scope: All worksites in Japan
4. Calculation methods:
   (1) Simple method for amount invested (25%, 50%, 75%, and 100%);
   (2) Depreciation is calculated based on the legally defined service life of applicable items; and
   (3) The full amounts for non-depreciation costs are posted only if 100% environment related.
5. Calculation and evaluation methods for effects resulting from environmental conservation measures:
   (1) Only material effects based on conclusive grounds for each environmental measure are tallied and assessed; and
   (2) Effects observed within the fiscal year are tallied by converting them to a period of 12 months, and evaluated by comparing them to the year before the measures were implemented (or the previous fiscal year).

Consideration for the Environment at Kashima Office's New Building

In July 2014, a new office building was completed on the grounds of the Kashima Office, and environmental burden reduction measures have been adopted throughout the entire building. As such, a comfortable work environment has been secured while at the same time consideration for the environment has been realized. The new building has received an "A" ranking under CASBEE (Comprehensive Assessment System for Built Environment Efficiency) for New Construction.

New building at the Kashima Office

INITIATIVES REFLECTING CONSIDERATION FOR THE ENVIRONMENT

Solar panels installed on the whole surface of the roof (140kW output)

CO_2 emissions

Approx. 70 tons-CO_2/ year reduction (forecast)

High-efficiency, long-life LED lighting used throughout the building

CO_2 emissions

Approx. 36 tons-CO_2/ year reduction (forecast)

Whole-floor underfloor air conditioning systems and personal underfloor methods used in offices

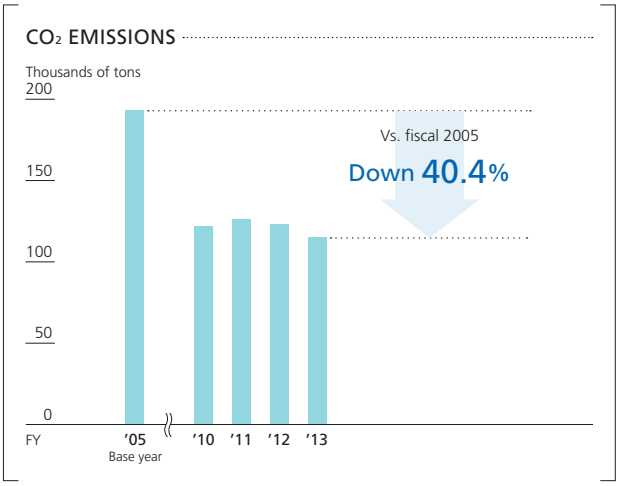
CO_2 emissions

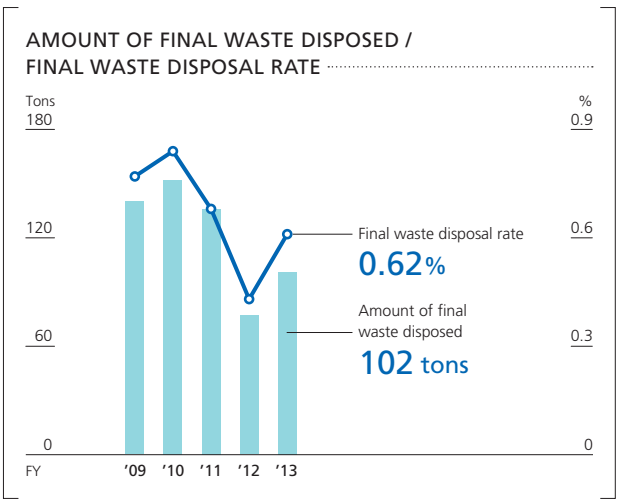
Approx. 13 tons-CO_2/ year reduction (forecast)

Advancing Energy Conservation and the Prevention of Global Warming

The Mitsubishi Tanabe Pharma Group has made the conservation of energy and the curbing of global warming two of its top priority environmental objectives. In its efforts to reduce greenhouse gas emissions from its business activities, the Group implements energy conservation initiatives in consideration of the location and business activities of its various worksites, including plants, research facilities, distribution centers, and offices.

Under the Medium-Term Environmental Action Plan, we have set the target of reducing CO_2 emissions for fiscal 2015 by at least 30% compared to the fiscal 2005 level. In fiscal 2013, the Group's CO_2 emissions totaled 115,000 tons, a reduction of 40.4% compared to fiscal 2005. In fiscal 2013, many worksites were affected by an increase in the emission factor used to determine CO_2 emissions related to the purchase of electric power. However, changes in the scope of worksites subject to monitoring, consolidation of business activity bases, promotion of energy-saving activities, and other activities resulted in energy consumption decreasing by 13.8%, and CO_2 emissions decreasing by 6.5% compared to fiscal 2012.





Reducing Waste

Defining zero emissions as a final waste disposal rate (amount of final waste disposed / total amount of waste generated) of less than 0.5%, our objective is to achieve continued reductions in both the amount of waste generated and the amount of final waste disposed. The amount of waste generated in fiscal 2013 was 16,497 tons, a reduction of about 8% from fiscal 2012. On the other hand, the amount of final waste disposed increased by 25 tons due in part to disposal of brown bottles used for drinks, and the final waste disposal rate was 0.62%. Consequently, we were not able to achieve zero emissions, one of our reduction targets. Moving forward, we will continue working to increase the amount of final waste disposed by reevaluating disposal methods, increasing yields, and increasing recycling amounts.

Reducing Emissions of Chemical Substances

One of the Group's objectives is managing chemical substances in a suitable manner and continuously reducing emissions into the environment. The Group is striving to ascertain and control its emissions into the environment of pollutant release and transfer register (PRTR) substances (Class I Designated Chemical Substances) specified in the Law Concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management (the PRTR Law) as well as non-PRTR volatile organic compounds (VOCs), such as ethyl alcohol and methanol.

In fiscal 2013, the amount of Class I Designated Chemical Substances handled by the Group as a whole was 204 tons, up 4% from fiscal 2012, while the amount released into the air was 6.1 tons, a decrease of 2% from fiscal 2012.

Promoting Environmental Communications

At worksites and nearby areas, Mitsubishi Tanabe Pharma engages in social and environmental activities that include employees and their families. The Osaka Head Office and Kashima Office support the Osaka Marathon Cleanup, and before the marathon is held cleanup activities are implemented around worksites. At the Tokyo Head Office, in August 2013 we held an event using reclaimed wastewater provided by the Tokyo metropolitan government's Bureau of Sewerage to water the roads.

Road watering event at the Tokyo Head Office

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 October 2013, with the objectives of increasing the motivation of employees to grow, strengthening human resources development, enhancing willingness to take on challenges to achieve goals, and increasing the success of organizational units, we revised our rank, evaluation, and compensation systems. To operate these systems effectively, we utilize a cycle of training, utilization, evaluation, and treatment. In this way, we are striving to maximize the potential of our human resources and to strengthen our organizational capabilities.

In addition, under the Medium-Term Management Plan 11–15, we are "working to enhance our human resources and organizational structures to facilitate global development" and thereby contribute to reforms that will help us to become a "company that can continue to create new value."

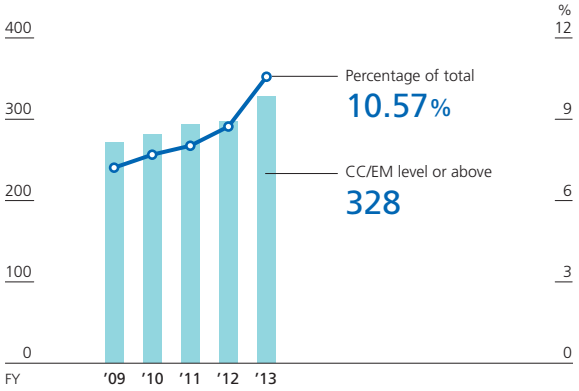
Enhancing Personnel Training

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. We are working to develop people with key attributes, which can be summarized as people who continue to create new value. These attributes include thinking of the patient first; continuing to record growth by thinking for yourself, working hard, and taking on challenges; prizing teamwork and continually leveraging your capabilities; and having pride and confidence in your work and continuing to contribute to the success of your team. To develop these types of people, we are enhancing individual capabilities through daily on-the-job (OJT) and in-house training programs and through the assignment of the right person to the right place. The Company is also working in the areas of employee career management and individual skill development. We will continue to offer next-generation leadership training programs for future managers as well as global leadership training programs.

Securing Diversity in the Workplace

The Company is moving ahead with initiatives to support workplace environments in which all employees can play active roles, without regard to gender, age, or nationality. The number of female employees with qualifications at the CC / EM level or above

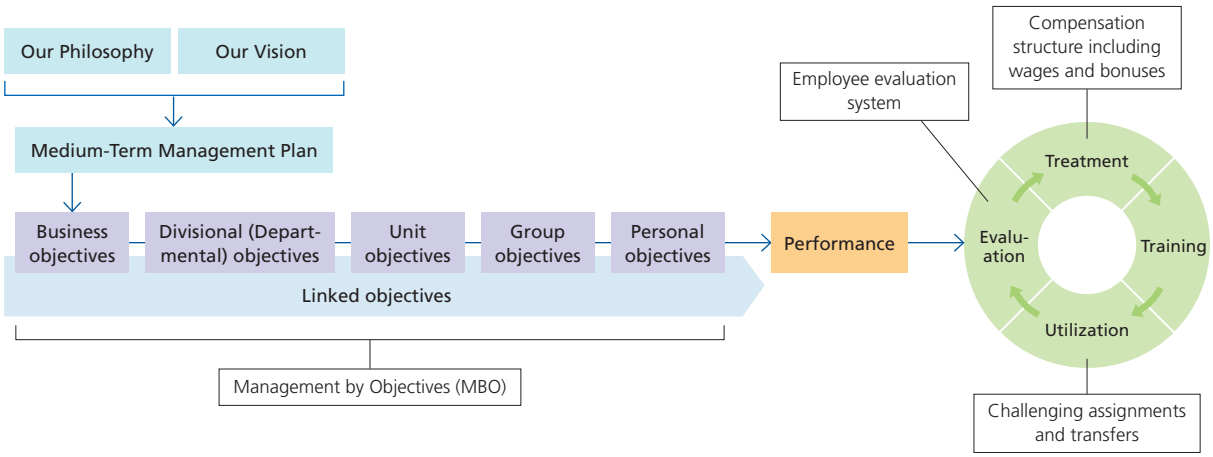
PERCENTAGE OF FEMALE EMPLOYEES WITH QUALIFICATIONS AT THE CC / EM LEVEL OR ABOVE



COMPREHENSIVE MANAGEMENT SYSTEM FOR HUMAN RESOURCES

Basic Approach

This system is a tool for the achievement of management objectives, and the Company thinks it is important to link the system to objective management, evaluation, treatment, training, and utilization.



(expert qualifications*) has increased steadily, reaching 328, or 10.57% of the total number of employees with expert qualifications.

The Company employs people with disabilities at a rate higher than the rate that is legally required, which was raised to 2.0% as of April 2013. In fiscal 2013, the Company's rate was 2.11%. In the future, we will continue to take steps to proactively advance the employment of people with disabilities, such as providing workplace environments and opportunities that accommodate the nature and degree of specific disabilities.

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

Consideration for Work-Life Balance

Mitsubishi Tanabe Pharma strives to help employees comfortably balance work with personal life and family commitments. The Company recognizes the importance of employees gaining satisfaction and pride from their work while fully experiencing meaningful life events, such as the birth of a child or caring for children and family members. This approach has earned the Company "*KURUMIN*" accreditation as a "general business owner conforming to standards" every year since 2007. This accreditation mark is based on the Next Generation Nurturing Support Measures Promotion Law. Mitsubishi Tanabe Pharma continues to take steps to enhance its work environment, such as establishing "No Overtime Days" to promote efficient working styles and encouraging employees to use their annual paid vacations.

Initiatives to Raise Human Rights Awareness

Based on an awareness of our social responsibilities as a company, we have formulated the Human Rights Awareness Promotion Regulations. The objective of these regulations is to foster the implementation of human rights awareness activities in order to raise the human rights awareness of all officers and employees and to ensure the established position of human rights at Mitsubishi Tanabe Pharma. The Company's Human Rights Awareness Promotion Committee, chaired by the President, plays a central role in Companywide human rights education activities. These activities include the provision of in-house training for all employees as well as the participation of employees in outside lectures.

Addressing Harassment and Mental Health Issues

To eliminate harassment in the workplace, the issue of harassment is addressed in new employee training, Groupwide compliance training, and management training. In these ways, the Group is working to raise awareness. Also, Mitsubishi Tanabe Pharma is actively working in mental health management. The Company has introduced a self-diagnosis program to help employees identify stress. We have also released a *Guidebook for Managing Mental Health* that comprehensively outlines mental health measures.

In April 2013, the Group held e-learning training for all employees to increase understanding of the issue of power harassment.

Securing Occupational Health and Safety

In accordance with the belief that safety is fundamental to the Company's very existence, in conducting its business operations the Mitsubishi Tanabe Pharma Group strives to be a "company that is trusted by communities" and implements safety measures designed to eliminate workplace accidents or disasters. To that end, the Company operates an occupational health and safety management system at each worksite and strives to prevent accidents and disasters by reducing risks. Consequently, in fiscal 2013 the number of accidents requiring absence from work was zero Groupwide for the first time. In contrast, the corresponding averages were 0.66 for the pharmaceutical manufacturing industry and 1.00 for the entire manufacturing industry.

Moving forward, we will continue to implement safety training for employees as we work to effectively operate the occupational health and safety management system.

Surveying Employee Attitudes

The Mitsubishi Tanabe Pharma Group implements employee attitude surveys to provide a comprehensive, periodic understanding of employee attitudes toward their jobs and of the Company's workplace environments. The findings are incorporated into management policies. In fiscal 2013, we improved "vertical" communication between management leaders and frontline staff, but we did not succeed in improving work stress and fatigue. In the future, aiming to achieve improvement in these items, we will take steps to strengthen our initiatives in such areas as work-life balance and career management support while maintaining our strengths in such areas as a high level of work satisfaction.

Promoting Project NVC

In December 2011, the Mitsubishi Tanabe Pharma Group implemented Project NVC, which focuses on building a more dynamic and robust organization. NVC stands for New Value Creation, which is a key concept of the Medium-Term Management Plan 11–15. With the goal of ensuring continuous growth for the Mitsubishi Tanabe Pharma Group going forward, in October 2012 we launched the NVC Future Creation Project. The project's activities included gathering middle-aged and younger employees from throughout the Company to have free discussions about what the Company should be like in 2030 and the initiatives needed to achieve that vision. Through this project, the human resources who will support the future will create a corporate culture that supports boldly taking on challenges. This corporate culture will also ensure that Mitsubishi Tanabe Pharma is an "inspiring company" in 20 years.

Financial Section

Six-Year Financial Summary

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31

	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
Financial figures (billions of yen):						
Net sales	**¥412.7**	¥419.2	¥407.2	¥409.5	¥404.7	¥414.8
Cost of sales	**169.4**	166.4	152.3	154.6	147.8	158.2
Selling, general and administrative expenses	**184.2**	183.8	185.8	178.4	195.5	184.9
Operating income	**59.1**	69.0	69.0	76.6	61.5	71.7
Net income	**45.4**	41.9	39.0	37.7	30.3	26.5
R&D expenses	**70.4**	66.5	70.2	65.8	83.1	73.1
Capital expenditures on an accrual basis	**12.6**	9.2	7.1	10.2	8.4	12.2
Depreciation and amortization	**9.1**	8.4	12.5	12.4	13.3	15.7
Total assets	**886.5**	866.8	819.9	818.7	796.9	810.8
Total net assets	**777.8**	752.9	721.5	696.0	676.8	666.2
Interest-bearing debt	**4.1**	1.2	2.2	2.9	2.5	7.5
Net cash provided by operating activities	**69.9**	60.6	37.2	59.1	23.9	50.5
Net cash used in investing activities	**(24.3)**	(35.0)	(63.2)	(7.7)	(61.2)	(74.5)
Net cash used in financing activities	**(21.1)**	(23.7)	(17.2)	(15.4)	(17.1)	(16.0)
Cash and cash equivalents at end of the year	**85.0**	58.7	54.3	97.9	63.0	116.9
Per share amounts (yen):						
Net income—basic	**80.92**	74.67	69.54	67.27	53.91	47.28
Net assets	**1,365.52**	1,333.22	1,275.85	1,230.16	1,194.79	1,162.69
Cash dividends	**40.00**	40.00	35.00	28.00	28.00	28.00
Financial indicators (%):						
Cost of sales ratio	**41.0**	39.7	37.4	37.7	36.5	38.1
SG&A expenses ratio	**44.6**	43.9	45.6	43.6	48.3	44.6
Operating margin	**14.3**	16.5	17.0	18.7	15.2	17.3
R&D expenses ratio	**17.1**	15.9	17.3	16.1	20.5	17.6
Equity ratio	**86.4**	86.3	87.3	84.3	84.1	80.5
ROA	**5.2**	5.0	4.8	4.7	3.8	3.3
ROE	**6.0**	5.7	5.5	5.5	4.6	4.1
Dividend payout ratio	**49.4**	53.6	50.3	41.6	51.9	59.2
Others:						
Number of employees	**9,065**	8,835	9,180	9,198	9,266	10,030
Number of common stock issued (thousands)	**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. In Japan's pharmaceutical market, which is the second largest market in the world after North America, growth is slowing. 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. In addition, the government has announced the objective of raising the generic drug substitution rate[1] to 60% or more by the end of March 2018. With the NHI drug price revisions implemented in April 2014 a new system to further advance the substitution of generic drugs for long-listed drugs (please refer to the system overview below) was introduced.

Moreover, there is an increase in new drug development in the area of unmet medical needs[2], 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.

1. Substitution rate = Number of generic drugs / (Number of original drugs for which there are generic competitors + Number of generic drugs)
2. Unmet medical needs: Medical needs that are not addressed adequately by existing therapies.

JAPAN'S NHI DRUG PRICE REVISION RATE

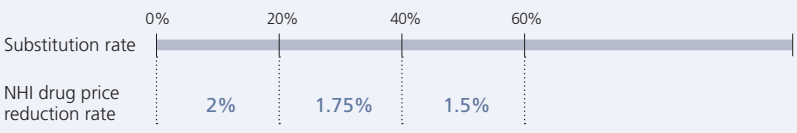
	April 2006	April 2008	April 2010	April 2012	April 2014
Drug price revision rate	– 6.7%	– 5.2%	– 5.75%[3]	– 6.00%[4]	– 2.65%[4, 5]

3. Not including the portion of the reduction regarding original drugs for which there are generic competitors
4. Not including the portion of the reduction regarding original drugs for which there are generic competitors or the portion of the reduction regarding generics
5. Figures include the additional consumption tax burden accompanying the increase in the consumption tax rate implemented in April 2014.

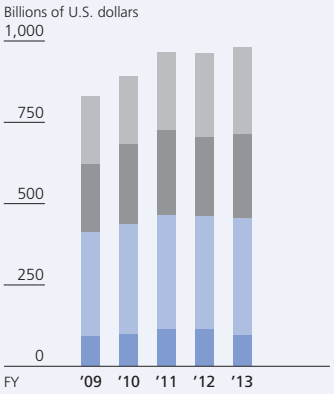
Source: Ministry of Health, Labour and Welfare, 2014 overview of revision of medical care compensation system

Overview of New System of Drug Price Reductions for Long-Listed Drugs

The NHI drug price revisions implemented in April 2014 included the introduction of a new system to further 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 uniformly reduced if the generic drug substitution rate is less than 60%. In this event, the NHI drug price reduction rate will be as follows. Accompanying the introduction of the new system, the previous system of special drug price reductions has been abolished. Under the previous system, the prices of long-listed drugs were reduced in the NHI drug price revision immediately following the launch of competing generics.

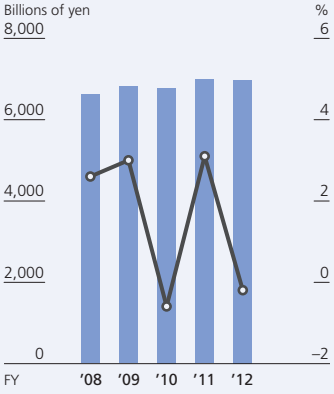


WORLDWIDE PHARMACEUTICAL MARKET



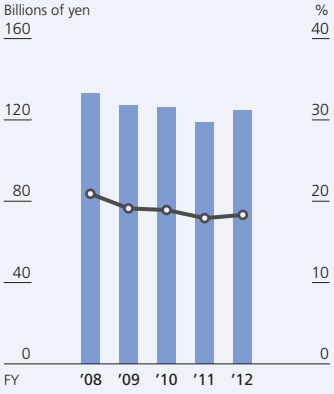
Source: Calculated based on *World Review Analyst 2014 January 2009–December 2013*, Reprinted with permission

AMOUNT OF DOMESTIC DRUG PRODUCTION



Source: Ministry of Health, Labour and Welfare, *Annual Report on Statistical Survey of Trends in Pharmaceutical Production 2012*

AVERAGE R&D EXPENSES OF 10 LEADING PHARMACEUTICAL COMPANIES IN JAPAN*



Source: Japan Pharmaceutical Manufacturers Association (JPMA), *DATA BOOK 2014*

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

Net Sales

In fiscal 2013, net sales decreased ¥6.5 billion, to ¥412.7 billion. Pharmaceuticals accounted for 99.7% of the Company's net sales.

The Group's pharmaceutical operations consist of ethical drugs and OTC products. These operations are conducted in Japan and overseas, but domestic sales of ethical drugs account for the majority of the Group's sales.

In fiscal 2013, the influence of generics competing with the Company's long-listed drugs increased, and the cancellation of the Company's alliance in the generic drug business with Choseido Pharmaceutical also had an effect on sales. Overall, the Company's net sales of ethical drugs in the domestic market were down ¥14.8 billion, to ¥341.7 billion.

In priority products, Remicade, an anti-TNFα monoclonal antibody, continued to record sales growth, posting a gain of ¥2.8 billion in the year under review, to ¥76.3 billion. The Company's other priority products are Maintate, a selective β1 blocker; Talion, for treatment of allergic disorders; and Kremezin, for treatment of chronic kidney disease. Combined sales of the four priority products were up ¥3.9 billion, to ¥118.0 billion.

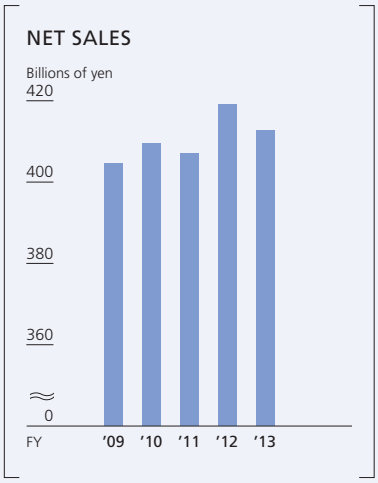
Total sales of the six new drugs launched since April 2011 were up ¥4.7 billion, to ¥26.7 billion. This gain was due largely to growth in sales of Simponi, a new product. Simponi is a subcutaneous injection.

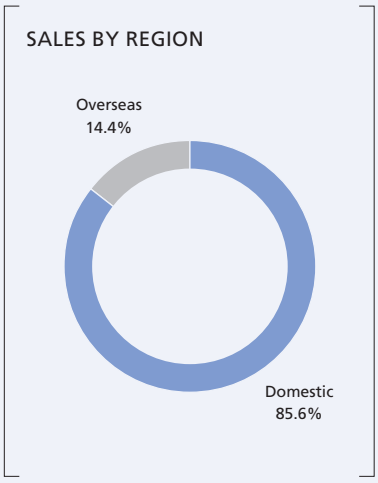
In addition, overall sales of vaccines were down ¥0.4 billion, to ¥28.4 billion, while sales of products handled by the Company's sales subsidiary, Tanabe Seiyaku Hanbai (including generic drugs and long-listed drugs transferred from the Company) declined ¥4.9 billion, to ¥14.1 billion, due to the above-mentioned cancellation of the Company's alliance with Choseido Pharmaceutical.

Overseas sales of ethical drugs were down ¥1.4 billion, to ¥22.0 billion, while sales of OTC drugs were down ¥0.8 billion, to ¥4.5 billion. In the Others category of pharmaceutical operations, sales were up ¥14.0 billion, to ¥43.4 billion, due in part to royalties from Gilenya, a multiple sclerosis (MS) treatment agent that was licensed to Novartis, of Switzerland.

Overall, net sales in the Group's pharmaceutical operations were down ¥3.1 billion year on year, to ¥411.6 billion. In other business, sales were down ¥3.4 billion, to ¥1.0 billion, due in part to the transfer of fine chemical operations in July 2012.

Overseas sales rose ¥11.6 billion, to ¥59.4 billion, and the overseas sales ratio was 14.4%, an increase of 3.0 percentage points.





Billions of yen

	FY 2013		FY 2012	Change	% Change
Net sales	¥412.7	(100.0%)	¥419.2	¥– 6.5	– 1.6%
Sales by business segment:					
Pharmaceuticals	411.6	(99.7)	414.7	– 3.1	– 0.7
Domestic ethical drugs	341.7	(82.8)	356.6	– 14.8	– 4.2
Overseas ethical drugs	22.0	(5.3)	23.4	– 1.4	– 5.8
OTC drugs	4.5	(1.1)	5.3	– 0.8	– 15.6
Others	43.4	(10.5)	29.5	+14.0	+47.4
Other business	1.0	(0.3)	4.5	– 3.4	– 76.8
Sales by region:					
Domestic	353.3	(85.6)	371.4	– 18.1	– 4.9
Overseas	59.4	(14.4)	47.7	+11.6	+24.4

Note: Figures in parentheses are percentages of net sales.

SALES OF MAJOR ETHICAL DRUGS

Billions of yen

	FY 2013	FY 2012	Change	% Change
Domestic ethical drugs:				
Priority products	¥118.0	¥114.1	¥+3.9	+3.4%
Remicade	76.3	73.5	+2.8	+3.9
Maintate	15.5	14.1	+1.3	+9.6
Talion	13.7	14.3	– 0.6	– 4.4
Kremezin	12.6	12.2	+0.4	+3.0
New products[1]	26.7	22.0	+4.7	+21.6
Simponi	9.4	5.3	+4.1	+77.5
Tetrabik	6.7	4.5	+2.2	+48.3
Lexapro	6.5	4.6	+1.9	+42.0
Imusera	2.3	1.3	+1.0	+81.2
Telavic	1.1	5.1	– 4.1	– 78.8
Tenelia	0.8	1.2	– 0.4	– 34.5
Vaccines[2]	28.4	28.8	– 0.4	– 1.3
Influenza	7.2	7.7	– 0.4	– 5.9
Mearubik	6.0	8.0	– 2.0	– 25.1
Tanabe Seiyaku Hanbai's products[3]	14.1	19.0	– 4.9	– 25.9
Licensing fee, etc.	37.6	22.7	+14.9	+65.8
Royalty from Gilenya	32.2	19.5	+12.6	+64.8

1. New products launched since April 2011
2. Including sales of Tetrabik, a new product
3. In addition to generics, includes long-listed drugs transferred from Mitsubishi Tanabe Pharma

Operating Income

In fiscal 2013, operating income was down ¥9.8 billion, to ¥59.1 billion.

In addition to the decline in net sales, after the integration of plasma fractionation operations, plasma fractionation products changed from an in-house product to a product that is procured from another company. There was also a change in product mix and an inventory write-down. As a result, gross profit declined ¥9.5 billion, to ¥243.3 billion. The cost of sales ratio increased 1.3 percentage points, to 41.0%.

SG&A expenses increased ¥0.4 billion, to ¥184.2 billion. Due to the integration of plasma fractionation operations, expenses related to those operations declined. Nonetheless, R&D expenses in the year under review were up ¥3.9 billion, to ¥70.4 billion.

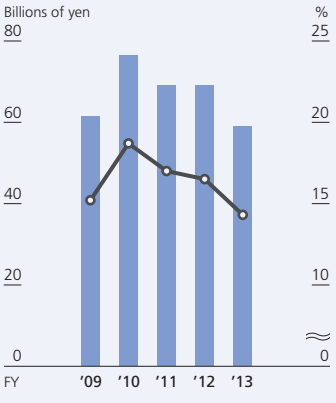
The R&D expenses ratio was up 1.2 percentage points, to 17.1%.

Billions of yen

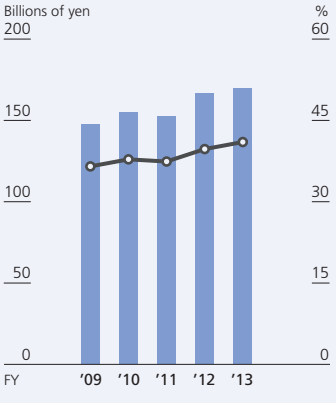
	FY 2013		FY 2012	Change	% Change
Cost of sales	¥169.4	(41.0%)	¥166.4	¥+3.0	+1.8%
SG&A expenses	184.2	(44.6)	183.8	+0.4	+0.2
R&D expenses	70.4	(17.1)	66.5	+3.9	+5.8
Non-R&D expenses	113.8	(27.5)	117.3	– 3.5	– 3.0
Labor costs	48.4	(11.7)	51.9	– 3.5	– 6.8
Amortization of goodwill	10.6	(2.6)	10.3	+0.3	+3.3
Other	54.8	(13.3)	55.1	– 0.3	– 0.6
Operating income	59.1	(14.3)	69.0	– 9.8	– 14.3

Note: Figures in parentheses are percentages of net sales.

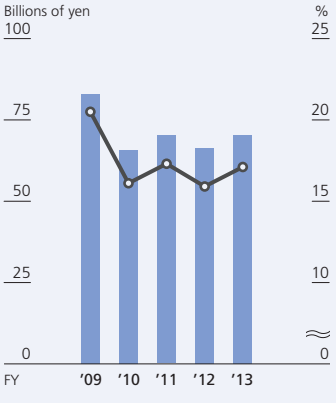
OPERATING INCOME / OPERATING MARGIN



COST OF SALES / COST OF SALES RATIO



R&D EXPENSES / R&D EXPENSES RATIO

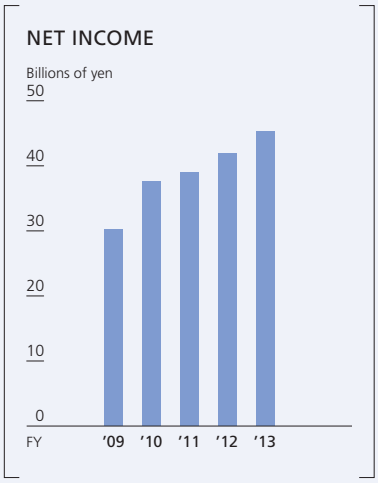


Net Income

In fiscal 2013, net income increased ¥3.5 billion, to ¥45.4 billion. Operating income declined, but foreign exchange gain was ¥2.5 billion, compared with foreign exchange loss of ¥1.1 billion in the previous fiscal year, and non-operating income and loss improved ¥2.3 billion.

Extraordinary income was up ¥11.1 billion, to ¥15.3 billion, due in part to profit on arbitration award of ¥11.0 billion following an arbitration decision regarding Remicade, as well as gain on sale of investments in securities of ¥2.4 billion, compared with ¥0.9 billion in the previous year. In the previous year, extraordinary income included gain on sales of property, plant and equipment of ¥3.0 billion.

Extraordinary losses were down ¥1.2 billion, to ¥4.8 billion, including special retirement expenses of ¥2.6 billion and loss on impairment of fixed assets of ¥1.4 billion, compared with ¥0.8 billion in the previous fiscal year. In the previous fiscal year, extraordinary losses included loss on business integration of ¥2.3 billion and provision of reserve for HCV litigation of ¥2.0 billion.



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

Assets, Liabilities, and Net Assets

Total assets at the end of the fiscal year were ¥886.5 billion, an increase of ¥19.7 billion from the previous year-end. Marketable securities and deposits increased, and as a result total current assets rose ¥63.8 billion year on year, to ¥540.5 billion. Fixed assets decreased ¥44.1 billion, to ¥346.0 billion. Intangible fixed assets rose, while investments in securities decreased.

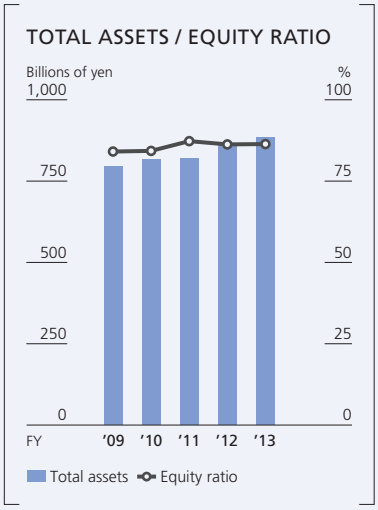
Total liabilities were down ¥5.2 billion from the end of the previous year, to ¥108.6 billion. Income taxes payable decreased.

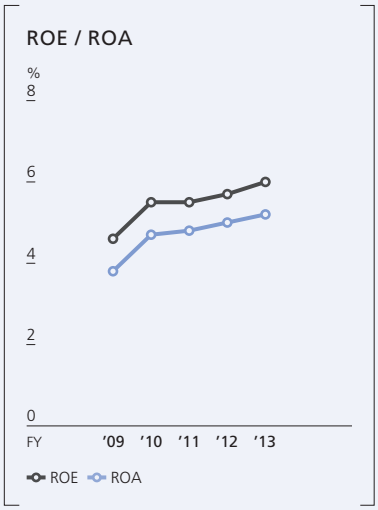
Total net assets at the end of the period were up ¥24.9 billion from the end of the previous fiscal year, to ¥777.8 billion. Net income was ¥45.4 billion, and cash dividends paid were ¥22.4 billion. As a result, retained earnings increased ¥23.0 billion. Total accumulated other comprehensive income (loss) declined ¥4.8 billion, and minority interests increased ¥6.8 billion. As a result, the equity ratio was 86.4%, an increase of 0.1 percentage point from the end of the previous fiscal year.

Billions of yen

	FY 2013		FY 2012	Change	% Change
Total assets	¥886.5	(100.0%)	¥866.8	¥+19.7	+2.3%
Total current assets	540.5	(61.0)	476.7	+63.8	+13.4
Fixed assets	346.0	(39.0)	390.1	– 44.1	– 11.3
Total liabilities	108.6	(12.3)	113.9	– 5.2	– 4.6
Total current liabilities	81.8	(9.2)	86.1	– 4.3	– 5.0
Total long-term liabilities	26.8	(3.0)	27.7	– 0.9	– 3.4
Total net assets	777.8	(87.7)	752.9	+24.9	+3.3

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





Note: Extraordinary losses were ¥10.8 billion in fiscal 2009, ¥13.2 billion in fiscal 2010, ¥6.1 billion in fiscal 2011, ¥5.9 billion in fiscal 2012, and ¥4.8 billion in fiscal 2013.

Cash Flows

Net cash provided by operating activities was ¥69.9 billion, an increase of ¥9.3 billion.

Major inflows included income before income taxes and minority interests of ¥72.4 billion, while major outflows included income taxes paid of ¥28.1 billion.

Net cash used in investing activities was ¥24.3 billion, a decrease of ¥10.6 billion from the previous fiscal year. Inflows included proceeds from sales and redemption of marketable securities and investment in securities, but outflows were higher, including purchase of investment in subsidiaries resulting in consolidation scope change and increase in time deposits for investment purposes.

Net cash used in financing activities was ¥21.1 billion, a decrease of ¥2.6 billion. Cash dividends paid was ¥22.4 billion, the same as in the previous year.

As a result, net cash inflows for the fiscal year were ¥26.2 billion, and the balance of cash and cash equivalents at fiscal year-end was ¥85.0 billion.

Billions of yen

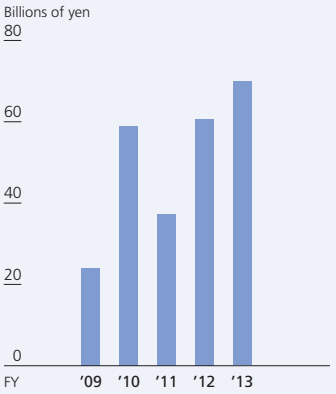
	FY 2013	FY 2012	Change
Net cash provided by operating activities	**¥69.9**	¥60.6	¥+9.3
Net cash used in investing activities	**(24.3)**	(35.0)	+10.6
Net cash used in financing activities	**(21.1)**	(23.7)	+2.6
Cash and cash equivalents at end of the year	**85.0**	58.7	+26.2

Dividends

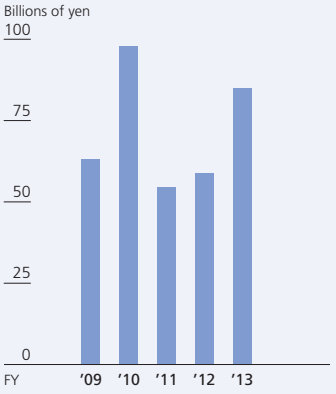
The Company's basic policy calls for providing a stable and continuous return of profits to shareholders while striving to increase enterprise value by aggressively investing to strengthen R&D and marketing activities from a medium- to long-term perspective. Under the Medium-Term Management Plan 11–15, the basic aims are for profit growth and a dividend payout ratio of 50% (the basic objective for the dividend payout ratio prior to amortization of goodwill is 40%), and the Company will work to further enhance return to shareholders.

In accordance with the basic policy described above, the Company set annual dividends at ¥40.0 per share, the same as in the previous year. The dividend payout ratio was 49.4%, compared with 53.6% in the previous fiscal year.

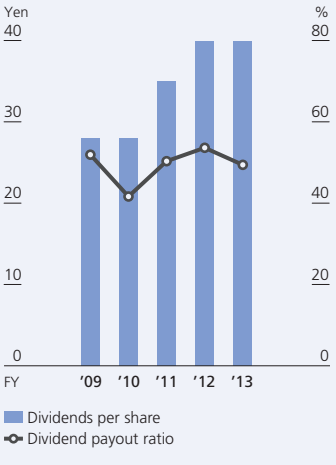
NET CASH PROVIDED BY OPERATING ACTIVITIES



CASH AND CASH EQUIVALENTS



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 2013 (ended March 31, 2014).

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 everything about safety 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 sales, the Group's financial position or results could be significantly affected.

5. Risks Related to Intellectual Property

If the Group's business activities conflict with the patents or other intellectual property rights of other parties, it is possible that activities could be suspended or that there could be a legal dispute. Also, in the event that the Group believes that its patents or other intellectual property rights have been infringed upon by another party, the Group might file lawsuits. As a result of these actions, there could be an influence on the Group's financial position or results.

6. Risks Related to Alliance with Other Companies

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, 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 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.

8. Risks Related to Legal Issues

In the research, development, and production of pharmaceuticals, there is a trend toward stricter regulations regarding product quality and the environment. In the event that these regulations are further tightened, there is a possibility that corresponding additional expenses will arise, which could have an adverse influence on the Group's financial position or results.

9. Risks Related to Product Liability

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

10. Risks Related to Financial Market Fluctuations

a) In fiscal 2013, overseas sales accounted for 14.4% of the Group's consolidated net sales. Certain raw materials for products and finished goods handled by the Company are directly imported from overseas. Substantial fluctuations in exchange rates could lead to declines in sales, increases in procurement costs, the generation of foreign exchange losses, etc., as well as declines in the assets of overseas consolidated subsidiaries, etc., and the Group's financial position and results of operations could be significantly affected.

b) At the end of fiscal 2013, the Group held marketable securities of ¥106.4 billion and investments in securities of ¥71.5 billion, certain of which are liquid stocks and bonds, etc. Accordingly, events such as the recording of a loss on valuation due to declines in market prices could have a significant influence on the Group's financial position or results.

11. Risks Related to Environmental Safety

In the event that serious damage to the environment is caused by hazardous chemical substances that are used in operating activities, it is possible that the Group could incur expenses needed for environmental improvement, face a decline in societal trust, bear responsibility for the payment of compensation, etc. In the event that one or more of these situations occurs, the Group's financial position or results could be significantly affected.

12. Risks Related to Lawsuits

a) In regard to operational activities, in addition to adverse drug reactions, it is possible that the Group could face lawsuits regarding product liability, labor problems, fair trade, etc. As a result, there could be a significant influence on the Group's financial position or results.

b) The Japanese government, the Company, its subsidiary Benesis Corporation, and another party were defendants in lawsuits in which the plaintiffs sought compensation for damages allegedly suffered through HCV (hepatitis C virus) infection following use of a fibrinogen product or a blood coagulation factor IX product (Christmassin). However, to resolve this litigation, in January 2008 the Japanese government promulgated and put into effect "the Special Relief Law Concerning the Payment of Benefits to Relieve the Patients of Hepatitis C Infected through Specified Fibrinogen Preparations and Specified Blood-Coagulation Factor IX Preparations Contaminated by Hepatitis C Virus" ("the Special Law"). In regard to the expenses associated with the relief payments under the Special Law, the standards for the method and the allocation of the burden of the expenses were announced on April 10, 2009. In accordance with those standards, the Company has made provisions for those expenses. For this expense burden, the cumulative total of the provisions for reserve for HCV litigation was ¥25.0 billion, of which ¥22.4 billion had already been paid out as of the end of March 2014. 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 ¥5.2 billion in addition to payments made in accordance with the portions in (1) above.

13. Risks Related to Information Management

The Group possesses large amounts of 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.

14. Risks Related to Substantial Upfront Investment for the Purpose of Expanding Overseas Operations

Substantial upfront investment is necessary to expand and advance overseas operations, and it is possible that, due to changes in the laws and systems of each country, the worsening of diplomatic relations, or natural disaster, etc., the opportunity to recover that investment might be lost and operations under development might be affected. As a result of these actions, there could be an influence on the Group's financial position or results.

15. Major Assumptions Regarding Operational Activities

Pharmaceutical manufacturing and sales are the Group's principal business operations. In accordance with the Pharmaceutical Affairs Law, the Group has obtained licenses for pharmaceutical manufacturing and sales, pharmaceutical manufacturing and wholesale pharmaceutical sales, and conducts manufacturing and sales of ethical drugs 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.

16. Quality Control Problem, Etc., at Consolidated Subsidiary

The administrative action of the quality control problem at a consolidated subsidiary has damaged the Group's reputation among patients and health care professionals and adversely affected the Group's image. If such incidents continue, it is possible that the Group's financial position and results of operations could be significantly affected.

17. Risks Related to Major Disasters and Other Events

In the event of a major 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, medical, and other institutions at which testing is conducted, or 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 Mitsubishi Chemical Holdings Corporation Group (MCHC Group)

The Company's relationship with its parent company, MCHC, and the MCHC Group, includes the following transactions:

- conclusion of the deposition contract of money with the parent company.
- procurement of raw materials, etc., and sales of chemical products, etc.
- conclusion of leases and consignment contracts for the sites of research facilities and plants and the buildings, etc., thereon, in Yokohama City, Kanagawa Prefecture, and Kamisu City, Ibaraki Prefecture.
- payment as consideration for exclusive rights to intellectual property held by the corporate group of the parent company.
- conclusion of contracts for research outsourcing and information disclosure.
- consignment contracts with overseas subsidiaries.
- conclusion of the contract of the burden of operational expenses with the parent company.

Fundamentally, these transactions involve rational transaction terms decided upon following two-way negotiations conducted with reference to general market prices.

Personnel Relationships with the MCHC Group

a) Concurrent service of directors and corporate auditors
As of June 20, 2014, the directors, corporate auditors, and employees of MCHC and its Group companies include one person who is concurrently serving as a corporate auditor (non-full time) of the Company. In addition, one representative director of an MCHC Group company is concurrently serving as a director of the Company.
As of June 25, 2014, Masayuki Mitsuka, who is a representative director of the Company, serves concurrently as a director (non-full time) of MCHC and a director (non-full time) of The KAITEKI Institute, Inc.

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 Balance Sheets

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Assets			
Current assets:			
Cash and deposits (Notes 5 and 7)	¥ 27,187	¥ 20,281	$ 264,157
Notes and accounts receivable, trade (Note 7):			
Notes	681	880	6,617
Accounts	122,856	128,988	1,193,704
Less allowance for doubtful receivables	(39)	(43)	(379)
	123,498	129,825	1,199,942
Marketable securities (Notes 7 and 8)	106,470	63,993	1,034,493
Inventories (Note 9)	93,700	92,783	910,416
Deferred income taxes (Note 12)	8,153	8,373	79,217
Deposits (Note 7)	172,149	151,554	1,672,649
Other current assets	9,335	9,877	90,700
Total current assets	540,492	476,686	5,251,574
Property, plant and equipment (Note 19):			
Land	38,346	38,998	372,581
Buildings and structures	106,307	106,481	1,032,909
Machinery and vehicles	99,686	94,246	968,577
Tools, furniture and fixtures	37,594	36,212	365,274
Leased equipment	518	105	5,033
Construction in progress	3,653	2,287	35,494
	286,104	278,329	2,779,868
Less accumulated depreciation	(187,764)	(186,046)	(1,824,369)
Property, plant and equipment, net	98,340	92,283	955,499
Investments, goodwill and other assets:			
Investments in securities (Notes 7 and 8):			
Unconsolidated subsidiaries and affiliates	4,547	5,040	44,180
Others	67,036	115,944	651,341
Goodwill (Note 26)	96,180	99,527	934,512
Software	3,891	2,428	37,806
Prepaid pension expenses	–	36,883	–
Asset for retirement benefits (Note 11)	16,305	–	158,424
Deferred income taxes (Note 12)	677	4,173	6,578
Other assets	59,010	33,812	573,358
Less allowance for doubtful receivables	(2)	(2)	(19)
Total investments, goodwill and other assets	247,644	297,805	2,406,180
Total assets	¥ 886,476	¥ 866,774	$ 8,613,253

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Liabilities and Net Assets			
Current liabilities:			
Short-term debt (Note 7)	¥ 1,225	¥ 1,174	$ 11,902
Current portion of long-term loans	128	–	1,244
Notes and accounts payable, trade (Note 7)	33,986	38,072	330,218
Accounts payable, other	16,773	15,589	162,971
Income taxes payable (Note 12)	9,683	15,661	94,083
Reserve for employees' bonuses	10,169	10,291	98,805
Reserve for sales returns	106	139	1,030
Other current liabilities (Note 10)	9,767	5,192	94,899
Total current liabilities	81,837	86,118	795,152
Long-term liabilities:			
Long-term debt (Note 7)	958	–	9,308
Accrued retirement benefits for employees	–	9,443	–
Deferred income taxes (Note 12)	13,356	8,365	129,771
Reserve for health management allowances for HIV compensation	1,576	1,627	15,313
Reserve for health management allowances for SMON compensation	2,976	3,172	28,916
Reserve for HCV litigation (Note 27)	2,634	3,593	25,593
Liability for retirement benefits	2,146	–	20,851
Other liabilities (Note 10)	3,156	1,534	30,664
Total long-term liabilities	26,802	27,734	260,416
Net assets:			
Shareholders' equity (Note 13):			
Common stock:			
Authorized – 2,000,000,000 shares			
Issued – 561,417,916 shares at March 31, 2014 and 2013	50,000	50,000	485,814
Capital surplus	451,186	451,186	4,383,852
Retained earnings	266,575	243,621	2,590,118
Treasury stock, at cost	(490)	(487)	(4,761)
Total shareholders' equity	767,271	744,320	7,455,023
Accumulated other comprehensive income (loss):			
Unrealized holding gain on securities	8,747	7,189	84,988
Deferred gain on hedges	493	1,640	4,790
Translation adjustments	(2,399)	(5,220)	(23,309)
Retirement benefits liability adjustments (Note 11)	(8,066)	–	(78,371)
Total accumulated other comprehensive (loss) income	(1,225)	3,609	(11,902)
Minority interests	11,791	4,993	114,564
Total net assets	777,837	752,922	7,557,685
Total liabilities and net assets	¥886,476	¥866,774	$8,613,253

Consolidated Statements of Income

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales (Note 25)	¥412,675	¥419,179	$4,009,668
Cost of sales	169,363	166,388	1,645,579
Gross profit	243,312	252,791	2,364,089
Selling, general and administrative expenses (Note 15)	184,193	183,823	1,789,672
Operating income	59,119	68,968	574,417
Other income (expenses):			
Interest and dividend income	2,375	2,489	23,076
Interest expense	(90)	(70)	(874)
Equity in earnings of affiliates	595	369	5,781
Foreign exchange gain (loss), net	2,527	(1,137)	24,553
Donations	(659)	(474)	(6,403)
Gain on sale or disposal of fixed assets, net	632	2,534	6,141
Gain on sale of investments in securities	2,399	544	23,309
Personnel expenses for seconded employees	(799)	(490)	(7,763)
Gain on arbitration award (Note 18)	11,011	–	106,986
Gain on step acquisitions (Note 16)	930	–	9,036
Provision of reserve for HCV litigation	–	(2,020)	–
Gain on transfer of business	–	354	–
Loss on business integration	–	(2,269)	–
Loss on impairment of investments in securities (Note 8)	(594)	(257)	(5,771)
Special retirement expenses (Note 17)	(2,603)	–	(25,291)
Loss on impairment of fixed assets (Note 19)	(1,372)	(756)	(13,331)
Other, net	(1,030)	(94)	(10,009)
	13,322	(1,277)	129,440
Income before income taxes and minority interests	72,441	67,691	703,857
Income taxes (Note 12):			
Current	22,377	26,926	217,421
Deferred	4,655	(1,188)	45,229
	27,032	25,738	262,650
Income before minority interests	45,409	41,953	441,207
Minority interests	16	61	156
Net income	¥ 45,393	¥ 41,892	$ 441,051

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	**¥45,409**	¥41,953	**$441,207**
Other comprehensive income (Note 20):			
Unrealized holding gain on securities	**1,558**	7,273	**15,138**
Deferred (loss) gain on hedges	**(1,147)**	1,547	**(11,145)**
Translation adjustments	**3,240**	4,743	**31,481**
Other comprehensive income of equity-method companies attributable to the Company	**55**	25	**534**
Total other comprehensive income	**3,706**	13,588	**36,008**
Comprehensive income	**¥49,115**	¥55,541	**$477,215**
Comprehensive income attributable to:			
Shareholders of the Company	**¥48,625**	¥54,624	**$472,454**
Minority interests	**¥ 490**	¥ 917	**$ 4,761**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

Millions of yen

	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain (loss) on securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	Total net assets
Balance at April 1, 2012	561,417	¥50,000	¥451,186	¥224,168	¥(486)	¥ (82)	¥ 93	¥(9,134)	¥ –	¥ 5,740	¥721,485
Net income for the year	–	–	–	41,892	–	–	–	–	–	–	41,892
Cash dividends	–	–	–	(22,439)	–	–	–	–	–	–	(22,439)
Increase in treasury stock	–	–	–	–	(1)	–	–	–	–	–	(1)
Gain on sales of treasury stock	–	–	–	–	0	–	–	–	–	–	0
Net changes in items other than shareholders' equity	–	–	–	–	–	7,271	1,547	3,914	–	(747)	11,985
Balance at April 1, 2013	561,417	¥50,000	¥451,186	¥243,621	¥(487)	¥7,189	¥ 1,640	¥(5,220)	¥ –	¥ 4,993	¥752,922
Net income for the year	–	–	–	45,393	–	–	–	–	–	–	45,393
Cash dividends	–	–	–	(22,439)	–	–	–	–	–	–	(22,439)
Increase in treasury stock	–	–	–	–	(3)	–	–	–	–	–	(3)
Gain on sales of treasury stock	–	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	1,558	(1,147)	2,821	(8,066)	6,798	1,964
Balance at March 31, 2014	561,417	¥50,000	¥451,186	¥266,575	¥(490)	¥8,747	¥ 493	¥(2,399)	¥(8,066)	¥11,791	¥777,837

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain (loss) on securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Minority interests	Total net assets
Balance at April 1, 2013	$485,814	$4,383,852	$2,367,091	$(4,732)	$69,850	$ 15,935	$(50,719)	$ –	$ 48,513	$7,315,604
Net income for the year	–	–	441,051	–	–	–	–	–	–	441,051
Cash dividends	–	–	(218,024)	–	–	–	–	–	–	(218,024)
Increase in treasury stock	–	–	–	(29)	–	–	–	–	–	(29)
Gain on sales of treasury stock	–	–	–	–	–	–	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	15,138	(11,145)	27,410	(78,371)	66,051	19,083
Balance at March 31, 2014	$485,814	$4,383,852	$2,590,118	$(4,761)	$84,988	$ 4,790	$(23,309)	$(78,371)	$114,564	$7,557,685

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 72,441	¥ 67,691	$ 703,857
Adjustments for:			
Depreciation and amortization	9,122	8,438	88,632
Loss on impairment of fixed assets	1,372	756	13,331
Amortization of goodwill	10,637	10,294	103,352
Decrease in accrued retirement benefits for employees	(9,443)	(1,201)	(91,751)
Increase in net defined benefit liability	7,893	–	76,691
Increase in prepaid pension expenses	36,883	5,218	358,366
Decrease in net defined benefit asset	(34,482)	–	(335,037)
(Decrease) increase in reserve for HCV litigation	(959)	1,073	(9,318)
Decrease in reserve for loss on disaster	–	(40)	–
Interest and dividend income	(2,375)	(2,489)	(23,076)
Gain on sale or disposal of fixed assets, net	(709)	(2,767)	(6,889)
Gain on transfer of business	–	(354)	–
Gain on arbitration award	(11,011)	–	(106,986)
Gain on step acquisitions	(930)	–	(9,036)
Gain on sale of investments in securities	(2,399)	(544)	(23,309)
Loss on impairment of investments in securities	594	257	5,771
Equity in earnings of affiliates	(595)	(369)	(5,781)
Loss on business integration	–	2,269	–
Decrease (increase) in notes and accounts receivable, trade	6,570	(1,869)	63,836
Increase in inventories	(702)	(17,704)	(6,821)
(Decrease) increase in notes and accounts payable, trade	(4,071)	8,584	(39,555)
Increase (decrease) in accounts payable, other	803	(716)	7,802
Other, net	3,797	(723)	36,893
Subtotal	82,436	75,804	800,972
Interest and dividends received	3,473	2,747	33,744
Interest paid	(91)	(60)	(884)
Proceeds from arbitration award	12,208	–	118,616
Income taxes paid	(28,130)	(17,902)	(273,319)
Net cash provided by operating activities	69,896	60,589	679,129
Cash flows from investing activities:			
Purchases of marketable securities	(38,000)	(64,250)	(369,219)
Proceeds from sales and redemption of marketable securities	60,371	54,945	586,582
Increase in time deposits	(11,142)	(611)	(108,259)
Decrease in time deposits	9,265	978	90,021
Increase in deposits	(20,677)	(20,720)	(200,904)
Decrease (increase) in long-term deposits	(12,302)	1,875	(119,530)
Purchases of property, plant and equipment	2,919	(8,681)	28,362
Proceeds from sales of property, plant and equipment	(2,038)	10,157	(19,802)
Purchases of intangible fixed assets	(2,329)	(2,142)	(22,629)
Purchases of investments in securities	11,241	(6,830)	109,221
Proceeds from sales and redemption of investments in securities	(3,692)	6,283	(35,873)
Purchases of investments in subsidiaries (Note 6)	(17,897)	(6,015)	(173,892)
Proceeds from transfer of business	–	1,384	–
Other, net	(63)	(1,341)	(611)
Net cash used in investing activities	(24,344)	(34,968)	(236,533)
Cash flows from financing activities:			
Decrease in short-term debt, net	(168)	(1,208)	(1,632)
Increase in long-term debt	1,011	–	9,823
Proceeds from stock issuance to minority shareholders	581	–	5,645
Cash dividends paid	(22,439)	(22,439)	(218,024)
Other, net	(83)	(30)	(806)
Net cash used in financing activities	(21,098)	(23,677)	(204,994)
Effect of exchange rate changes on cash and cash equivalents	1,758	2,457	17,081
Net increase in cash and cash equivalents	26,212	4,401	254,683
Cash and cash equivalents at beginning of the year	58,745	54,344	570,783
Cash and cash equivalents at end of the year (Notes 5 and 6)	¥ 84,957	¥ 58,745	$ 825,466

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Tanabe Pharma Corporation and Consolidated Subsidiaries

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of Mitsubishi Tanabe Pharma Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is familiar to readers outside Japan. In addition, the notes to the accompanying consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S.$1. The approximate rate of exchange prevailing at May 31, 2014 was ¥101.66 to U.S.$1. This translation of convenience should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 31 significant consolidated subsidiaries for the year ended March 31, 2014.

The Company sold its entire shareholdings in Tanabe Europe N.V., and, as a result, this subsidiary was excluded from the scope of consolidation. The consolidated financial results of the current fiscal year include the results of Tanabe Europe N.V. for the first quarter ended June 30, 2013.

MTPC Holdings Canada, Inc., which has been newly established, was included in the Company's scope of consolidation in the second quarter ended September 30, 2013. In addition the Company acquired shares of Medicago Inc. through MTPC Holdings Canada, Inc. and, as a result, Medicago Inc. was also newly included in the scope of consolidation.

Two affiliates, including API Corporation, are accounted for by the equity method.

Two unconsolidated subsidiaries, including Tanabe Seiyaku Malaysia, and three affiliated companies, including Arkema Yoshitomi Ltd., are not accounted for by the equity method because the net income and retained earnings of these companies are insignificant.

Among consolidated subsidiaries, Tianjin Tanabe Seiyaku Co., Ltd. and five other subsidiaries have fiscal years ending on December 31. Their temporary financial statements based on a provisional settlement of accounts as of March 31, are used for preparing the consolidated financial statements. However, the closing dates of the other consolidated subsidiaries are the same as the consolidated closing date.

Medicago Inc. and its two subsidiaries have fiscal years ending on December 31. Since the difference between the fiscal year-end of the Company and those subsidiaries is within three months, the results of these subsidiaries are consolidated by using their financial statements as of December 31 with adjustments made as necessary to account for significant transactions occurring between December 31 and March 31.

(2) Foreign Currency Transactions

All monetary receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and are presented as translation adjustments and minority interests in the accompanying consolidated balance sheets.

(3) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(4) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(5) Marketable Securities and Investments in Securities

Marketable securities and investments in securities are classified into one of the following categories based on the intent of holding, resulting in different measurements of and method of accounting for changes in fair value. Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with available market value are stated at market value. Unrealized holding gains and unrealized holding losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income (loss). Other available-for-sale securities with no available market value are stated at cost determined by the moving average method. Cost of securities sold is determined by the moving average method. Investments in investment business limited liability partnerships and other similar partnerships, which are deemed to be securities under Article 2, Clause 2 of the Financial Instruments and Exchange Law of Japan, are valued at the amount of the underlying equity in their net assets based on the latest financial statements available as of the closing date stipulated in the partnership agreement.

Significant declines in market value or the net asset value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies not accounted for by the equity method, and available-for-sale securities, judged to be other than temporary, are charged to income.

(6) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the weighted average method.

(7) Property, Plant and Equipment and Depreciation (excluding leased equipment)

Depreciation of property, plant and equipment is calculated primarily by the straight-line method. Principal estimated useful lives are as follows:

Buildings and structures	10 to 50 years
Machinery and equipment	4 to 8 years

(8) Intangible Fixed Assets (excluding leased assets)

Intangible fixed assets are amortized by the straight-line method. Amortization of software utilized internally is calculated by the straight-line method over an estimated useful life of primarily 5 years.

(9) Leased Equipment

Leased equipment arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

Among finance lease transactions which do not transfer ownership to lessee, those that started on or before March 31, 2008 are accounted for as operating leases.

(10) Reserve for Employees' Bonuses

Reserve for employees' bonuses is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(11) Reserve for Sales Returns

Reserve for sales returns is estimated and recorded to provide for future losses on the return of products.

(12) Reserve for Health Management Allowances for HIV Compensation

To provide for future payments of health management allowances and settlement payments (including attorney fees) in connection with a lawsuit for damages filed by plaintiffs infected with HIV, the Company has set aside an estimated amount for such future payments.

In accordance with the settlement reached in March 1996, for health management allowances, the Company has set aside the present value of the estimated amount of future payments to be made calculated with reference to the amounts actually paid to patients with AIDS who have already reached settlements; and, for settlement payments, the Company has set aside the estimated amount of payments to be made to existing plaintiffs of HIV lawsuits as of March 31, 2014 and to future plaintiffs, as patients infected with HIV through the use of antihemophilic preparations (non-heat-treated concentrated preparations), calculated with reference to settlement outcomes up to March 31, 2014.

(13) Reserve for Health Management Allowances for SMON (Sub-acute Myelo-Optical-Neuropathy) Compensation

The Company pays health management allowances and nursing expenses for plaintiffs covered under the compromise settlement reached in the SMON litigation.

The Company has made a provision in the accompanying consolidated financial statements for the estimated future medical treatment payments to be made over the remaining lives of the parties entitled to such payments under the compromise settlement.

(14) 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" ("Special Law"), which was promulgated and enacted to facilitate the settlement of damage recovery lawsuits filed on behalf of people infected with HCV (hepatitis C virus), the Company has set aside the estimated amount of payments based on estimates of the people receiving relief and the amount of relief payments required under the Special Law.

(15) Accounting Treatment of Retirement Benefits for Employees

Accrued retirement benefits for employees are provided based on the estimated retirement benefit obligation and the pension assets. The retirement benefits are attributed to periods corresponding to service years of eligible employees based on the straight-line method.

Prior service cost is amortized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

On April 1, 2009, the Company integrated the retirement benefit system used by the former Tanabe Seiyaku Co., Ltd. with the retirement benefit system used by the former Mitsubishi Pharma Corporation. Actuarial gain or loss incurred up to the year ended March 31, 2009, on the former Tanabe Seiyaku Co., Ltd. and the former Mitsubishi Pharma Corporation pensions is being amortized beginning in the year following the year in which the gain or loss was recognized by the straight-line method over periods of 13 years for the former Tanabe Seiyaku Co., Ltd. and five years for the former Mitsubishi Pharma Corporation, respectively.

(16) Derivatives and Hedging Transactions

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred and reported as deferred gains or losses on hedges in a separate component of accumulated other comprehensive income (loss).

(17) Income Taxes

Deferred income taxes are recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

The Company and certain consolidated subsidiaries adopt the consolidated taxation system.

3. Accounting Change

Accounting Standards for Retirement Benefits

Effective March 31, 2014, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 issued on May 17, 2012) except provisions set forth in paragraph 35 of the statement and paragraph 67 of the guidance. (Note 4)

In accordance with the adoption, the retirement benefit obligation less the fair value of the pension plan assets, and actuarial gains and losses and past service costs that have yet to be recognized in profit or loss are recorded as "Asset for retirement benefits" or "Liability for retirement benefits."

The adoption of these standards follows the transitional provision set forth in paragraph 37 of ASBJ Statement No.26, and the effect of this change is included in accumulated other comprehensive income as "Retirement benefits liability adjustments."

As a result of this change "Asset for retirement benefits" in the amount of ¥16,305 million ($158,424 thousand) and "Liability for retirement benefits" in the amount of ¥2,146 million ($20,851 thousand) were recorded, while accumulated other comprehensive income decreased by ¥8,066 million ($78,372 thousand) and net assets per share decreased by ¥14.38 ($0.14) as of March 31, 2014 from the corresponding amounts that would have been recorded under the previous method.

4. Standards Issued but Not Yet Effective

Accounting Standards for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No.26, and ASBJ Guidance No.25, which replaced the "Accounting Standard for Retirement Benefits" issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

In accordance with the revision of this accounting standard, actuarial gains and losses and past service costs that have yet to be recognized in profit or loss shall be recognized within net assets after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset. Actuarial gains and losses and past service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments. In addition, the new accounting standard allows a choice for the method of attributing expected benefits to periods between either the straight-line basis or the plan's benefit formula basis. In addition, the method used to determine the discount rate was revised.

The Company has adopted the revised accounting standard effective March 31, 2014 as mentioned in Note 3 "Accounting Change." However, the amendment of the calculation method for the present value of defined benefit obligation and current service costs will be adopted effective the beginning of the fiscal year ending March 31, 2015.

The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

5. Cash and Time Deposits

A reconciliation of cash and deposits in the accompanying consolidated balance sheets at March 31, 2014 and 2013 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and deposits	¥27,187	¥20,281	$264,157
Time deposits maturing after three months	(4,819)	(2,388)	(46,823)
Marketable securities maturing within three months	42,000	20,593	408,084
Cash equivalents included in other current assets	589	177	5,723
Cash equivalents included in deposits	20,000	20,082	194,325
Cash and cash equivalents	¥84,957	¥58,745	$825,466

6. Supplementary Cash Flow Information

MTPC Holdings Canada, Inc., which has been newly established, was included in the Company's scope of consolidation in the second quarter ended September 30, 2013. In addition the Company acquired shares of Medicago Inc. through MTPC Holdings Canada, Inc. and, as a result, Medicago Inc. was also newly included in the scope of consolidation. The following table summarizes the assets and liabilities included in consolidation and presents information on acquisition costs and cash disbursements resulting in the change in scope of consolidation.

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current assets	¥ 2,001	$ 19,442
Non-current assets	32,892	319,588
Goodwill	7,029	68,295
Current liabilities	(714)	(6,937)
Long-term liabilities	(11,092)	(107,773)
Minority interests	(9,234)	(89,720)
Acquisition costs of shares	20,882	202,895
Book value on a consolidated basis prior to additional acquisition of shares	(783)	(7,608)
Gain on step acquisitions	(930)	(9,036)
Cash and cash equivalents	(1,272)	(12,359)
Balance: acquisition costs and cash disbursements resulting in change in scope of consolidation	¥ 17,897	$ 173,892

7. Financial Instruments

Overview

(1) Policy for Financial Instruments

The Group manages its funds by investing in both short-term and long-term, highly stable financial assets.

The Group has introduced a cash management system ("CMS") to efficiently use capital and reduce financing costs, and enable Group companies to internally borrow and lend among themselves.

The policy with regard to derivative transactions is to limit the amount to the actual demand, and transactions are not carried out for speculative purposes.

(2) Types of Financial Instruments and Related Risk

Notes and accounts receivable, trade, are amounts owed to the Group, and are subject to the credit risk of customers. Marketable securities and investments in securities are mainly Japanese government bonds, bonds to be held to maturity, or shares of counterparty companies in operational or capital alliances, and are subject to risk from market price fluctuations. The deposits are funds to the parent company primarily. The deposits are exposed to its credit risks.

Notes and accounts payable, trade, are operating obligations to be paid by the Group and most are payable within one year. A portion of these are for purchases of raw materials and are denominated in foreign currencies, and are subject to risk from exchange rate fluctuations. As necessary, however, these are netted against operating claims and forward foreign exchange contracts are used to hedge the net position.

Long-term loans are mainly used for investments in the business and have maturities of up to 10 years.

Derivative transactions involve forward foreign exchange contracts entered into in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates related to operating claims and obligations denominated in foreign currencies.

(3) Risk Management for Financial Instruments

(a) Monitoring of credit risk

As to the management of credit risk (risk of non-performance by counterparty), the Group regularly monitors the status of major counterparties with regard to operating claims and manages maturity dates and outstanding amounts by transaction counterparty in accordance with its claims management regulations, while at the same time working to quickly identify and reduce concerns of repayment resulting from the weakening of a counterparty's financial position.

Japanese government bonds, bonds to be held to maturity and deposits are deemed to have minimal credit risk because the Group primarily invests only in bonds with high ratings.

To strictly minimize the credit risk related to counterparty non-performance when entering into derivative transactions, counterparties are limited to financial institutions with high credit ratings.

The maximum amount of credit risk as of the end of the fiscal year is reflected in the amounts recorded for financial assets in the consolidated balance sheets that are subject to credit risk.

(b) Monitoring of market risks

As to the management of market risks (risks from exchange rate or interest rate fluctuations), operating claims and obligations denominated in foreign currencies are hedged as necessary using forward foreign exchange contracts.

The market value of marketable securities and investments in securities are regularly determined and the financial position of the issuer (counterparty company) is monitored, and for securities other than Japanese government bonds and bonds to be held to maturity, the decision of whether to continue to hold the security or not is regularly reviewed taking into account for the relationship with the counterparty companies.

For derivative transactions, the authority to enter into transactions and the maximum amounts of those transactions are determined based on internal regulations, and outstanding contract amounts, and market values are regularly reported to the responsible director.

(c) Monitoring of liquidity risk

As to the management of liquidity risk associated with fund procurement (risk of being unable to make payment on payment date), based on reports submitted by each department, the Finance & Accounting Department prepares and updates funding plans in a timely manner, while at the same time the Group manages liquidity risk by means of maintaining sufficient liquidity on hand.

(4) Supplementary Explanation of the Estimated Fair Value of Financial Instruments

The market value of financial instruments is based on the market price, and when no market price exists, a rationally calculated amount is used. These calculations include variable factors, so the resulting amount may fluctuate if different underlying assumptions are applied. The notional amounts shown in Note 23 "Derivative and Hedging Transactions" do not represent the amounts of their market risk.

The carrying value of financial instruments on the accompanying consolidated balance sheets as of March 31, 2014 and 2013, and their estimated market value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the market value.

Millions of yen

	2014		
	Carrying value	Market value	Difference
Assets:			
Cash and deposits	¥ 27,187	¥ 27,187	¥ –
Notes and accounts receivable, trade	123,537	123,537	–
Marketable securities and investments in securities	168,436	168,457	21
Deposits	172,149	172,149	–
Total assets	¥491,309	¥491,330	¥ 21
Liabilities:			
Notes and accounts payable, trade	33,986	33,986	–
Short-term debt	1,225	1,225	–
Long-term debt	1,086	1,052	(34)
Total liabilities	¥ 36,297	¥ 36,263	¥(34)
Derivative transactions in other current assets or other assets	¥ 764	¥ 764	¥ –

Millions of yen

	2013		
	Carrying value	Market value	Difference
Assets:			
Cash and deposits	¥ 20,281	¥ 20,281	¥ –
Notes and accounts receivable, trade	129,868	129,868	–
Marketable securities and investments in securities	174,221	173,797	(424)
Deposits	151,554	151,554	–
Total assets	¥475,924	¥475,500	¥(424)
Liabilities:			
Accounts payable, trade	38,072	38,072	–
Short-term debt	1,174	1,174	–
Total liabilities	¥ 39,246	¥ 39,246	¥ –
Derivative transactions in other current assets or other assets	¥ 2,641	¥ 2,641	¥ –

Thousands of U.S. dollars

	2014		
	Carrying value	Market value	Difference
Assets:			
Cash and deposits	$ 264,157	$ 264,157	$ –
Notes and accounts receivable, trade	1,200,321	1,200,321	–
Marketable securities and investments in securities	1,636,571	1,636,775	204
Deposits	1,672,649	1,672,649	–
Total assets	$4,773,698	$4,773,902	$ 204
Liabilities:			
Notes and accounts payable, trade	330,218	330,218	–
Short-term debt	11,902	11,902	–
Long-term debt	10,552	10,222	(330)
Total liabilities	$ 352,672	$ 352,342	$(330)
Derivative transactions in other current assets or other assets	$ 7,423	$ 7,423	$ –

Long-term debt includes current maturities of long-term debt.

The value of assets and liabilities arising from derivative transactions are shown as the net amount, with total net obligations shown in parentheses.

The financial instruments such as cash and deposits; notes and accounts receivable, trade; deposits; notes and accounts payable, trade; and short-term debt are settled within a short period of time and the market value is therefore nearly equal to the book value, so the book value is used.

As to the market value of marketable securities and investments in securities, the exchange price prevailing in the applicable stock exchange is used for equities, and the exchange price prevailing in the applicable stock exchange or price provided by financial institutions is used for bonds. Negotiable certificates of deposit and commercial paper are settled within a short period of time and the market value is therefore nearly equal to the book value, so the book value is used.

The fair value of long-term debt with variable interest rates is nearly equal to the book value because the interest rate reflects the market rate in a short period of time. The fair value of long-term bank loans with fixed interest rates is the sum of the principal and total interest discounted by the rate that is applied if the same new loan is made.

Financial instruments for which it is deemed extremely difficult to determine the market value at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
			Carrying value
Unlisted and unquoted stocks	¥8,299	¥9,521	$ 80,635
Investments in investment business limited liability partnerships	1,318	1,235	12,806

Scheduled redemption amounts subsequent to March 31, 2014 for monetary claims and marketable securities with maturities are as follows:

Millions of yen

	2014			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Current and time deposits	¥ 27,158	¥ –	¥–	¥ –
Notes and accounts receivable, trade	123,537	–	–	–
Marketable securities and investments in securities:				
Held-to-maturity debt securities:				
Bonds	–	2,512	–	–
Other	–	3,500	–	6,000
Available-for-sale securities with maturities:				
Bonds	50,300	6,400	–	–
Other	56,000	–	–	–
Deposits	172,149	–	–	–
Total	¥429,144	¥12,412	¥–	¥6,000

Thousands of U.S. dollars

	2014			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Current and time deposits	$ 263,875	$ –	$–	$ –
Notes and accounts receivable, trade	1,200,320	–	–	–
Marketable securities and investments in securities:				
Held-to-maturity debt securities:				
Bonds	–	24,408	–	–
Other	–	34,007	–	58,298
Available-for-sale securities with maturities:				
Bonds	488,729	62,184	–	–
Other	544,112	–	–	–
Deposits	1,672,649	–	–	–
Total	$4,169,685	$120,599	$–	$58,298

8. Marketable Securities and Investments in Securities

Held-to-maturity debt securities with available market value at March 31, 2014 and 2013 are as follows:

Millions of yen

	Held-to-maturity debt securities					
	2014			2013		
	Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)
Securities with market value exceeding carrying value:						
Bonds	¥ 7,034	¥ 7,350	¥ 316	¥ 8,322	¥ 8,820	¥ 498
Securities with market value not exceeding carrying value:						
Bonds	5,000	4,705	(295)	8,095	7,173	(922)
Total	¥12,034	¥12,055	¥ 21	¥16,417	¥15,993	¥(424)

Thousands of U.S. dollars

	Held-to-maturity debt securities		
	2014		
	Carrying value	Market value	Unrealized gain (loss)
Securities with market value exceeding carrying value:			
Bonds	$ 68,345	$ 71,415	$ 3,070
Securities with market value not exceeding carrying value:			
Bonds	48,581	45,715	(2,866)
Total	$116,926	$117,130	$ 204

Available-for-sale securities with available market value at March 31, 2014 and 2013 are as follows:

Millions of yen

	Available-for-sale securities with available market value					
	2014			2013		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities with carrying value exceeding acquisition cost:						
Stocks	¥ 22,680	¥ 36,881	¥14,201	¥ 18,426	¥ 30,781	¥12,355
Bonds	43,371	43,473	102	61,783	62,158	375
Other	7,400	7,444	44	–	–	–
Subtotal	73,451	87,798	14,347	80,209	92,939	12,730
Securities with carrying value not exceeding acquisition cost:						
Stocks	7,365	6,612	(753)	15,134	14,023	(1,111)
Bonds	–	–	–	1,000	999	(1)
Other	62,000	61,992	(8)	49,843	49,843	–
Subtotal	69,365	68,604	(761)	65,977	64,865	(1,112)
Total	¥142,816	¥156,402	¥13,586	¥146,186	¥157,804	¥11,618

Thousands of U.S. dollars

	Available-for-sale securities with available market value		
	2014		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities with carrying value exceeding acquisition cost:			
Stocks	$ 220,365	$ 358,346	$137,981
Bonds	421,405	422,396	991
Other	71,901	72,328	427
Subtotal	713,671	853,070	139,399
Securities with carrying value not exceeding acquisition cost:			
Stocks	71,560	64,244	(7,316)
Bonds	–	–	–
Other	602,410	602,332	(78)
Subtotal	673,970	666,576	(7,394)
Total	$1,387,641	$1,519,646	$132,005

Impairment losses on available-for-sale securities amounting to ¥594 million ($5,771 thousand) and ¥257 million were recorded for the years ended March 31, 2014 and 2013, respectively.

Available-for-sale securities sold during the years ended March 31, 2014 and 2013 are as follows:

Millions of yen

	Available-for-sale securities sold					
	2014			2013		
	Proceeds	Gain on sale	Loss on sale	Proceeds	Gain on sale	Loss on sale
Stocks	¥6,176	¥2,412	¥–	¥1,940	¥870	¥6
Total	¥6,176	¥2,412	¥–	¥1,940	¥870	¥6

Thousands of U.S. dollars

	Available-for-sale securities sold		
	2014		
	Proceeds	Gain on sale	Loss on sale
Stocks	$60,008	$23,436	$–
Total	$60,008	$23,436	$–

9. Inventories

Inventories at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished goods and merchandise	¥70,406	¥67,944	$684,085
Semi-finished products and work-in-process	998	717	9,697
Raw materials and supplies	22,296	24,122	216,634
Total	¥93,700	¥92,783	$910,416

10. Short-Term Bank Loans, Long-Term Debt and Lease Obligations

Short-term bank loans principally represent short-term notes with average annual interest rates of 5.88% at March 31, 2014.

Long-term debt and lease obligations at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Loans, principally from bank at average interest rates ranging from 5.80% to 6.46%, due through 2024	¥1,086	¥ –	$10,552
Lease obligations due through 2026	1,761	62	17,110
	2,847	62	27,662
Less current portion	(193)	(21)	(1,875)
	¥2,654	¥ 41	$25,787

The aggregate annual maturities of long-term debt and lease obligations recorded as other current liabilities and other liabilities subsequent to March 31, 2014 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 193	$ 1,875
2016	215	2,089
2017	218	2,118
2018	228	2,215
2019	225	2,186
2020 and thereafter	1,768	17,179
	¥2,847	$27,662

11. Retirement Benefits

1. Outline of retirement benefits for employees

The Company and certain consolidated subsidiaries offer 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; or a system of lump-sum payments at retirement.

There are also cases in which additional retirement allowances not included in the actuarial calculation as per retirement benefit accounting are paid when an employee retires.

The Company has established a retirement benefit trust. On April 1, 2011, the Company transferred a qualified pension system (closed-type) to a contract-type defined-benefit corporate pension plan in accordance with the Defined Benefit Corporate Pension Act.

Certain subsidiaries have calculated their retirement benefit obligation based on the amount which would be payable at the year-end if all eligible employees terminated their services voluntarily ("simplified method").

2. Information on defined benefit pension plans for the year ended March 31, 2014

(1) The change in retirement benefit obligation except for simplified method is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation at April 1, 2013	¥147,161	$1,429,858
Service cost	2,597	25,233
Interest cost	2,660	25,845
Actuarial gain	4,264	41,430
Benefits paid	(8,623)	(83,784)
Other	(10)	(96)
Retirement benefit obligation at March 31, 2014	¥148,049	$1,438,486

(2) The change in plan assets except for simplified method at fair value is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at fair value at April 1, 2013	¥155,289	$1,508,832
Expected return on plan assets	3,881	37,709
Actuarial gain	7,144	69,413
Contributions by the employer	4,566	44,365
Benefits paid	(8,119)	(78,887)
Plan assets at fair value at March 31, 2014	¥162,761	$1,581,432

(3) The change in retirement benefit liabilities calculated by the simplified method is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit liabilities at April 1, 2013	¥520	$5,052
Retirement benefit expenses	107	1,040
Benefits paid	(64)	(622)
Other	(10)	(97)
Retirement benefit liabilities at March 31, 2014	¥553	$5,373

(4) The reconciliation of the defined benefit obligations and plan assets at fair value to the liabilities and assets included in the simplified method recognized in the consolidated balance sheet is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligation	¥ 147,909	$ 1,437,126
Plan assets at fair value	(162,947)	(1,583,239)
	(15,038)	(146,113)
Unfunded retirement benefit obligation	879	8,540
Net amount of liabilities and assets recognized in consolidated balance sheet	(14,159)	(137,573)
Liability for retirement benefits	2,146	20,851
Asset for retirement benefits	(16,305)	(158,424)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (14,159)	$ (137,573)

(5) The components of retirement benefit expenses for the year ended March 31, 2014 are outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 2,597	$ 25,233
Interest cost	2,660	25,845
Expected return on plan assets	(3,881)	(37,709)
Amortization:		
Actuarial loss	(201)	(1,953)
Past service cost	4,729	45,949
Retirement benefit expenses calculated by simplified method	107	1,040
Retirement benefit expenses	¥ 6,011	$ 58,405

(Note) In addition to the above, special retirement expenses of ¥2,603 million ($25,291 thousand) is recorded as extraordinary loss.

(6) The unrecognized past service cost and unrecognized actuarial loss included in accumulated other comprehensive income before the deduction of the tax effect is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized past service cost	¥ (937)	$ (9,104)
Unrecognized actuarial loss	13,357	129,780
Total	¥12,420	$120,676

(7) The breakdown of plan assets by major category is as follows:

	2014
Bonds	46.6%
Equities	31.5%
Cash and deposits	3.2%
General accounts at life insurance companies	13.0%
Other	5.7%
Total	100.0%

(Note) 15% of the total amount of pension assets is in a retirement benefit trust.
The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term rate expected to earn the profit from multiple plan assets at present and in the future.

(8) The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2014 are as follows:

	2014
Discount rate	Principally 1.8%
Expected long-term rate of return on plan assets	Principally 2.5%

3. Information on defined contribution pension plans for the year ended March 31, 2014

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Contributions to defined contribution pension plans	¥946	$9,192

12. Income Taxes

The Company and certain domestic consolidated subsidiaries are subject to a number of different income taxes, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 37.9% for the years ended March 31, 2014 and 2013.

Overseas consolidated subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013 differ from the above statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	37.9%	37.9%
Adjustments:		
Amortization of goodwill	5.5	5.7
Non-deductible expenses	1.1	1.4
Non-taxable dividend income, etc.	(1.7)	(1.7)
Elimination of dividends upon consolidation	1.4	1.5
Adjustment for per capita inhabitant taxes	0.2	0.3
Special deduction for R&D expenses	(7.7)	(5.3)
Valuation allowance	1.0	(2.0)
Gain on step acquisitions	(0.5)	–
Effect of changes in corporation tax rate	0.9	–
Other	(0.8)	0.2
Effective tax rates	37.3%	38.0%

(Adjustment of deferred tax assets and liabilities due to change in the corporate tax rate)
Due to the promulgation on March 31, 2014, of the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014), "Act for Partial Revision of the Local Tax Act, etc." (Act No. 4 of 2014), and "Local Corporation Tax Act" (Act No. 11 of 2014), the corporation tax rate in Japan has been changed from the fiscal year beginning April 1, 2014. As a result, deferred tax assets and liabilities as of March 31, 2014 are calculated with the effective statutory tax rate based on the revised tax rate corresponding to the expected fiscal year to be realized.

As a result of this change, net deferred tax assets decreased by ¥616 million ($5,985 thousand), income taxes–deferred increased by ¥631 million ($6,131 thousand), unrealized holding gain on securities decreased by ¥4 million ($39 thousand) and deferred gain on hedges increased by ¥18 million ($175 thousand) as of and for the year ended March 31, 2014.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Reserve for employees' bonuses	¥ 3,440	¥ 3,811	$ 33,424
Enterprise taxes	1,039	1,490	10,095
Loss on devaluation of inventories	2,369	2,486	23,018
Unrealized gain on inventories	784	522	7,618
Accrued retirement benefits for employees	–	284	–
Reserve for health management allowances for SMON compensation	338	358	3,284
Reserve for health management allowances for HIV compensation	560	579	5,441
Reserve for HCV litigation	935	1,310	9,085
Liability for retirement benefits	1,846	–	17,936
Loss on devaluation of investments in securities	325	97	3,158
Excess amortization of long-term prepaid expenses	2,058	3,117	19,996
Prepaid research expenses	6,980	10,118	67,820
Net operating loss carryforward	10,060	8,985	97,746
Excess depreciation	597	500	5,801
Loss on impairment of fixed assets	241	347	2,342
Internally generated goodwill	1,867	2,942	18,140
Other	1,828	1,488	17,760
Gross deferred tax assets	35,267	38,434	342,664
Valuation allowance	(10,321)	(10,038)	(100,282)
Total deferred tax assets	24,946	28,396	242,382
Deferred tax liabilities:			
Gain on revaluation of assets	(8,319)	–	(80,830)
Prepaid pension expenses	–	(3,228)	–
Unrealized holding gain on securities	(10,360)	(9,831)	(100,661)
Deferred capital gain on fixed assets	(1,162)	(1,225)	(11,290)
Reserve for special account for advanced depreciation of fixed assets	(1,418)	(1,418)	(13,778)
Unrealized holding gain on land	(7,368)	(7,366)	(71,590)
Deferred gain on hedges	(271)	(1,000)	(2,633)
Other	(574)	(221)	(5,576)
Total deferred tax liabilities	(29,472)	(24,289)	(286,358)
Net deferred tax (liabilities) assets	¥ (4,526)	¥ 4,107	$ (43,976)

The net deferred tax liabilities of ¥4,526 million ($43,976 thousand) as of March 31, 2014 and the net deferred tax assets of ¥4,107 million as of March 31, 2013 in the above table are analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred income taxes – current assets	¥ 8,153	¥ 8,373	$ 79,217
Deferred income taxes – non-current assets	677	4,173	6,578
Deferred income taxes included in other current liabilities	–	(74)	–
Deferred income taxes – non-current liabilities	(13,356)	(8,365)	(129,771)
	¥ (4,526)	¥ 4,107	$ (43,976)

13. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital.

Common stock and treasury stock

Movements in common stock in issue and treasury stock for the years ended March 31, 2014 and 2013 are summarized as follows:

Thousands of shares

	2014			
	Number of shares at beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Number of shares at end of the fiscal year
Common stock	**561,417**	**–**	**–**	**561,417**
Treasury stock	**424**	**1**	**–**	**426**

Thousands of shares

	2013			
	Number of shares at beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	Number of shares at end of the fiscal year
Common stock	561,417	–	–	561,417
Treasury stock	423	1	0	424

14. Contingent Liabilities

The Group had the following contingent liabilities at March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Debt guaranteed:			
Employees' housing loans from banks	**¥54**	¥66	**$525**

15. Research and Development Expenses

Research and development expenses for improvement of existing products and development of new products, including basic research and fundamental development costs, are charged to income as incurred.

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were ¥70,405 million ($684,075 thousand) and ¥66,530 million, respectively.

16. Gain on Step Acquisitions

The Company recognized a gain on step acquisitions when it obtained control of Medicago, Inc. through the additional acquisition of shares.

17. Special Retirement Expenses

The Company paid extra retirement expenses due to employment transfers resulting from the transfer of a business during the previous fiscal year.

18. Gain on Arbitration Award

In August 2013, the Company was granted an arbitration award from the International Chamber of Commerce (ICC) in a dispute with Janssen Biotech, Inc. (U.S). The dispute involved the supply price of Remicade, an anti-TNFα monoclonal antibody sold by the Company in Japan. The Company had been requesting arbitration to the ICC regarding a revision of the supply price in accordance with a development and distribution agreement with the supplier. As a result, an arbitration decision was awarded requiring the supplier to reduce the supply price and ¥12,208 million ($118,616 thousand) was reimbursed to the Company, including the amount of the overpayment based on the previous purchase price on and after April 1, 2008. The reimbursed amounts corresponding to the beginning inventory for the fiscal year ended March 31, 2014 were allocated to cost of sales or merchandise and finished goods. The remaining amount, after deducting a lawyer contingency fee, was recorded as extraordinary income.

19. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries group their assets in association with their business and production process. Idle assets which are not anticipated to be utilized in the future and leased property are classified as individual cash-generating units. Assets, which are not definitely linked to a specific business, such as the head-office building, the facilities for research and development and the facilities for welfare, are classified as corporate assets.

For the year ended March 31, 2014, the book value of the impaired fixed assets, which primarily includes idle assets, was reduced to the recoverable amount, and the amount of the reduction of ¥1,372 million ($13,331 thousand) was recorded as loss on impairment of fixed assets. The impairment loss on primary fixed assets is summarized as follows:

Location	Major use	Classification	Millions of yen	Thousands of U.S. dollars
Mitsubishi Tanabe Pharma Former Yoshitomi Laboratory (Chikujou-Gun, Fukuoka)	Idle asset	Buildings and structures	¥611	$5,937
Mitsubishi Tanabe Pharma Former Shikoku Branch (Takamatsu-City, Kagawa)	Idle asset	Land, buildings and structures	106	1,030
Mitsubishi Tanabe Pharma Former Nihonbashi Building (Chuo-Ku, Tokyo)	Idle asset	Buildings, structures, tools, furniture and fixtures	357	3,469
Mitsubishi Tanabe Pharma Former Neyagawa Distribution Center (Neyagawa-City, Osaka)	Idle asset	Land	198	1,924

As the Company decided to sell the No.2 Nabari Training Center, the former Fukusaki Laboratory and the former Hirakata Laboratory, the book values of those assets were reduced to their recoverable amounts. The recoverable amounts are measured at their net selling values, calculated based on estimated selling amounts.

For the year ended March 31, 2013, the book value of the impaired fixed assets, which primarily includes idle assets, was reduced to the recoverable amount, and the amount of the reduction of ¥756 million was recorded as loss on impairment of fixed assets. The impairment loss on primary fixed assets is summarized as follows:

Location	Major use	Classification	Millions of yen
Mitsubishi Tanabe Pharma No.2 Nabari Training Center (Nabari-City, Mie)	Training facility	Land, buildings and structures	¥184
Mitsubishi Tanabe Pharma Former Fukusaki Laboratory (Kanzaki-Gun, Hyogo)	Idle asset	Land, buildings and structures	121
Mitsubishi Tanabe Pharma Former Hirakata Laboratory (Hirakata-City, Osaka)	Idle asset	Land	324

20. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects on components of other comprehensive income for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized holding gain on securities:			
Amount arising during the year	¥ 5,307	¥11,872	$ 51,565
Reclassification adjustments	(2,965)	(555)	(28,809)
Before tax effects	2,342	11,317	22,756
Tax effects	(784)	(4,044)	(7,618)
Unrealized holding gain on securities	1,558	7,273	15,138
Deferred gain on hedges:			
Amount arising during the year	1,405	2,740	13,652
Reclassification adjustments	(3,282)	(249)	(31,889)
Before tax effects	(1,877)	2,491	(18,237)
Tax effects	730	(944)	7,092
Deferred (loss) gain on hedges	(1,147)	1,547	(11,145)
Translation adjustments:			
Amount arising during the year	3,229	4,743	31,374
Reclassification adjustments	11	–	107
Translation adjustments	3,240	4,743	31,481
Other comprehensive income of equity-method companies attributable to the Company:			
Amount arising during the year	55	25	534
Other comprehensive income	¥ 3,706	¥13,588	$ 36,008

21. Related Party Transactions

Principal transactions between the Company and related parties for the years ended March 31, 2014 and 2013 are summarized as follows:
[Transactions with Mitsubishi Chemical Holdings Corporation ("MCHC")]

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deposits	¥20,596	¥20,763	$200,117
Interest income	595	763	5,781

MCHC is the parent company.

The balances due from MCHC at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due from MCHC	¥172,149	¥151,553	$1,672,649

22. Leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of property leased to the Company and its consolidated subsidiaries at March 31, 2014 and 2013, which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased property to the Company or its consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

Millions of yen

	2014			2013		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Category of leased property:						
Tools and equipment	¥37	¥33	¥4	¥100	¥88	¥12
Total	¥37	¥33	¥4	¥100	¥88	¥12

Thousands of U.S. dollars

	2014		
	Acquisition cost	Accumulated depreciation	Net book value
Category of leased property:			
Tools and equipment	$360	$321	$39
Total	$360	$321	$39

Lease payments of the Company and its consolidated subsidiaries relating to finance leases accounted for as operating leases amounted to ¥9 million ($87 thousand) and ¥25 million for the years ended March 31, 2014 and 2013, respectively. Depreciation expense on these leased assets calculated by the straight-line method would have amounted to ¥9 million ($87 thousand) and ¥25 million for the years ended March 31, 2014 and 2013, respectively, if it had been reflected in the accompanying consolidated statements of income.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 under finance leases, other than those which transfer the ownership of the leased property to the Company or its consolidated subsidiaries, that started on or before March 31, 2008 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥3	$29
2016 and thereafter	0	0
	¥3	$29

Future minimum payments subsequent to March 31, 2014 under non-cancelable operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥1,311	$12,738
2016 and thereafter	1,418	13,778
	¥2,729	$26,516

23. Derivative and Hedging Transactions

Derivative financial instruments are utilized by the Company principally in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment, including an assessment of the effectiveness of hedging, and for the approval, reporting and monitoring of transactions involving derivatives. The Company does not hold or issue derivatives for speculative trading purposes.

The Company is exposed to certain market risk arising from forward foreign exchange contracts. The Company is also exposed to the risk of credit loss in the event of non-performance by any of the counterparties to the forward foreign exchange contracts; however, the Company does not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

The Company does not carry out an assessment of hedge effectiveness because of a high correlation between the hedging instruments and hedged items.

The notional amounts and estimated fair value on the outstanding derivatives positions for which hedge accounting has been applied at March 31, 2014 and 2013 are as follows:

Millions of yen

	2014		
	Notional amounts	Over one year	Estimated fair value
Forward foreign exchange contracts:			
Buying:			
USD, accounts payable–trade	¥3,026	¥–	¥755
CAD, investment in subsidiaries	652	–	8
Currency option contracts:			
Selling:			
USD, accounts payable–trade	118	–	1
Buying:			
USD, accounts payable–trade	118	–	(0)
Total			¥764

Millions of yen

	2013		
	Notional amounts	Over one year	Estimated fair value
Forward foreign exchange contracts:			
Buying:			
USD, accounts payable–trade	¥15,951	¥2,765	¥2,641

Thousands of U.S. dollars

	2014		
	Notional amounts	Over one year	Estimated fair value
Forward foreign exchange contracts:			
Buying:			
USD, accounts payable–trade	$29,401	$–	$7,336
CAD, investment in subsidiaries	6,335	–	78
Currency option contracts:			
Selling:			
USD, accounts payable–trade	1,147	–	10
Buying:			
USD, accounts payable–trade	1,147	–	(0)
Total			$7,423

24. Amounts per Share

Amounts per share as of and for the years ended March 31, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net income	¥ 80.92	¥ 74.67	$ 0.79
Cash dividends	40.00	40.00	0.39
Net assets	1,365.52	1,333.22	13.27

Diluted net income per share has not been presented since no potentially dilutive securities have been issued.

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. The amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year-end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

25. Segment Information

The Company and consolidated subsidiaries are primarily engaged in the research and development, manufacturing, procurement and sales of pharmaceuticals, and "Pharmaceuticals" is therefore the only reportable segment.

In the Pharmaceuticals segment, the Company and consolidated subsidiaries operate business activities related to ethical drugs and over-the-counter ("OTC") drugs in Japan and overseas.

As the Pharmaceuticals segment is the only reportable segment, the disclosure of segment information, such as calculation method of net sales, profit or loss, assets, liabilities and other items by reportable segment; information regarding amounts of net sales, profit or loss, assets, liabilities and other items by reportable segment; differences between totals for reportable segments and amounts presented in consolidated financial statements and major details about such differences; information regarding impairment losses on fixed assets by reportable segment; and information regarding amount of amortization of goodwill and unamortized balance by reportable segment, for the years ended March 31, 2014 and 2013 has been omitted.

As sales of products and services to external customers in a single segment account for more than 90% of net sales in the consolidated statements of income, the disclosure of the information by product and service for the years ended March 31, 2014 and 2013 has been omitted.

The following table summarizes the information of the sales by region for the year ended March 31, 2014:

	Millions of yen	Thousands of U.S. dollars
Region	2014	2014
Japan	¥353,300	$3,432,763
Europe	37,348	362,884
Asia	15,977	155,237
North America	5,627	54,674
Others	423	4,110
Total	¥412,675	$4,009,668

As sales of products and services to external customers in Japan accounted for more than 90% of net sales in the consolidated statement of income, the disclosure of net sales by region for the year ended March 31, 2013 has been omitted.

As the amount of property, plant and equipment located in Japan accounts for more than 90% of property, plant and equipment in the consolidated balance sheets, the disclosure of property, plant and equipment by region for the years ended March 31, 2014 and 2013 has been omitted.

The following table summarizes the information by major customers for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars	
	2014	2013	2014	
Customer name			Net sales	Related segment
SUZUKEN CO., LTD.	¥74,523	¥72,151	$724,087	Pharmaceuticals
Toho Pharmaceutical Co., Ltd.	67,790	68,379	658,667	Pharmaceuticals
Alfresa Corporation	55,259	54,970	536,912	Pharmaceuticals
MEDICEO CORPORATION	53,697	53,652	521,735	Pharmaceuticals

26. Business Combinations

Business combination through acquisition

On September 18, 2013, the Company obtained control of Medicago Inc. through a share acquisition. The Company and Philip Morris Investments B.V. jointly own all shares of Medicago with the Company owning 60.0% of Medicago and its subsidiary. The acquisition is expected to enable the Company to manufacture a wide variety of vaccines using highly efficient methods and to strengthen its pipeline.

The Company had owned 5.8% shares of Medicago immediately prior to the date of business combination. From September 30, 2013, the acquired company's results have been included in the consolidated financial statements.

Details on acquisition cost of the acquired company:

	Millions of yen	Thousands of U.S. dollars
Fair value of Medicago's shares held prior to the acquisition	¥ 1,713	$ 16,644
Acquisition price: Cash and deposits	18,487	179,625
Expenditures directly related to acquisition: Advisory expenses, etc.	682	6,626
Acquisition cost	¥20,882	$202,895

As a result of a fair value measurement of the previously held at the acquisition date equity interest, the Company recognized ¥930 million ($9,036 thousand) as a gain on step acquisitions.

Goodwill represents the difference between the acquisition cost and the amounts of assets acquired and liabilities assumed. Goodwill of ¥7,029 million ($68,296 thousand) arising from the transaction is being amortized by the straight-line method over a period of 15 years.

Information on the fair value of assets acquired and liabilities assumed arising from the acquisition is as follow:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 2,001	$ 19,442
Non-current assets	32,892	319,588
Total assets	34,893	339,030
Current liabilities	714	6,937
Long-term liabilities	11,092	107,773
Total liabilities	¥11,806	$114,710

In the process of purchase price allocation, in-process R&D costs amounting to ¥29,797 million ($289,516 thousand) were recognized as intangible fixed assets other than goodwill. The intangible assets are amortized over the estimated useful life.

A pro forma disclosure relating to the business combination is omitted because the impact on the consolidated financial statements is immaterial.

Transactions under common control

On August 2, 2013, the Company additionally acquired shares of its subsidiary, MP Healthcare Venture Management, Inc. from minority shareholders to pursue efficiencies in consolidated management.

There was no change in the name of the subsidiary after the business combination.

This additional acquisition was treated as a transaction with minority shareholders under common control based on the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008).

The following table summarizes the acquisition cost:

	Millions of yen	Thousands of U.S. dollars
Acquisition price:		
Consideration paid	¥3,452	$33,541
Advisory expenses	7	68
Acquisition cost	¥3,459	$33,609

Goodwill represents the difference between the acquisition cost of the additional acquisition of the subsidiary's shares and the decrease in minority interests resulting from the acquisition. Goodwill of ¥56 million ($544 thousand) arising from the transaction was fully amortized in the current fiscal year.

27. Litigation

U.S. 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 law the patients allegedly suffered through HCV (hepatitis C virus) infection following use of a fibrinogen product or a blood coagulant factor IX product (Christmassin) sold by the former Green Cross Corporation, one of the predecessors of the Company, 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 the expense of relief payments under the Special Law, the burden of that expense and the method of sharing that burden were the subject of discussions with the 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 September 14, 2012, 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 use of specific fibrinogen products or specific coagulation factor IX products, the Company is committed to continued earnest engagement in the future.

U.S. Court action regarding average wholesale prices

In the United States, the federal government and certain state governments, etc., have filed claims for damages against multiple pharmaceutical companies including the Company's wholly owned subsidiary Alpha Therapeutic Corporation, alleging that the reported average wholesale prices ("AWP") higher than actual sales prices resulted in overpayment as compared to the amounts which would have been paid under public reimbursement systems. These suits are currently pending. In certain of the AWP lawsuits, settlements have been reached with the plaintiffs.

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 balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, 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 accounting principles generally accepted in Japan, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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 1.

Ernst & Young ShinNihon LLC

June 20, 2014
Osaka, Japan

Corporate Data / Investor Information

As of March 31, 2014

Corporate Data

Company Name	Mitsubishi Tanabe Pharma Corporation
Headquarters	2-6-18, Kitahama, Chuo-ku, Osaka 541-8505, Japan
Incorporated	1933
Date of Merger	October 1, 2007
Number of Employees	9,065 (Consolidated) 4,867 (Parent company only)

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[1]	Principal business
Mitsubishi Tanabe Pharma Factory Ltd. ●	¥1,130 million	100.0%	Manufacture and sale of pharmaceuticals
Yoshitomiyakuhin Corporation ●	¥385 million	100.0%	Provision of information about pharmaceuticals
MP-Logistics Corporation ●	¥95 million	65.0%	Distribution, warehouse operations
Bipha Corporation ●	¥100 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. ●	¥169 million	100.0%	Sale of generic pharmaceuticals, etc.
Tanabe R&D Service Co., Ltd. ●	¥44 million	100.0%	Support of R&D regarding pharmaceuticals
Tanabe Total Service Co., Ltd. ●	¥90 million	100.0%	Real estate management, etc.
Benesis Corporation[2] ●	¥100 million	100.0%	Manufacture and sale of pharmaceuticals
API Corporation[3] ○	¥4,000 million	47.7%	Manufacture and sale of API, etc.

Overseas

Asia

	Paid-in capital	% Voting control[1]	Principal business
Mitsubishi Pharma (Guangzhou) Co., Ltd. ●	US$48,500,000	100.0%	Manufacture and sale of pharmaceuticals
Tianjin Tanabe Seiyaku Co., Ltd. ●	US$16,230,000	75.4%	Manufacture and sale of pharmaceuticals
Mitsubishi Pharma Research & Development (Beijing) Co., Ltd.[4] ●	US$1,000,000	100.0%	R&D of pharmaceuticals
Guangdong Tanabe Pharmaceutical Co., Ltd. ●	CNY7,000,000	100.0%	Sale of pharmaceuticals
Mitsubishi Tanabe Pharma Korea Co., Ltd. ●	KRW2,100,000,000	100.0%	Manufacture and sale of pharmaceuticals
Taiwan Tanabe Seiyaku Co., Ltd. ●	NT$90,000,000	65.0%	Manufacture and sale of pharmaceuticals
Tai Tien Pharmaceuticals Co., Ltd. ●	NT$20,000,000	65.0%	Sale of pharmaceuticals
P.T. Tanabe Indonesia ●	US$2,500,000	99.6%	Manufacture and sale of pharmaceuticals

North America

MP Healthcare Venture Management, Inc. ●	US$100	100.0%	Investments in bio-ventures
Mitsubishi Tanabe Pharma Holdings America, Inc. ●	US$166	100.0%	Management of Group companies in the U.S.
Mitsubishi Tanabe Pharma Development America, Inc. ●	US$100	100.0% (100.0%)	R&D of pharmaceuticals
Tanabe Research Laboratories U.S.A., Inc. ●	US$3,000,000	100.0% (100.0%)	R&D of pharmaceuticals
Mitsubishi Tanabe Pharma America, Inc. ●	US$100	100.0% (100.0%)	Sale of pharmaceuticals
Tanabe U.S.A., Inc. ●	US$1,400,000	100.0% (100.0%)	Sale of chemicals, etc.
MTPC Holdings Canada, Inc. ●	CAD201,708,697	100.0%	Investments in the Medicago Group
Medicago Inc. ●	CAD187,041,900	60.0% (54.3%)	Manufacture and sale of vaccines
Medicago USA Inc. ●	US$99	60.0% (60.0%)	Manufacture of vaccines
Medicago R&D Inc. ●	CAD500	60.0% (60.0%)	R&D of vaccines

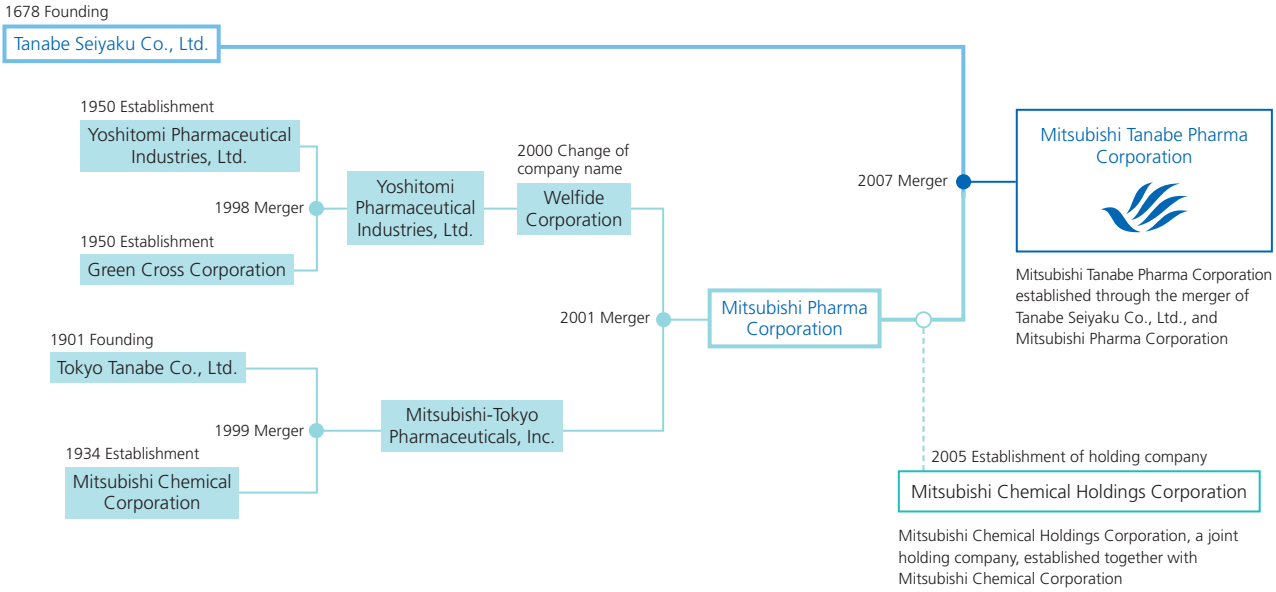
Europe

Mitsubishi Pharma Europe Ltd.[5] ●	£4,632,000	100.0%	R&D of pharmaceuticals
Mitsubishi Pharma Deutschland GmbH[6] ●	€25,000	100.0% (100.0%)	Sale of pharmaceuticals
Synthelabo-Tanabe Chimie S.A. ○	€1,600,000	50.0%	Manufacture and sale of pharmaceuticals

1. Figures in parentheses show indirect control.
2. Mitsubishi Tanabe Pharma plans to merge with Benesis Corporation on October 1, 2014, through an absorption-type merger.
3. Mitsubishi Tanabe Pharma sold all of its holdings of API Corporation stock to API Corporation on April 1, 2014.
4. The name of the company was changed to Mitsubishi Tanabe Pharma Development (Beijing) Co., Ltd., on June 1, 2014.
5. The name of the company was changed to Mitsubishi Tanabe Pharma Europe Ltd. on June 1, 2014.
6. The name of the company was changed to Mitsubishi Tanabe Pharma GmbH on June 1, 2014.

Note: Aside from the companies mentioned above, there are two consolidated companies under the liquidations.

Corporate History



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 17,437

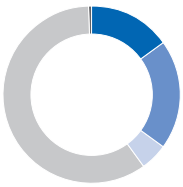
Major Shareholders

	% voting rights
Mitsubishi Chemical Holdings Corporation	56.3
The Master Trust Bank of Japan, Ltd.	4.0
Nippon Life Insurance Company	2.4
Japan Trustee Services Bank, Ltd.	1.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1.3
JP Morgan Chase Bank, N.A., 385147	1.3
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	1.2
The Bank of New York Mellon as Depositary Bank for Depositary Receipt Holders	0.9
Employee Stock Ownership Plan	0.9
State Street Trust and Banking Company, Ltd. 505225	0.8

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

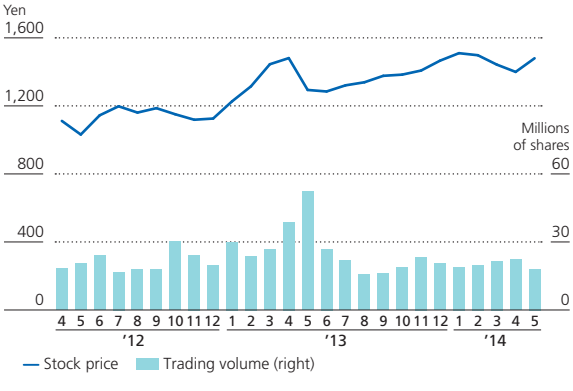
DISTRIBUTION OF SHARE OWNERSHIP BY TYPE OF SHAREHOLDER



Financial institutions	15.3%
Foreign institutions	19.8%
Individuals and others*	5.0%
Other corporations	59.7%
Securities firms	0.3%

* Individuals and others includes treasury stock (426 thousand shares at March 31, 2014)

STOCK PRICE RANGE / TRADING VOLUME



THE KAITEKI COMPANY
Mitsubishi Chemical Holdings Group

Mitsubishi Tanabe Pharma www.mt-pharma.co.jp

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