# Summary of Financial Results for year ended March 31, 2013
# [Japan GAAP] (Consolidated)

May 8, 2013


Company name: Mitsubishi Tanabe Pharma Corporation
Stock exchange listings (Section): Tokyo, Osaka (First Sections)
Securities code number: 4508
URL: http://www.mt-pharma.co.jp/
Representative: Name: Michihiro Tsuchiya
Title: President and Representative Director
For further information, please contact: Name: Yoshihisa Sasou
Title: General Manager, Corporate Communications Department
Telephone: (06) 6205-5211


Planned date of ordinary general meeting of shareholders: June 21, 2013
Planned date of start of dividend payments: June 24, 2013
Planned date of filing of securities report: June 21, 2013
Provision of supplementary explanatory materials for results: Yes
Results presentation: Yes (for institutional investors and investment analysts)

(Note) Amounts less than ¥ 1 million have been rounded.

## 1. Results for Fiscal 2012 (April 1, 2012 to March 31, 2013)

(1) Consolidated business results

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Yen million | % change | Yen million | % change | Yen million | % change | Yen million | % change |
| Fiscal 2012 | 419,179 | 3.0 | 68,968 | (0.1) | 69,392 | 0.9 | 41,892 | 7.4 |
| Fiscal 2011 | 407,156 | (0.6) | 69,043 | (9.8) | 68,759 | (10.3) | 39,014 | 3.4 |

(Note) Comprehensive income ¥55,541 million (32.4%) (¥41,946 million (19.8%) in fiscal 2011)

| | Net income per share | Net income per share (diluted) | Return on equity | Ordinary income / Total assets | Operating income / Net sales |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Fiscal 2012 | 74.67 | – | 5.7 | 8.2 | 16.5 |
| Fiscal 2011 | 69.54 | – | 5.5 | 8.4 | 17.0 |

(Note) a. Equity in earnings (losses) of non-consolidated subsidiaries ¥369 million (¥162 million in fiscal 2011)
b. Percentage changes in the above list show change in comparison with the previous year.

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Yen million | Yen million | % | Yen |
| Fiscal 2012 | 866,774 | 752,922 | 86.3 | 1,333.22 |
| Fiscal 2011 | 819,925 | 721,485 | 87.3 | 1,275.85 |

(Note) Shareholders' equity ¥747,929 million (¥715,745 million in fiscal 2011)

(3) Consolidated results of cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of the period |
|---|---|---|---|---|
| | Yen million | Yen million | Yen million | Yen million |
| Fiscal 2012 | 60,589 | (34,968) | (23,677) | 58,745 |
| Fiscal 2011 | 37,247 | (63,225) | (17,160) | 54,344 |

**2. Dividends**

| (Record date) | Dividends per share | | | | | Total dividends (for the year) | Payout ratio (consolidated) | Dividends / Net assets (consolidated) |
|---|---|---|---|---|---|---|---|---|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | Year-end | For the year | | | |
| | Yen | Yen | Yen | Yen | Yen | Yen million | % | % |
| Fiscal 2011 | – | 15.00 | – | 20.00 | 35.00 | 19,635 | 50.3 | 2.8 |
| Fiscal 2012 | – | 20.00 | – | 20.00 | 40.00 | 22,439 | 53.6 | 3.1 |
| Fiscal 2013 (projected) | – | 20.00 | – | 20.00 | 40.00 | | 51.0 | |

**3. Forecasts for Fiscal 2013 (April 1, 2013 to March 31, 2014)**

| | Net sales | | Operating income | | Ordinary income | |
|---|---|---|---|---|---|---|
| | Yen million | % change | Yen million | % change | Yen million | % change |
| Interim | 200,000 | (1.9) | 30,000 | (7.0) | 31,000 | (6.4) |
| Full year | 417,000 | (0.5) | 70,000 | 1.5 | 71,500 | 3.0 |

| | Net income | | Net income per share |
|---|---|---|---|
| | Yen million | % change | Yen |
| Interim | 19,000 | (2.5) | 33.87 |
| Full year | 44,000 | 5.0 | 78.43 |

(Note) Percentage changes in the above list show change from previous year for full-year data and change from same period of previous year for interim data.

**4. Other**

(1) Significant change involving subsidiaries during the period (changes in designated subsidiaries accompanying changes in the scope of consolidation) [Yes/No]: No
Note: For details, please see "Consolidation of Corporate Group" on page 13.

(2) Changes in accounting policies, changes in accounting estimates, restatements
1. Change accompanying revision of accounting standards: No
2. Other changes: Yes
3. Change in accounting estimates: Yes
4. Restatements: No
Note: For detailed information, please see "Change in accounting policies" on page 32.

(3) Number of shares issued (common stock)
1. Number of shares issued at the end of the period (including treasury stock)
Fiscal 2012 561,417,916 shares Fiscal 2011 561,417,916 shares
2. Number of shares of treasury stock at the end of the period
Fiscal 2012 424,977 shares Fiscal 2011 423,532 shares
3. Average number of shares of during the period
Fiscal 2012 560,993,957 shares Fiscal 2011 561,053,566 shares

(Reference) Overview of Non-Consolidated Business Results

## 1. Results for Fiscal 2012 (April 1, 2012 to March 31, 2013)

(1) Non-consolidated business results

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Yen million | % change | Yen million | % change | Yen million | % change | Yen million | % change |
| Fiscal 2012 | 396,542 | 1.9 | 72,937 | 8.5 | 76,205 | 9.5 | 54,602 | 23.1 |
| Fiscal 2011 | 389,151 | (0.3) | 67,217 | (11.2) | 69,611 | (12.2) | 44,368 | (11.5) |

| | Net income per share | Net income per share (diluted) |
|---|---|---|
| | Yen | Yen |
| Fiscal 2012 | 97.33 | – |
| Fiscal 2011 | 79.08 | – |

(Note) Amounts less than ¥ 1 million have been truncated in the non-consolidated results.
Percentage changes in the above list show change in comparison with the previous year.

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Yen million | Yen million | % | Yen |
| Fiscal 2012 | 730,669 | 615,787 | 84.3 | 1,097.67 |
| Fiscal 2011 | 674,081 | 575,271 | 85.3 | 1,025.45 |

(Note) Shareholders' equity ¥615,787 million (¥575,271 million in fiscal 2011)

*Note regarding implementation of audit procedures

This summary of financial results is not subject to the audit procedures in accordance with the Financial Instruments and Exchange Act.
At the time when this summary of financial results was released, the audit procedures were in progress for the financial statements in accordance with the Financial Instruments and Exchange Act.

*Explanation regarding the appropriate use of results forecasts and other matters of special note

In these materials, forecasts of results and other statements about the future are forward-looking statements based on a number of assumptions and beliefs in light of the information available to management as of the date of release of the materials. Actual financial results may differ materially from these forecasts depending on a number of important factors.
For matters related to results forecasts, please see page 4.

* Methods of obtaining the supplementary materials and the content of the results presentation.

- Supplementary materials are disclosed on TDnet on the same day and are made available on the Company's website.
- The Company plans to hold a results presentation for institutional investors and securities analysts on May 9, 2013 (Thursday).
  The Company plans to make available on its website the content of the presentation (video) and the materials used in the presentation immediately after the presentation is held.

Contents of supplement


1. Business Results ..... 1
(1) Analysis of Business Results ..... 1
(2) Financial Position ..... 5
(3) Basic Policy on the Distribution of Earnings / Dividends in the Fiscal Year under Review and the Current Fiscal Year ..... 6
(4) Operational Risks ..... 6
2. Consolidation of Corporate Group ..... 13
3. Management Policies ..... 16
(1) Fundamental Corporate Policy ..... 16
(2) Overview of specific challenges and the status of the initiatives ..... 16
4. Consolidated Financial Statements ..... 19
(1) Consolidated Balance Sheets ..... 19
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income ..... 21
(Consolidated Statements of Income) ..... 21
(Consolidated Statements of Comprehensive Income) ..... 23
(3) Consolidated Statements of Changes in Net Assets ..... 24
(4) Consolidated Statements of Cash Flows ..... 26
(5) Notes of Consolidated Financial Statements ..... 28
(Note Regarding Going Concern Assumption) ..... 28
(Basis of Presenting Consolidated Financial Statements) ..... 28
(Change in accounting policies) ..... 32
(Consolidated balance sheets) ..... 33
(Consolidated statements of income) ..... 34
(Consolidated statements of changes in net assets) ..... 36
(Consolidated statements of cash flows) ..... 38
(Employees' retirement benefits) ..... 39
(Deferred tax accounting) ..... 41
(Business combination) ..... 42
(Segment information) ..... 44
(Per-share data) ..... 46
(Subsequent event) ..... 46
(6) Other ..... 47

## 1. Business Results

### (1) Analysis of Business Results

#### ① Overview of business results

In the fiscal year under review, (April 1, 2012, to March 31, 2013), the domestic economy showed signs of a gradual recovery against a background of reconstruction-related demand stemming from the Great East Japan Earthquake. There are heightened expectations for Japan's economic policy. The yen has depreciated, and stock prices are recovering. However, the financial crises in Europe continue, and growth is decelerating in China and other emerging countries. Accordingly, it remains difficult to predict the future course of business conditions.

In the pharmaceutical industry, with such factors as promotion of a policy to curtail medical expenses, a decline of success probability in creating new drugs and intensified competition among companies, market conditions remain challenging.

As detailed below, net sales increased, however operating income was on the same level as the previous year due to the NHI drug price revisions under this circumstance. Net income increased, due to the increase in extraordinary income.

(millions of yen)

| | Fiscal 2011 | Fiscal 2012 | Increase/ decrease | % change |
|---|---|---|---|---|
| Net Sales | 407,156 | 419,179 | 12,023 | 3.0 |
| Cost of sales | 152,284 | 166,388 | 14,104 | 9.3 |
| Cost of sales ratio | 37.4% | 39.7% | | |
| Gross profit | 254,872 | 252,791 | (2,081) | (0.8) |
| SG&A expenses | 185,829 | 183,823 | (2,006) | (1.1) |
| Operating Income | 69,043 | 68,968 | (75) | (0.1) |
| Non-operating income/loss | (284) | 424 | 708 | |
| Ordinary Income | 68,759 | 69,392 | 633 | 0.9 |
| Extraordinary income/loss | (4,971) | (1,701) | 3,270 | |
| Net Income | 39,014 | 41,892 | 2,878 | 7.4 |

【Net sales】

Net sales increased 3.0%, or ¥12.0 billion, to ¥419.1 billion.

(millions of yen)

| | Fiscal 2011 | Fiscal 2012 | Increase/ decrease | % change |
|---|---|---|---|---|
| Pharmaceuticals | 397,559 | 414,686 | 17,127 | 4.3 |
| Domestic ethical drugs | 355,429 | 356,552 | 1,123 | 0.3 |
| Overseas ethical drugs | 18,460 | 23,388 | 4,928 | 26.7 |
| OTC products | 5,402 | 5,288 | (114) | (2.1) |
| Others in Pharmaceuticals | 18,268 | 29,458 | 11,190 | 61.3 |
| Others | 9,597 | 4,493 | (5,104) | (53.2) |

In the pharmaceuticals segment, net sales were ¥414.6 billion, up 4.3%, or ¥17.1 billion, year-on-year.

- Although there were the NHI drug price revisions implemented in April 2012 and the growing impact of generics, in domestic sales of ethical drugs, continued favorable sales growth was recorded by Remicade, an anti-TNF α monoclonal antibody, and new drugs which were launched between the previous fiscal year and the current fiscal year made contributions. As a result, the domestic sales of ethical drugs were ¥356.5 billion, up 0.3%, year-on-year.
- Overseas sales of ethical drugs were ¥23.3 billion, up 26.7%, year-on-year, and sales of OTC products decreased 2.1%, to ¥5.2 billion.
- Sales of others in pharmaceuticals increased 61.3%, year-on-year, to ¥29.4 billion, due to the increase in royalty revenue from Gilenya, for the treatment of multiple sclerosis, licensed to Novartis.

In others, sales were down 53.2%, or ¥5.1 billion, year-on-year, due to the transfer of fine chemical operations in July, 2012.

【Operating income】

Operating income was ¥68.9 billion, on the same level as the previous year.

- Although net sales increased ¥12.0 billion, year-on-year, gross profit decreased ¥2.0 billion, year-on-year, to ¥252.7 billion due to the influence of NHI drug price revisions and other factors. The cost of sales ratio worsened by 2.3 percentage points year-on-year.
- SG&A expenses were down ¥2.0 billion, year-on-year, to ¥183.8 billion, due to the decrease in R&D expenses.

【Ordinary income/ Net income】

Ordinary income was up 0.9%, or ¥0.6 billion, year-on-year, to ¥69.3 billion, and net income was up 7.4%, or ¥2.8 billion, year-on-year, to ¥41.8 billion.

- Extraordinary income was ¥4.2 billion, including gain on sales of property, plant and equipment. In the previous fiscal year, extraordinary income was ¥1.1 billion, including gain on sales of property, plant and equipment.
- Extraordinary loss was ¥5.9 billion, including loss on business integration of the plasma fractionation operations of ¥2.2 billion and a provision of reserve for HCV litigation of ¥2.0 billion.

  In the previous fiscal year, extraordinary loss was ¥6.1 billion, including loss on impairment of fixed assets of ¥3.3 billion and loss on valuation of investment in securities of ¥2.1 billion. As a result, extraordinary income/ loss improved ¥3.3 billion, year-on-year.

【Comprehensive income】

Income before minority interests was ¥41.9 billion, due to other comprehensive income of 13.5 billion including unrealized holding gains on securities and comprehensive income of ¥55.5 billion. Comprehensive income attributable to shareholders of the Company was ¥54.6 billion.

### ② R&D activities

Aiming to be a pharmaceutical company that continually provides new drugs to patients around the world, the Mitsubishi Tanabe Pharma Group is advancing R&D initiatives in Japan and overseas. The Company's priority disease areas are autoimmune disorders, diabetes, renal diseases and central nervous system diseases. In addition to these areas, the Company focuses on the discovery of drugs that address unmet medical needs and continues to taking steps to bolster its pipeline, including the aggressive introduction of products and technologies.

In the year under review, the Company made smooth progress in the development especially in the area of

diabetes and renal diseases, such as the development of two products, treatments for diabetes with two different mechanisms of action, greatly progressed in Japan and overseas.
The approval was received for MP-513 in Japan. In addition, in Korea, licensee Handok Pharmaceuticals started phase 3 clinical trials. On the other hand, licensee Janssen Pharmaceuticals received approval for TA-7284 as first SGLT2 inhibitor in US, and filed an NDA in Europe.
In Japan, the Company made smooth progress in the development of TA-7284 and prepare for an application. In addition, in the area of renal diseases, the approval was received for BindRen, hyperphosphatemia treatment agent in Europe, and the Company started phase 2 clinical trials for indications of diabetic nephropathy for MT-3995 in Europe, and of refractory pruritus treatment agent for MT-9938 in the U.S.
In the area of autoimmune disorders, the Company started phase 2 clinical trials for MT-1303, a multiple sclerosis treatment agent in Europe. The Company starts phase 3 clinical trials for several additional indications to maximize the product value of Remicade, which plays a central role in the Company's main life-cycle management strategy. In the area of central nervous system disease, the Company started phase 2b/3 clinical trials for MP-214, schizophrenia treatment agent, and phase 2 clinical trials for MT-4666, Alzheimer's disease treatment agent in Japan.
In addition to these areas, the Research Foundation for Microbial Diseases of Osaka University, the joint development partner, received approval for TETRABIK, combined vaccine containing inactivated polio vaccine in Japan.
For the fiscal year, R&D expenses were ¥66.5 billion, accounting for 15.9% of net sales. Because the amount of R&D expenses in other businesses is small, that amount is included in the R&D expenses of pharmaceutical segment.
Progress in major clinical development activities in the year under review was as follows:

Acquisition of approval

- In June 2012, approval was received for an indication of type 2 diabetes mellitus for TENELIA (MP-513) in Japan.
- In July 2012, the Research Foundation for Microbial Diseases of Osaka University, the joint development partner, received approval for pertussis diphtheria, tetanus, and inactivated polio combined vaccine for TETRABIK (BK-4SP) in Japan.
- In January 2013, approval was received for treatment of hyperphosphatemia for BindRen (MCI-196) in Europe.
- In February 2013, the Company received approval for additional indications for both Omeprazon, filed in August 2012, for Helicobacter pylori eradication by concomitant therapy, for Hricobacter pylori gastritis and for GRTPA, filed in September 2012, for acute ischemic cerebrovascular disease (up to 4.5 hours after the onset of symptoms) in Japan.

Applications filed

- In September 2012, the Company filed an NDA for an additional indication of chronic atrial fibrillation for Maintate in Japan.
- In January 2013, the Company filed an NDA for an indication of chronic hepatitis C for MP-424 (Telaprevir) in Taiwan.
- In February 2013, the Company filed an NDA for an indication of type 2 diabetes mellitus, additional combination for Tenelia in Japan.

Clinical trials started and advanced

- As for Remicade, the Company started phase 3 clinical trials in Japan for additional indications of Pediatric Crohn's disease in April 2012, of Refractory Kawasaki disease and Pediatric ulcerative colitis in May 2012. And the Company also started phase 3 clinical trials of the partial change in usage / dosage for Psoriasis in September 2012 in Japan.
- In May 2012, the Company started phase 2b/3 clinical trials for MP-214 (D3/D2 receptor partial agonist / schizophrenia) in Japan.
- In December 2012, the Company started phase 2 clinical trials for MT-9938 (κ-opioid receptor agonist / refractory pruritus) in the U.S.
- In December 2012, the Company started phase 2 clinical trials for MT-4666 (α7nACh receptor agonist / Alzheimer's disease) in Japan.
- In January 2013, the Company started phase 3 clinical trials for an indication of combination therapy with PEGASYS or Feron against chronic hepatitis C for Telavic.
- In February 2013, the Company started phase 2 clinical trials for MT-3995 (Selective mineralocorticoid receptor antagonist / Diabetic nephropathy) in Europe, and phase 3 clinical trials for an indication of Chronic Inflammatory Demyelinating Polyneuropathy (CIDP) for FTY720 (our product name: Imusela) in the grobal clinical trials (Japan/U.S./EU). In Japan, the Company and Novartis Pharma jointly conduct its development.
- In March 2013, the Company started phase 2 clinical trials for MT-1303 (Sphingosine-1-phosphate receptor functional antagonist / multiple sclerosis) in Europe.
  In addition, in April 2013, the Company started phase 3 clinical trials for an indication of pediatrics atopic dermatitis for Talion in Japan.

Development of Out-Licensed Products

- In April 2012, licensee VIVUS received approval for an indication of ED for TA-1790 (Avanafil) in the U.S.
- Licensee Janssen Pharmaceuticals filed an NDA for an indication of type2 diabetes mellitus for TA-7284 (Canagliflozin) in the U.S. in May 2012 and in Europe in June 2012, and received its approval in the U.S. In addition licensee Janssen Pharmaceuticals filed an indication of metformin combination for TA-7284 (Cnagliflozin) in December 2012 in the U.S. and in March 2013 in Europe.
- In July 2012, licensee Handok Pharmaceuticals started phase 3 clinical trials for an indication of type2 diabetes mellitus for MP-513 (Teneligliptin) in Korea.
- In September 2012, licensee Maruho started phase 2 clinical trials for an indication of atopic dermatitis for TA-7906 in Japan.
- In November 2012, licensee SAMA Pharma started phase 2 clinical trials for an indication of asthma for MCC-847 in Korea.
- In February 2013, licensee Novartis started phase 2 clinical trials for an indication of CIDP for FTY720 (fingolimod, overseas product name: Gilenya) in global clinical trials (Japan/U.S./EU). In Japan, the Company and Novartis Pharma jointly conduct its development.

### ③ Forecasts for the current fiscal year (ending March 2014)

In the fiscal year ending March 31, 2014, in domestic sales of ethical drugs, the Company expects growth in sales of Remicade and other mainstay products. In addition, the Company anticipates that royalty revenues from Gilenya, licensed to Novartis, will continue to increase. However, the Company will suffer the impacts of the transfer of the fine chemical operations as well as the dissolution of the business alliance with Choseido Pharmaceutical in generic products. As a result, the Company is forecasting a slight decrease in sales.
On the other hand, the Company is forecasting increases in profits due to growth in sales of mainstay products,

royalty revenues and improvement of cost efficiency.

(millions of yen)

| | Fiscal 2012 | Fiscal 2013 | Increase/decrease | % change |
|---|---|---|---|---|
| Net sales | 419,179 | 417,000 | (2,179) | (0.5) |
| Operating income | 68,968 | 70,000 | 1,032 | 1.5 |
| Ordinary income | 69,392 | 71,500 | 2,108 | 3.0 |
| Net income | 41,892 | 44,000 | 2,108 | 5.0 |

## (2) Financial Position

### ① Assets, liabilities and net assets

(millions of yen)

| | Fiscal 2011 | Fiscal 2012 | Change |
|---|---|---|---|
| Current assets | 419,651 | 476,686 | 57,035 |
| Fixed assets | 400,274 | 390,088 | (10,186) |
| Total assets | 819,925 | 866,774 | 46,849 |
| Liabilities | 98,440 | 113,852 | 15,412 |
| Net assets | 721,485 | 752,922 | 31,437 |
| Total liabilities and net assets | 819,925 | 866,774 | 46,849 |

At the end of the year under review, total assets were ¥866.7 billion, up ¥46.8 billion year-on-year. Major factors causing changes in the balance sheet in comparison with the previous year-end were as follows.

- Deposits and marketable securities increased. Consequently, total current assets were up ¥57.0 billion, to ¥476.6 billion.
- Fixed assets were down ¥10.1 billion from the previous fiscal year-end, to ¥390.0 billion. Property, plant and equipment and intangible fixed assets decreased by sales of assets and amortization of goodwill.
- Income taxes payable, notes and accounts payable-trade increased. Consequently, total liabilities were up ¥15.4 billion, to ¥113.8 billion.
- Total net assets were up ¥31.4 billion, to ¥752.9 billion. Net income was ¥41.8 billion, and dividends paid totaled ¥22.4 billion. As a result, retained earnings increased by ¥19.4 billion. In addition, total accumulated other comprehensive income increased by ¥12.7 billion. The equity ratio was 86.3%, compared with 87.3% a year earlier.

### ② Cash flows

(millions of yen)

| | | Fiscal 2011 | Fiscal 2012 | Increase/ decrease |
|---|---|---|---|---|
| | Operating activities | 37,247 | 60,589 | 23,342 |
| | Investing activities | (63,225) | (34,968) | 28,257 |
| | Financing activities | (17,160) | (23,677) | (6,517) |
| Change in cash and cash equivalents | | (43,536) | 4,401 | 47,937 |
| At beginning of year | | 97,880 | 54,344 | (43,536) |
| At end of year | | 54,344 | 58,745 | 4,401 |

Net increase in cash and cash equivalents was ¥4.4 billion, and the balance of cash and cash equivalents at the

end of the year under review was ¥58.7 billion, up ¥4.4 billion year-on-year.

- Net cash provided by operating activities was ¥60.5 billion. Cash inflows included income before income taxes and minority interests of ¥67.6 billion, amortization of goodwill of ¥10.2 billion, and depreciation and amortization of ¥8.4 billion, while cash outflows included income taxes paid of ¥17.9 billion, and increase in inventories of ¥17.7 billion
- Net cash used in investing activities was ¥34.9 billion, due to increase in deposits for investment purposes.
- Net cash used in financing activities was ¥23.6 billion, due in part to dividends paid of ¥22.4 billion.

### ③ Cash Flow Indicators

| | Fiscal 2008 | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 |
|---|---|---|---|---|---|
| Shareholders' equity ratio(%) | 80.5 | 84.1 | 84.3 | 87.3 | 86.3 |
| Shareholders' equity ratio (market price) (%) | 67.2 | 93.0 | 92.5 | 79.4 | 93.5 |
| Ratio of interest-bearing debt to cash flow (years) | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 |
| Interest coverage ratio | 549.3 | 920.1 | 4,219.1 | 4,138.6 | 1,009.8 |

*Shareholders' equity ratio: shareholders' equity / total assets

*Shareholders' equity ratio (market price): aggregate market value of listed stock / total assets

*Ratio of interest-bearing debt to cash flow: Interest-bearing debt / cash flow

*Interest coverage ratio: operating cash flow / interest paid

1. Each indicator is calculated on a consolidated basis.
2. Aggregate market value of listed stock is calculated by the number of shares outstanding at the end of the period, less treasury stock.
3. Net cash provided by operating activities from the consolidated statements of cash flows is used as operating cash flow.
4. Interest-bearing debt is that portion of debt on the consolidated balance sheets for which interest is paid.

## (3) Basic Policy on the Distribution of Earnings / Dividends in the Fiscal Year under Review and the Current Fiscal Year

The Company's basic policy calls for providing a stable and continuous return to shareholders while striving to maximize enterprise value by aggressively investing in future growth. Under the Medium-Term Management Plan 11-15, in addition to profit growth, the basic for the dividend payout ratio is 50% (the basic for the dividend payout ratio, prior to amortization of goodwill, is 40%), and the Company will work to provide an enhanced return to shareholders.

In accordance with its basic policy on the distribution of earnings, the Company set year-end dividends at ¥20.0 per share. In conjunction with the interim dividends, this resulted in annual dividends of ¥40.0 per share.

For the current fiscal year, dividends of ¥40.0 per share are planned, including interim dividends of ¥20.0 per share.

## (4) 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 2012 (ended March 31, 2013).

**① Risks related to new drug R&D**

The research and development 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 development compounds might be halted in the event that problems with effectiveness or safety are found in nonclinical 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, 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 various backgrounds, 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 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 treatment and to a decline in sales, the Group's financial position or results could be significantly affected.

**⑤ Risks related to intellectual property**

If the Group's business activities conflict with the patents or other intellectual property rights of other parties, it is possible those 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 alliance dissolved, if the management environment of alliance partners worsens or 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 production and distribution facilities, or in the event of operational stoppages or disorder 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 and production of pharmaceuticals, there is a trend toward stricter regulations regarding product quality and the environment. In the event that these regulations are further tightened, there is a possibility that corresponding additional expenses will arise, which could have an adverse influence on the Group's financial position or results.

**⑨ Risks related to product liability**

It is possible that the Group will be responsible for potential product liability stemming from product research, development, manufacturing, or sales activities. The Group is covered by liability insurance, but in the event that claims exceeding the limits of this insurance coverage are approved, there could be a significant influence on the Group's financial position or results.

**⑩ Risks related to financial market fluctuations**

a) In the fiscal year ended March 31, 2013, overseas sales accounted for 11.4% 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) As of the end of March 2013, the Group held marketable securities of ¥63.9 billion and investments in securities of ¥120.9 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 coagulant factor IX product (Christmassin). However, to resolve this litigation, in January 2008, the Japanese government promulgated and put into effect "the Special Relief Law Concerning the Payment of Benefits to Relieve the Patients of Hepatitis C Infected through Specified Fibrinogen Preparations and Specified Blood-Coagulation Factor IX Preparations Contaminated by Hepatitis C Virus" (the 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 ¥21.4 billion had already been paid out as of the end of March 2013. 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, 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, 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, through the use of specific coagulation factor IX products on or after January 1, 1984 | 100% |

(2) Lump-sum payment of ¥5,186,725 thousand in addition to payments made in accordance with the portions in (1) above.

**⑬ Risks related to information management**

The Group possesses large amounts of confidential information, including personal information, and in the event that information is leaked outside 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 pharmaceutical and OTC products. The products handled include narcotics, psychotropic agents, and raw material for stimulants etc. and the Group is subject to laws and regulations related to the Narcotics and Psychotropic Substances Control Law and the Stimulant Drugs Control Law.

Since the Group also handles poisonous and toxic substances, the Group is subject to laws and regulations covering general sales of poisonous and toxic substances.

In manufacturing drugs that are exported overseas, the Group is subject to the regulations of the Pharmaceutical Affairs Law. In addition, the Group is required to register a raw materials master file, etc., with the authorities in the importing countries and acquire import permission, local manufacturing permission, etc. Moreover, the Group is subject to the rules and regulations relating to the control of exports and international transportation of hazardous materials in each importing country, as well as the laws and regulations related to customs clearance. These rules and regulations are revised and subject to additional stipulations on an individual country basis. Certain terms and conditions are also reinforced annually. Taking the aforementioned into consideration, Group operations may be affected.

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.

Major permissions, etc. received are as follows:

| Date received | Permission, etc. | Approving authority | Details of permission, etc. | Expiry of permission, etc. | Grounds for legal violation or primary reason for revocation of permission, etc. |
|---|---|---|---|---|---|
| Jan. 1, 2012 | Pharmaceutical manufacturing and sales | Osaka Prefecture | Permission to manufacture and sell pharmaceutical products, etc. | Dec. 31, 2016 (5-year renewable) | Disqualification as per Article 12.2 of the Pharmaceutical Affairs Law |
| Jan. 1, 2013 | Manufacturing of narcotics *1 | Ministry of Health, Labour and Welfare | License to manufacture narcotic drugs | Dec. 31, 2014 (2-year renewable) | Disqualification as per Article 3.2 of the Narcotics and Psychotropic Control Act |
| Oct. 1, 2009 | Manufacturing of psychotropic drugs *1 | Ministry of Health, Labour and Welfare | License to manufacture psychotropic drugs | Sep. 30, 2014 (5-year renewable) | Disqualification as per Article 50.2 of the Narcotics and Psychotropic Control Act |

| Date received | Permission, etc. | Approving authority | Details of permission, etc. | Expiry of permission, etc. | Grounds for legal violation or primary reason for revocation of permission, etc. |
|---|---|---|---|---|---|
| Oct. 19, 2009 | Handling of raw materials for stimulants *2 | Local governments | Permission to sell raw materials for stimulants | Dec. 31, 2013 (4-year renewable) | Disqualification as per Article 30.3 of the Stimulant Drugs Control Law |
| Oct. 13, 2009 | Wholesale pharmaceutical sales *3 | Local governments | Permission to sell or offer pharmaceutical products | Oct. 12, 2015 (6-year renewable) | Disqualification as per Article 34.2 of the Pharmaceutical Affairs Law |
| Oct. 1, 2009 | Pharmaceutical manufacturing*4 | Local governments | Permission to manufacture or import pharmaceutical products | Sep. 30, 2014 (5-year renewable) | Disqualification as per Article 13.4 of the Pharmaceutical Affairs Law |
| Oct. 19, 2009 | General sales of poisonous and toxic substances*5 | Local governments | Registration to sell, etc., poisonous and toxic substances | Oct. 18, 2015 (6-year renewable) | Disqualification as per Article 5, or 19 of the Poisonous and Deleterious Substances Control Act |

Notes:

1. Permission information for narcotic manufacturing at Osaka Plant of Mitsubishi Tanabe Pharma Factory Ltd. that primarily handles drugs covered by these regulations is shown.
2. Permission information for handling of raw materials for stimulants at Head Office (Production Division) that primarily handles them covered by these regulations is shown.
3. Permission has been obtained by multiple places of operations, therefore permission information for Head Office (Sales and Marketing Division) is shown.
4. Permission has been obtained by multiple places of operations, therefore permission information for Osaka Plant of Mitsubishi Tanabe Pharma Factory Ltd. is shown.
5. Permission has been obtained by multiple places of operations, therefore permission information for Head Office (Production Division) is shown.

**⑯ Quality control problem at consolidated subsidiary**

The administrative action of the quality control problem at 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**

ⅰ.Transactions with Mitsubishi Chemical Holdings Group

The Company's relationship with its parent company, Mitsubishi Chemical Holdings Corporation, and Mitsubishi Chemical Holdings Corporation's corporate group, includes the following transactions:

・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; 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 about a 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.

ⅱ. Personnel relationships with Mitsubishi Chemical Holdings Group

(a) Concurrent service of directors and corporate auditors

As of the filing date of this report, the directors, corporate auditors and employees of Mitsubishi Chemical Holdings Corporation and its Group companies include one person who is concurrently serving as a corporate auditor (non-full time) of the Company.

Michihiro Tsuchiya, who is a representative director of the Company, serves concurrently as a director (non-full time) of Mitsubishi Chemical Holdings Corporation 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 Mitsubishi Chemical Holdings Group for limited periods of time with such objectives as enhancing links among each division.

ⅲ. Capital relationship with Mitsubishi Chemical Holdings Corporation

Currently, Mitsubishi Chemical Holdings Corporation holds 56.34% of the Company's issued shares. In regard to management decision-making, there are no matters that require the prior approval of Mitsubishi Chemical Holdings Corporation, the Company's parent company. Also, the percentage of the Company's stock held by Mitsubishi Chemical Holdings Corporation will, in principle, be maintained for 10 years from October 1, 2007. At this time, the Company believes that the ownership ratio remains unchanged.

However, in the future, in the event that there is a change in the transactions or the capital relationship with the Mitsubishi Chemical Holdings Group, the Group'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.

## 2. Consolidation of Corporate Group

As of the end of March 2013, the Mitsubishi Tanabe Pharma Group comprised 34 companies – Mitsubishi Tanabe Pharma Corporation (the Company), its parent company, 29 subsidiaries (28 consolidated subsidiaries, 1 non-consolidated subsidiaries), and 3 affiliates. The Group companies mainly operate the pharmaceutical businesses. The Group's core operations and the roles of Group companies in regard those operations are shown below.

[Pharmaceuticals]

The Group conducts R&D, manufacturing, purchasing, and sales of ethical drugs and OTC products in Japan and overseas.

Ethical drugs are drugs intended for use by doctors or dentists or in accordance with prescriptions from doctors or dentists. OTC products are drugs other than ethical drugs. They are purchased directly by consumers at drug stores, etc., and used in accordance with explanations and consultations from pharmacists, etc.

For the Group, sales of ethical drugs account for more than 90% of sales of pharmaceuticals.

Major ethical and OTC products are shown below.

| | Product name | Efficacy | Sales (FY2012) |
|---|---|---|---|
| Ethical drugs | Remicade | Rheumatoid arthritis (RA), active Crohn's disease, Behcet's disease with refractory uveoretinitis, psoriasis, ankylosing spondylitis and ulcerative colitis | Domestic : ¥73.5 billion<br>Overseas : ¥0.0 billion |
| | Ceredist | Improvement of ataxia caused by spinocerebellar degeneration | Domestic : ¥18.4 billion<br>Overseas : ¥0.0 billion |
| | Talion | Allergic rhinitis, urticaria, pruritus accompanying dermatitis | Domestic : ¥14.3 billion<br>Overseas : ¥0.9 billion |
| | Maintate | Essential hypertension, angina pectoris, ventricular extrasystole, chronic heart failure | Domestic : ¥14.1 billion<br>Overseas : ¥0.3 billion |
| | Urso | Liver function in chronic liver disease and hepatitis C, dissolution of gall stones | Domestic : ¥13.3 billion<br>Overseas : ¥0.5 billion |
| | Radicut | Neurological symptoms at the acute stage of cerebral infarction, interference with activities of daily living, functional disability | Domestic : ¥13.3 billion<br>Overseas : — |
| | Anplag | Ischemic symptoms associated with chronic arterial occlusion, such as ulcer, pain and coldness of limbs | Domestic : ¥13.0 billion<br>Overseas : ¥0.8 billion |
| | Kremezin | Improvement of symptoms of uremia in chronic renal failure, control of the decline of kidney function and delay of the commencement of dialysis | Domestic : ¥12.2 billion<br>Overseas : — |
| | Venoglobulin-IH | Severe infection, idiopathic thrombocytopenic purpura, Kawasaki disease, etc. | Domestic : ¥11.0 billion<br>Overseas : — |

| | Product name | Efficacy | Sales (FY2012) |
|---|---|---|---|
| Ethical drugs | Depas | Neuroses, psychosomatic disorders, depression, integration dysfunction syndrome, muscle contraction headache, cervical spondylosis, anxiety/tension/neurasthenia/sleep disturbance, etc. in lower back pain | Domestic : ¥10.4 billion<br>Overseas : ¥0.5 billion |
| | Herbesser | Essential hypertension, angina pectoris, variant angina pectoris, etc. | Domestic : ¥7.6 billion<br>Overseas : ¥5.9 billion |
| | Vaccines | Mearubik (measles/rubella prevention), HA flu vaccine (Influenza prevention), JEBIK V (Japanese encephalitis prevention), TETRABIK (pertussis, diphtheria, tetanus, and polio prevention) etc. | Domestic : ¥28.8 billion<br>Overseas : ¥1.8 billion |
| OTC products | Aspara Drink | Nutritional tonic for physical fatigue | Domestic : ¥2.4 billion<br>Overseas : － |
| | Flucort | Eczema, dermatitis | Domestic : ¥1.8 billion<br>Overseas : － |

(Domestic)

Pharmaceuticals are supplied from the Company to pharmaceutical wholesalers, then to hospitals, clinics, and drugstores, and then to patients. Certain pharmaceuticals are purchased from other companies, but the drugs supplied by the Group to pharmaceutical wholesalers are principally manufactured by production subsidiaries, such as Mitsubishi Tanabe Pharma Factory Ltd. Generic drugs and others are supplied from the Company to Tanabe Seiyaku Hanbai Co., Ltd, then to pharmaceutical wholesalers. For certain products, pharmaceutical intermediates are supplied by API Corporation. Certain sales activities for the Company's products are handled by Yoshitomi Yakuhin Corporation's medical representatives.

(Overseas)

In Asia, with certain raw materials supplied by the Company, Tianjin Tanabe Seiyaku Co., Ltd., Mitsubishi Pharma (Guangzhou) Co., Ltd., Mitsubishi Tanabe Pharma Korea Co., Ltd., and P.T. Tanabe Indonesia manufacture and sell pharmaceuticals in their regions. Except for certain products, products manufactured by Taiwan Tanabe Seiyaku Co., Ltd., are sold locally by Tai Tien Pharmaceuticals Co., Ltd.

In North America, the Company outsources a portion of its R&D operations to Tanabe Research Laboratories U.S.A., Inc., and Mitsubishi Tanabe Pharma Development America, Inc. and its marketing operations to Mitsubishi Tanabe Pharma America, Inc. MP Healthcare Venture Management, Inc. invests in recently launched bio-venture companies.

In Europe, Tanabe Europe N.V. and Mitsubishi Pharma Deutschland GmbH. conduct sales. The Company also outsources certain development operations to Mitsubishi Pharma Europe Ltd.

[Others]

Besides the pharmaceuticals businesses, the Company conducts manufacturing, purchasing, and sales of fine chemical products as well as real estate management and other activities in Japan and overseas.

Business organization chart is as follows;

As of March 31, 2013

Parent Company
Mitsubishi Chemical Holdings Corporation

## Pharmaceutical Segment

### [Japan]

Manufacturing/Sales
★Mitsubishi Tanabe Pharma Factory Ltd.
★Tanabe Seiyaku Yoshiki Factory Co.,Ltd.
★Bipha Corporation

Sales
★Tanabe Seiyaku Hanbai Co.,Ltd

R&D
★Tanabe R&D Service Co.,Ltd.

Medical Representatives
★Yoshitomi Yakuhin Corporation

Others
★Benesis Corporation

### [North America]

R&D
★Tanabe Research Laboratories U.S.A., Inc.
★Mitsubishi Tanabe Pharma Development America, Inc.

Marketing
★Mitsubishi Tanabe Pharma America, Inc.

Others
★MP Healthcare Venture Management, Inc.
★Mitsubishi Tanabe Pharma Holdings America, Inc. And other two companies

### [Asia]

Manufacturing/Sales
★Tianjin Tanabe Seiyaku Co.,Ltd.
★Mitsubishi Pharma (Guangzhou) Co.,Ltd.
★Mitsubishi Tanabe Pharma Korea Co.,Ltd.
★Taiwan Tanabe Seiyaku Co.,Ltd.
★P.T. Tanabe Indonesia

Sales
★Tai Tien Pharmaceuticals Co.,Ltd
★Guangdong Tanabe Pharmaceutical Co., Ltd.

R&D
★Mitsubishi Pharma Research & Development (Beijing) Co.,Ltd.

### [Europe]

Sales
★Mitsubishi Pharma Deutschland GmbH.

Manufacturing/Sales
○Synthelabo-Tanabe Chimie S.A.

Sales/R&D
★Mitsubishi Pharma Europe Ltd.

Supply of raw materials/products
Supply of products
Commissioning of testing, etc.
Commissioning of Medical Representatives
Commissioning of R&D etc.
Supply of raw materials/products
Commissioning of R&D
Supply of raw materials/products
Commissioning of R&D

(※)Supply of raw materials
(※)Supply of raw materials
Outsourcing Service etc.

**Mitsubishi Tanabe Pharma Corporation**

### [Japan]

Manufacturing/Sales
○API Corporation

Real estate management and etc.
★Tanabe Total Service Co.,Ltd.

Others
★MP-Logistics Corporation

### [North America]

Sales of fine chemicals
★Tanabe U.S.A.,Inc.

Supply of products

### [Europe]

Sales of fine chemicals
★Tanabe Europe N.V.

Supply of products

(※) Supply of bulk pharmaceuticals to pharmaceutical companies

★Consolidated subsidiar
○Equity-method affiliate

## 3. Management Policies

### (1) Fundamental Corporate Policy

The Mitsubishi Tanabe Pharma Group has formulated a corporate philosophy of "contributing to the healthier lives of people around the world through the creation of pharmaceuticals." In accordance with that philosophy, the Group will strive to achieve its vision of "becoming a global research-driven pharmaceutical company that is trusted by communities." To that end, the Group is taking on the challenges of creating new global drugs, developing overseas operations, and seizing new business opportunities by responding to medical needs. In addition, the Corporate Behavior Charter positions the fair and honest implementation of business activities, with high ethical standards, as the highest priority for all of the Group's directors and employees. Together, the corporate philosophy, vision, and Corporate Behavior Charter comprise the fundamental corporate management policy.

### (2) Overview of specific challenges and the status of the initiatives

1. Progress of Medium-Term Management Plan 11-15 ～New Value Creation"

In 2011, the Group has formulated "Medium-Term Management Plan 11-15 ～New Value Creation" (From April, 2011 to March, 2016). The Group is working to discover new drugs that respond to unmet medical needs and to establish a foundation for the provision of those drugs on a global basis.

This Medium-Term Management Plan contains four strategic challenges: (1) Bolstering Our Ability to Discover New Drugs; (2) Advancing Domestic Operations, Centered on New Products, (3) Building a Foundation for the Expansion of Overseas Operations, and (4) Accelerating Operational and Structural Reforms. Through the steady implementation of these issues, the Group will become a "Company that Can Continue to Create New Value."

Main progress of these issues in the current fiscal year is as follows;

(1) Bolstering Our Ability to Discover New Drugs

During the period of the current Medium-Term Management Plan, the Group aims to build a system that can launch 10 new products, advance 8 compounds to late-stage development, and commence clinical trials for 3 development compounds. On that basis, the Group is striving to strengthen its pipeline. Moving forward, the Group will continue to reinforce its foundation for the in-house drug discovery process and to enhance its ability to discover compounds that respond to unmet medical needs. To that end, the Group will actively work in cooperation with clinical academia and venture companies.

(2) Advancing Domestic Operations, Centered on New Products

In addition to priority products including Remicade, the Group will also provide accurate information based on global evidence for products newly launched during the period of the plan, and provide them to as many patients as possible. In the marketing organization, the Group will establish a "T-shaped" marketing system in which specialized MRs will backup generalist MRs. In addition, the Group will establish an information provision system that can provide on-demand responses to customer needs in a wide range of fields.

In the fiscal year under review, there were an NHI drug price revision and the growing impact of generics. In this setting, Remicade, one of the priority products, continued to make favorable progress, and new products that were launched in the previous fiscal year recorded growth in sales.

In September 2012, the Company launched Tenelia, for the treatment of type 2 diabetes mellitus. This drug is the first DPP-4 inhibitor that was discovered in Japan. As the Company enters the diabetes field, the Company will implement activities to ensure the provision of accurate, detailed information. These activities will be based on the information provision system that the Company established through a strategic sales agreement with Daiichi Sankyo Co., Ltd. This system is the largest of its kind in Japan. On this foundation, the Company will strive to make a further contribution to the field of diabetes treatment with the addition of TA-7284, a type 2 diabetes treatment agent that

is currently in development. Furthermore, in October 2012 the Company launched TETRABIK, a combined vaccine for four diseases that the Company developed jointly with the Research Foundation for Microbial Diseases of Osaka University.
Besides these new products, the Company continues to acquire additional indications for Remicade and many other drugs. In this way, the Company is steadily advancing life cycle management for each product.
The Group will continue striving to contribute to improvements in the treatment and QOL of patients through the post-marketing development of priority products and these new products.

(3) Building a Foundation for the Expansion of Overseas Operations
In industrially developed markets in Europe, the United States, and other regions, the Group is developing and expanding sales of innovative and cost competitive products that respond to unmet medical needs. In this endeavor, the Group will consider utilizing alliances with other companies.
In developing countries market such as China and Asia, the Group will work to rapidly launch products that have been approved in industrially developed markets and the Group will aggressively promote products that match market characteristics and needs. For implementing above, the Company positively works on acquiring management resources and products. In addition, the Company aims to strengthen and expand its business foundation in the grobal market.
In the year under review, approval was received in Germany and Austria for BindRen, a treatment agent for hyperphosphatemia. In the future, the Group will steadily develop the operations in Europe, centered on BindRen and Argatroban.
In regard to products licensed overseas, Gilenya, a treatment agent for multiple sclerosis, licensed to Novartis, has been approved in more than 65 countries in the two years since it was launched. Gilenya has been prescribed to more than 53,000 patients, and it is growing into a blockbuster drug. Moreover, approvals were received in the United States for TA-1790 (Avanafil), a treatment for ED, licensed to Vivus, and TA-7284, licensed to Janssen Pharmaceuticals. In the future, the Group expects the royalty income from these products to become a major pillar of the Group's earnings.

(4) Accelerating Operational and Structural Reforms
The Group will accelerate the consolidation and reorganization of the research, production, and head office functions, thereby establishing an organization with both improved functions/productivity and lower costs. In addition, to focus the resources on the pharmaceutical business, the Group will implement operational restructuring measures in order to maximize enterprise value and achieve overall optimization of the Mitsubishi Tanabe Pharma Group. Furthermore, by strengthening human resources / organizations that can contribute to global business development, the Group will become a company that can continue to create new value.
In the year under review, the Company transferred the plasma fractionation operations that had been developed by Benesis, one of the consolidated subsidiaries to the Japan Blood Products Organization established by the Japanese Red Cross Society.
In addition, the Company withdrew from the fine chemical business with the transfer of the pharmaceutical ingredient manufacturing and sales operations to API Corporation and the food chemical operations to TAISHO TECHNOS CO., LTD. The Company also made Bipha Corporation, which works in the field of recombinant human serum albumin preparations, a wholly owned subsidiary of Mitsubishi Tanabe Pharma. The Company also took steps to reform the operations and the organization, such as outsourcing all of our logistics operations to improve efficiency.
In this way, with "contributing to patients" as its highest priority, the Group will strive to provide pharmaceuticals that meet medical needs in the optimal form for patients and will work to further strengthen its management systems.

**2. Business improvement order to the consolidated subsidiary**

In September 2012, the consolidated subsidiary Benesis Corporation received a business improvement order based on the Pharmaceutical Affairs Law from the Minister of Health, Labour and Welfare, for deviations in the packaging process on part of pharmaceutical products that were manufactured in Kyoto Plant of Benesis Corporation (Fukuchiyama City, Kyoto) under the permission of manufacturing and sales.

In addition, the Group will support recurrence prevention efforts of the Japan Blood Products Organization which took over the plasma fractionation operations of this consolidated subsidiary by the business transfer on October 1, 2012.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

| Year / Accounts | As of March 31, 2012 Amount | As of March 31, 2013 Amount |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and time deposits ※3 | 15,466 | 20,281 |
| Notes and accounts receivable-trade ※5 | 127,207 | 129,868 |
| Marketable securities | 46,345 | 63,993 |
| Merchandise and finished goods | 64,259 | 67,944 |
| Work in process | 897 | 717 |
| Raw materials and supplies | 21,034 | 24,122 |
| Deposits | 130,791 | 151,554 |
| Deferred income taxes | 9,343 | 8,373 |
| Other | 4,350 | 9,877 |
| Allowance for doubtful receivables | (41) | (43) |
| **Total current assets** | 419,651 | 476,686 |
| **Fixed assets** | | |
| **Property, plant and equipment** | | |
| Buildings and structures, net ※1 | 37,522 | 33,833 |
| Machinery, equipment and vehicles, net ※1 | 15,348 | 12,271 |
| Tools, furniture and fixtures, net ※1 | 4,040 | 4,835 |
| Land | 46,359 | 38,998 |
| Lease assets, net ※1 | 66 | 59 |
| Construction in progress | 594 | 2,287 |
| **Total property, plant and equipment** | 103,929 | 92,283 |
| **Intangible fixed assets** | | |
| Goodwill | 105,549 | 99,527 |
| Software | 2,619 | 2,428 |
| Other | 1,187 | 2,204 |
| **Total intangible fixed assets** | 109,355 | 104,159 |
| **Investments and other assets** | | |
| Investment in securities ※2 | 116,596 | 120,984 |
| Long-term prepaid expenses | 14,350 | 10,203 |
| Deferred income taxes | 7,898 | 4,173 |
| Prepaid pension expenses | 42,101 | 36,883 |
| Long-term deposits | 1,866 | — |
| Other ※3 | 4,181 | 21,405 |
| Allowance for doubtful receivables | (2) | (2) |
| **Total investments and other assets** | 186,990 | 193,646 |
| **Total fixed assets** | 400,274 | 390,088 |
| **Total assets** | 819,925 | 866,774 |

(Millions of yen)

| Year / Accounts | As of March 31, 2012<br>Amount | As of March 31, 2013<br>Amount |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Notes and accounts payable-trade | 28,878 | 38,072 |
| Short-term loans | 2,170 | 1,174 |
| Accounts payable-other | 15,723 | 15,589 |
| Income taxes payable | 6,726 | 16,191 |
| Consumption taxes payable | 2,030 | 1,885 |
| Reserve for employees' bonuses | 11,121 | 10,291 |
| Reserve for sales returns | 167 | 139 |
| Reserve for sales rebates | 5 | 9 |
| Reserve for loss of disaster | 40 | — |
| Other | 2,724 | 2,768 |
| **Total current liabilities** | 69,584 | 86,118 |
| **Long-term liabilities** | | |
| Deferred income taxes | 9,338 | 8,365 |
| Accrued retirement benefits for employees | 10,584 | 9,443 |
| Accrued retirement benefits for directors and corporate auditors | 6 | 8 |
| Reserve for health management allowances for HIV compensation | 1,461 | 1,627 |
| Reserve for health management allowances for SMON compensation | 3,622 | 3,172 |
| Reserve for HCV litigation | 2,520 | 3,593 |
| Other | 1,325 | 1,526 |
| **Total long-term liabilities** | 28,856 | 27,734 |
| **Total liabilities** | 98,440 | 113,852 |
| **Net assets** | | |
| **Shareholders' equity** | | |
| Common stock | 50,000 | 50,000 |
| Capital surplus | 451,186 | 451,186 |
| Retained earnings | 224,168 | 243,621 |
| Treasury stock, at cost | (486) | (487) |
| **Total shareholders' equity** | 724,868 | 744,320 |
| **Accumulated other comprehensive income** | | |
| Unrealized holding (losses) gains on securities | (82) | 7,189 |
| Deferred (losses) gains on hedges | 93 | 1,640 |
| Translation adjustments | (9,134) | (5,220) |
| **Total Accumulated other comprehensive income** | (9,123) | 3,609 |
| **Minority interests** | 5,740 | 4,993 |
| **Total net assets** | 721,485 | 752,922 |
| **Total liabilities and net assets** | 819,925 | 866,774 |

## (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

### (Consolidated Statements of Income)

(Millions of yen)

| Year / Accounts | April 1, 2011 – March 31, 2012<br>Amount | April 1, 2012 – March 31, 2013<br>Amount |
|---|---|---|
| **Net sales** | **407,156** | **419,179** |
| Cost of sales ※1,2 | 152,280 | 166,416 |
| Provision for sales returns | 4 | — |
| Reversal of reserve for sales returns | – | 28 |
| Gross profit | 254,872 | 252,791 |
| Selling, general and administrative expenses | | |
| Advertising expenses | 3,829 | 3,832 |
| Sales promotion expenses | 11,697 | 10,659 |
| Salaries and allowances | 32,619 | 32,216 |
| Provision for bonuses | 5,983 | 5,721 |
| Retirement benefit expenses | 5,324 | 5,329 |
| Provision for directors' retirement benefits | 1 | 2 |
| Depreciation and amortization | 1,658 | 1,290 |
| Research and development expenses ※2 | 70,241 | 66,530 |
| Amortization of goodwill | 10,133 | 10,294 |
| Provision of reserve for health management allowances for SMON compensation | 331 | 70 |
| Other | 44,013 | 47,880 |
| Total selling, general and administrative expenses | 185,829 | 183,823 |
| **Operating income** | **69,043** | **68,968** |
| Non-operating income | | |
| Interest income | 1,570 | 1,708 |
| Dividend income | 782 | 781 |
| Equity in earnings of affiliates | 162 | 369 |
| Rent income | 234 | 291 |
| Other | 731 | 1,334 |
| Total non-operating income | 3,479 | 4,483 |
| Non-operating expenses | | |
| Interest expenses | 18 | 70 |
| Foreign exchange losses | 1,507 | 1,137 |
| Adjustment for salaries for employees on secondment | — | 490 |
| Donations | 383 | 474 |
| Loss on disposal of property, plant and equipment | 403 | 423 |
| Other | 1,452 | 1,465 |
| Total non-operating expenses | 3,763 | 4,059 |
| **Ordinary income** | **68,759** | **69,392** |

(Millions of yen)

| Year / Accounts | April 1, 2011 – March 31, 2012<br>Amount | April 1, 2012 – March 31, 2013<br>Amount |
|---|---|---|
| Extraordinary income | | |
| Gain on sales of property, plant and equipment ※3 | 708 | 2,957 |
| Gain on sales of investment in securities | — | 935 |
| Gain on transfer of business ※4 | — | 354 |
| Reversal of reserve for loss on disaster | 458 | — |
| Total extraordinary income | 1,166 | 4,246 |
| Extraordinary loss | | |
| Loss on business integration ※5 | — | 2,269 |
| Provision of reserve for HCV litigation | — | 2,020 |
| Impairment loss ※6 | 3,334 | 756 |
| Loss on sales of investment in securities | — | 391 |
| Loss on valuation of investment in securities | 2,197 | 257 |
| Special retirement expenses | 109 | — |
| Loss on disaster | 108 | — |
| Other | 389 | 254 |
| Total extraordinary losses | 6,137 | 5,947 |
| **Income before income taxes and minority interests** | **63,788** | **67,691** |
| Income taxes-current | 20,031 | 26,926 |
| Income taxes-deferred | 4,497 | (1,188) |
| Total income taxes | 24,528 | 25,738 |
| **Income before minority interests** | **39,260** | **41,953** |
| Minority interests | 246 | 61 |
| **Net income** | **39,014** | **41,892** |

## (Consolidated Statements of Comprehensive Income)

(Millions of yen)

| Year / Accounts | April 1, 2011 – March 31, 2012<br>Amount | April 1, 2012 – March 31, 2013<br>Amount |
|---|---|---|
| **Income before minority interests** | **39,260** | **41,953** |
| Other comprehensive income | | |
| Unrealized holding (losses) gains on securities | 2,635 | 7,273 |
| Deferred (losses) gains on hedges | 1,104 | 1,547 |
| Translation adjustments | (1,042) | 4,743 |
| Share of other comprehensive income of associates accounted for by the equity method | (11) | 25 |
| Total other comprehensive income | 2,686 | 13,588 |
| **Comprehensive income** | **41,946** | **55,541** |
| (Breakdown) | | |
| Comprehensive income attributable to | | |
| Shareholders of the Company | 41,893 | 54,624 |
| Minority interests | 53 | 917 |

## (3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

| Year / Accounts | April 1, 2011 – March 31, 2012<br>Amount | April 1, 2012 – March 31, 2013<br>Amount |
|---|---|---|
| **Shareholders' equity** | | |
| Common stock | | |
| Balance at the beginning of the period | 50,000 | 50,000 |
| Changes of items during the period | | |
| Total changes of items during the period | — | — |
| Balance at the end of current period | 50,000 | 50,000 |
| Capital surplus | | |
| Balance at the beginning of the period | 451,186 | 451,186 |
| Changes of items during the period | | |
| Total changes of items during the period | — | — |
| Balance at the end of current period | 451,186 | 451,186 |
| Retained earnings | | |
| Balance at the beginning of the period | 201,424 | 224,168 |
| Changes of items during the period | | |
| Cash dividends | (16,270) | (22,439) |
| Net income for the year | 39,014 | 41,892 |
| Total changes of items during the period | 22,744 | 19,453 |
| Balance at the end of current period | 224,168 | 243,621 |
| Treasury stock, at cost | | |
| Balance at the beginning of the period | (407) | (486) |
| Changes of items during the period | | |
| Increase in treasury stock | (79) | (1) |
| Gain on sales of treasury stock | 0 | 0 |
| Total changes of items during the period | (79) | (1) |
| Balance at the end of current period | (486) | (487) |
| Total shareholders' equity | | |
| Balance at the beginning of the period | 702,203 | 724,868 |
| Changes of items during the period | | |
| Cash dividends | (16,270) | (22,439) |
| Net income for the year | 39,014 | 41,892 |
| Increase in treasury stock | (79) | (1) |
| Gain on sales of treasury stock | 0 | 0 |
| Total changes of items during the period | 22,665 | 19,452 |
| Balance at the end of current period | 724,868 | 744,320 |

| Year / Accounts | April 1, 2011 – March 31, 2012<br>Amount | April 1, 2012 – March 31, 2013<br>Amount |
|---|---|---|
| **Accumulated other comprehensive income** | | |
| Unrealized holding (losses) gains on securities | | |
| Balance at the beginning of the period | (2,712) | (82) |
| Changes of items during the period | | |
| Net changes in items other than shareholders' equity | 2,630 | 7,271 |
| Total changes of items during the period | 2,630 | 7,271 |
| Balance at the end of current period | (82) | 7,189 |
| Deferred (losses) gains on hedges | | |
| Balance at the beginning of the period | (1,010) | 93 |
| Changes of items during the period | | |
| Net changes in items other than shareholders' equity | 1,103 | 1,547 |
| Total changes of items during the period | 1,103 | 1,547 |
| Balance at the end of current period | 93 | 1,640 |
| Translation adjustments | | |
| Balance at the beginning of the period | (8,280) | (9,134) |
| Changes of items during the period | | |
| Net changes in items other than shareholders' equity | (854) | 3,914 |
| Total changes of items during the period | (854) | 3,914 |
| Balance at the end of current period | (9,134) | (5,220) |
| Total Accumulated other comprehensive income | | |
| Balance at the beginning of the period | (12,002) | (9,123) |
| Changes of items during the period | | |
| Net changes in items other than shareholders' equity | 2,879 | 12,732 |
| Total changes of items during the period | 2,879 | 12,732 |
| Balance at the end of current period | (9,123) | 3,609 |
| **Minority interests** | | |
| Balance at the beginning of the period | 5,758 | 5,740 |
| Changes of items during the period | | |
| Net changes in items other than shareholders' equity | (18) | (747) |
| Total changes of items during the period | (18) | (747) |
| Balance at the end of current period | 5,740 | 4,993 |
| **Total net assets** | | |
| Balance at the beginning of the period | 695,959 | 721,485 |
| Changes of items during the period | | |
| Cash dividends | (16,270) | (22,439) |
| Net income for the year | 39,014 | 41,892 |
| Increase in treasury stock | (79) | (1) |
| Gain on sales of treasury stock | 0 | 0 |
| Net changes in items other than shareholders' equity | 2,861 | 11,985 |
| Total changes of items during the period | 25,526 | 31,437 |
| Balance at the end of current period | 721,485 | 752,922 |

## (4) Consolidated Statements of Cash Flows

(Millions of yen)

| Year / Accounts | April 1, 2011 – March 31, 2012 | April 1, 2012 – March 31, 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Income before income taxes and minority interests | 63,788 | 67,691 |
| Depreciation and amortization | 12,468 | 8,438 |
| Impairment loss | 3,334 | 756 |
| Amortization of goodwill | 10,133 | 10,294 |
| Increase (decrease) in accrued retirement benefits for employees | (1,257) | (1,201) |
| Decrease (increase) in prepaid pension expenses | (1,652) | 5,218 |
| Increase (decrease) in allowance for doubtful receivables | (40) | (3) |
| Increase (decrease) in reserve for HCV litigation | (2,106) | 1,073 |
| Increase (decrease) in reserve for loss of disaster | (1,491) | (40) |
| Interest and dividend income | (2,352) | (2,489) |
| Interest expenses | 18 | 70 |
| Loss (gain) on sales and disposal of fixed assets | (530) | (2,767) |
| Loss (gain) on transfer of business | — | (354) |
| Loss (gain) on sales of investment in securities | — | (544) |
| Loss (gain) on valuation of investment in securities | 2,197 | 257 |
| Equity in losses (earnings) of affiliates | (162) | (369) |
| Loss on business integration | — | 2,269 |
| Decrease (increase) in notes and accounts receivable-trade | 981 | (1,869) |
| Decrease (increase) in inventories | (8,601) | (17,704) |
| Increase (decrease) in notes and accounts payable-trade | (564) | 8,584 |
| Increase (decrease) in accounts payable-others | (2,142) | (716) |
| Other, net | (8,918) | (790) |
| Subtotal | 63,104 | 75,804 |
| Interest and dividends received | 2,520 | 2,747 |
| Interest expenses paid | (9) | (60) |
| Income taxes paid | (28,368) | (17,902) |
| **Net cash provided by (used in) operating activities** | 37,247 | 60,589 |

| Year / Accounts | April 1, 2011 – March 31, 2012 | April 1, 2012 – March 31, 2013 |
|---|---|---|
| **Cash flows from investing activities:** | | |
| Purchase of marketable securities | (34,898) | (64,250) |
| Proceeds from sales and redemption of marketable securities | 78,065 | 54,945 |
| Increase in time deposits | (1,940) | (611) |
| Decrease in time deposits | 11,256 | 978 |
| Increase in deposits | (110,752) | (20,720) |
| Increase in long-term deposits | (406) | — |
| Decrease in long-term deposits | — | 1,875 |
| Purchase of property, plant and equipment | (9,502) | (8,681) |
| Proceeds from sales of property, plant and equipment | 2,172 | 10,157 |
| Purchase of intangible fixed assets | (1,249) | (2,142) |
| Purchase of investment in securities | (1,407) | (6,830) |
| Proceeds from sales and redemption of investment in securities | 5,449 | 6,283 |
| Purchase of investment in subsidiaries | — | (6,015) |
| Proceeds from transfer of business | — | 1,384 |
| Other, net | (13) | (1,341) |
| **Net cash provided by (used in) investing activities** | (63,225) | (34,968) |
| **Cash flows from financing activities:** | | |
| Increase (decrease) in short-term loans, net | (718) | (1,208) |
| Cash dividends paid | (16,270) | (22,439) |
| Other, net | (172) | (30) |
| **Net cash provided by (used in) financing activities** | (17,160) | (23,677) |
| **Effect of exchange rate changes on cash and cash equivalents** | (398) | 2,457 |
| **Net increase (decrease) in cash and cash equivalents** | (43,536) | 4,401 |
| **Cash and cash equivalents at beginning of year** | 97,880 | 54,344 |
| **Cash and cash equivalents at end of year** | 54,344 | 58,745 |

## (5) Notes of Consolidated Financial Statements

### (Note regarding Going Concern Assumption)

Not applicable.

### (Basis of Presenting Consolidated Financial Statements)

#### 1. Scope of consolidation

At the end of the consolidated fiscal year under review, there were 28 consolidated subsidiaries. The names of the principal consolidated subsidiaries are not presented here because they are included in the Consolidation of Corporate Group section.

#### 2. Application of the equity method

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

Tanabe Seiyaku Malaysia, a non-consolidated subsidiary, and Arkema Yoshitomi, Ltd., an affiliated company, are not accounted for by the equity method because the net income and retained earnings of these companies are insignificant.

The Company sold its all shareholding in Choseido Pharmaceutical Co., Ltd. on October 30, 2012. and as a result, Choseido Pharmaceutical Co.,Ltd. and Hoshienu Pharmaceutical Co.,Ltd., its subsidiary were removed from the scope of the equity method application.

#### 3. Year-end of consolidated subsidiaries

Among the consolidated subsidiaries, Tianjin Tanabe Seiyaku Co.,Ltd. and other 5 companies have fiscal years ending on December 31. The financial statements based on the provisional settlement of account as of March 31, are used for preparing the consolidated financial statements. Additionally, the fiscal year end of other consolidated subsidiaries corresponds to the consolidated closing date.

(Additional information)

Consolidated subsidiaries change their fiscal year end as follows for more appropriate comprehension and disclosure of consolidated results from the current fiscal year.

(1) Change of the fiscal year end

Mitsubishi Tanabe Pharma Korea Co., Ltd. and other 12 companies change their fiscal year end from December 31 to March 31.

(2) Implementation of the provisional settlement of account

Tianjin Tanabe Seiyaku Co., Ltd. and other 5 companies that had the fiscal year ending December 31 have changed their way of the closing using the provisional settlement of account based on the full-year business results as of March 31.

According to this fiscal year change, the consolidated financial results of the current fiscal year include 15-month results from January 1, 2012 to March 31, 2013 with 13 companies that changed their fiscal year end and 6 companies that implemented the provisional settlement of account.

## 4. Significant accounting policies

### (1) Basis and method of valuation of major assets

#### a. Marketable securities:

Held-to-maturity debt securities are carried at amortized cost.

Available-for-sale securities with available fair market values are stated at fair market value as of the closing date for this fiscal year. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. The cost of securities sold is determined by the moving average method.

Other securities with no available fair market value are stated at moving average cost.

Investment limited partnerships are stated at moving average cost. Operational profit and loss of the partnership or unrealized gains and losses on available-for-sale securities held by the partnership is recorded in the consolidated financial statements pro rata to the Company's ownership percentage.

#### b. Derivatives:

Derivatives are stated at fair market value.

#### c. Inventories:

Inventories are generally valued at cost, determined by the weighted average method (method of reducing book value in accordance with declines in profitability).

### (2) Depreciation and amortization of major fixed assets

#### a. Property, plant and equipment (excluding lease assets):

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, equipment and vehicles: 4 to 8 years

#### b. Intangible fixed assets (excluding lease assets):

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

#### c. Lease assets

Lease assets related to finance lease transactions that do not transfer ownership

The lease term is used as the useful life and the straight-line method is applied with the residual value equal to zero. Among finance lease transactions that do not transfer ownership, those that started on or before March 31, 2008, are accounted for in the same manner as ordinary rental transactions.

#### d. Long-term prepaid expenses:

Long-term prepaid expenses are amortized by the straight-line method.

### (3) Method of accounting for major allowances and reserves

#### a. 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 uncollectable amount have been individually estimated.

**b. Reserve for employees' bonuses:**

Accrued bonuses are stated at the estimated amount applicable to the year.

**c. Reserve for sales returns:**

The Company and certain of its consolidated subsidiaries have recorded the estimated amount based on the historical sales returns to provide for losses for sales returns.

**d. Reserve for sales rebates:**

The reserve for sales rebates is provided to cover possible expenditures for sales rebates that are expected to be incurred after the end of the fiscal year. It is stated at an amount calculated by multiplying the accounts receivable-trade at the end of the fiscal year by the rebate ratio for the current period.

**e. Accrued retirement benefits for employees:**

To provide for employees' retirement benefits, they are recorded based on estimates of projected benefit obligations and pension assets at the end of the fiscal year under review. Prior service cost is charged to expense when incurred based on the straight-line method within the average remaining service period of employees (10 years). Actuarial calculation discrepancies are expensed from the consolidated fiscal year following the year in which they arise based on the straight-line method over a standard number of years that is less than or equal to the average remaining service period of employees (10 years) at the time such differences arise.

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 calculation discrepancies that arose prior to the integration are expensed from the fiscal year following the year in which they arise based on the straight-line method, over 13 years for the retirement benefit system used by the former Tanabe Seiyaku Co., Ltd., and over five years for the retirement benefit system used by the former Mitsubishi Pharma Corporation.

**f. Accrued retirement benefits for directors and corporate auditors:**

To provide for retirement benefits for directors, certain domestic subsidiaries accrue an amount that would be sufficient to provide for benefits arising from services performed through the period.

**g. Reserve for health management allowances for HIV compensation**

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

In accordance with the settlement reached in March 1996, for health management allowances, the Company has set aside the present value of the estimated amount of future payments, calculated with reference to the amount actually paid to patients with AIDs who have reached settlements; and for settlement payments, the Company has set aside, for patients infected with HIV through the use of antihemophilic preparations (non-heat-treated concentrated preparations), the estimated amount of payments to HIV litigation plaintiffs as of the end of the consolidated fiscal year under review, and to future plaintiffs, calculated with reference to settlement outcomes up to the end of the consolidated fiscal year under review.

**h. Reserve for health management allowances for SMON compensation**

Reserve for health management allowances for SMON (subacute myelo-optico-neuropathy) compensation is stated at the estimated future amount over the lifetime of the plaintiffs for health care allowances and nursing expenses covered under the compromise settlement reached in the SMON litigation.

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

(Additional information)

On September 14, 2012, the Special Law was made a partial amendment and promulgated, and the period of suing was extended. As a result, the method and allocation of the expense were confirmed anew. Extraordinary loss includes with a provision of reserve for HCV litigation of ¥2,020 million.

**(4) Foreign currency translation**

Monetary receivables and payables denominated in foreign currencies are translated into yen at the spot rates of exchange in effect on the settlement date and foreign exchange gains and losses are recorded as income or losses. Assets and liabilities of overseas subsidiaries are translated into yen at the spot rates of exchange in effect at the balance sheet date. Revenues and expenses are translated into yen at the average exchange rate for the period. Differences arising from such translations are presented separately in foreign currency translation adjustments and in minority interests in the net assets section.

**(5) Accounting for hedging**

a. Hedge account – The Company adopts deferral hedge accounting.

b. Hedging method and hedge account object

- Hedging method – forward-exchange contract and currency option translation
- Hedge account object – any foreign currency denominated transactions, debts and credits, which are trade demands

c. Hedging policies – The Company uses derivatives transactions for the purpose of reducing the risk of exchange rate fluctuations. The Company does not engage in speculative transactions.

d. Evaluation method of effectiveness of hedging – The important conditions of transactions are the same and the hedge effect is deemed to be extremely high, and the evaluation of their effectiveness is therefore not carried out.

**(6) Amortization of consolidation goodwill**

Goodwill is amortized by the straight-line method, principally over 15 years, in accordance with the reason why the goodwill was incurred.

### (7) Cash and cash equivalents of Consolidated Statements of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments that are not exposed to insignificant risk of price fluctuations and with maturities not exceeding 3 months at the time of purchase are considered to be cash and cash equivalents.

### (8) Others

a. Consumption tax is separately accounted for by excluding it from each transaction amount.

b. Adoption of consolidated tax payment system

The Company adopted the consolidated tax payment system.

### (Change in accounting policies)

Previously, the Company and the domestic consolidated subsidiaries calculated depreciation of property, plant and equipment – except for buildings acquired on or after April 1, 1998, including equipment attached to the buildings – primarily by the declining-balance method. However, from the current consolidated fiscal year, the Company and domestic consolidated subsidiaries have changed it to the straight-line method.

New drugs launched in the previous consolidated fiscal year made a contribution to sales in the current consolidated fiscal year. In addition, the Company plans to launch multiple drugs of new types in the next fiscal year and thereafter. In the Group's operating environment, there are demands for the strengthening of safety measures after products are manufactured and sold. In this environment, the Group's policy is to rapidly collect and accumulate safety and efficacy data for the purpose of promoting the appropriate usage of these new drugs, and to conduct sales while formulating further safety measures as needed. Accordingly, the trend toward more-gradual growth in revenues/profits will steadily strengthen.

In addition, in October 2011, the Group formulated "Medium-Term Management Plan 11-15 ～New Value Creation" of which covers the period to fiscal 2015, and announced aggressive upfront investment to strengthen its foundation and expand its business toward sustained growth. The Group undertakes full-scale implementation of this investment plan from the current consolidated fiscal year.

At this turning point, through deliberations regarding the reevaluation of the depreciation method, the Group confirmed that its product lines are expected to secure stable revenues/profits over the long term; that its property, plant and equipment are, in general, in stable operation; and that the upfront investment will contribute to further stable operation through consolidation and strengthening of production equipments.

Accordingly, in the judgment of the Group, the allocation of expenses through uniform depreciation over the useful life of the property, plant and equipment will enable the actual usage conditions of the Group's property, plant and equipment to be reflected appropriately. Therefore, the Group reevaluated the previous depreciation method and decided to use the straight-line method from the current consolidated fiscal year.

In comparison with the previous method, this change had the effect of increasing gross profit by ¥1,183 million, operating income by ¥2,637 million, and ordinary income and income before income taxes and minority interests by ¥2,677 million, respectively.

(Omission of disclosure)
In notes to the consolidated financial statements, disclosure of the following items has been omitted because disclosure of these items was not considered to be of significant importance in the summary of financial results.

・Consolidated Statement of Comprehensive Income
・Lease transactions
・Financial instruments
・Marketable securities
・Derivatives transactions
・Transactions with related parties
・Stock options
・Leased real estate
・Asset retirement obligations

(Notes relating to consolidated balance sheets)

*1. Accumulated depreciation of property, plant and equipment (millions of yen)

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| Accumulated depreciation | 224,480 | 186,046 |

Accumulated impairment loss amouting to ¥1,149 million, and ¥3,907 million are included in accumulated depreciation for the years ended March 31, 2013 and 2012, respectively.

*2. Investment in non-consolidated subsidiaries and affiliated company (millions of yen)

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| Investment in securities (stock) | 7,332 | 5,040 |

*3. Assets pledged as collateral (millions of yen)

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| Cash and deposits | 25 | 12 |
| Investments and other assets | 8 | – |

Cash and deposits (time deposits) in collateral is provided as deposits for opening letters of credit, and investments and other assets is provided as trade deposits.

4. Contingent liabilities

Liabilities for guarantees
(Guarantees for loans from financial institutions) (millions of yen)

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| Employees' housing fund | 80 | 66 |
| Choseido Pharmaceutical Co., Ltd. | 2,577 | – |

*5. Notes maturing as of the end of the fiscal year

Notes maturing as of the end of the fiscal year are settled on the bill clearing date. As financial institutions were closed on the last day of the fiscal year, the following notes maturing as of the end of the fiscal year are included in the balance as of the end of the period.

(millions of yen)

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| Notes receivable | 109 | 138 |

(Notes relating to consolidated statements of income)

*1. The amount of year-end inventories is calculated after reducing book value in accordance with declines in profitability. The following valuation loss of year-end inventories is included in cost of sales.

(millions of yen)

| | Apr.1, 2011- Mar.31, 2012 | Apr.1, 2012- Mar.31, 2013 |
|---|---|---|
| Valuation loss of year-end inventories | 141 | 1,823 |

*2. Research and development expenses included in general administrative expenses

| | Apr.1, 2011- Mar.31, 2012 | Apr.1, 2012- Mar.31, 2013 |
|---|---|---|
| Research and development expenses | 70,241 | 66,530 |

No research and development expenses were included in manufacturing expenses.

*3. Gain on sales of property, plant and equipment is principally from the sale of land and buildings.

*4. Gain on transfer of business is from the transfer of fine chemical operations (manufacture, purchase and sale of chemical products).

*5. Loss on business integration is mainly from the disposal of assets for the integration of the plasma fractionation operations between Benesis Corporation, the consolidated subsidiary and the Japanese Red Cross Society.

*6. Impairment loss

As a general rule, the Company divides assets into assets for business use, leased assets, and idle assets. For assets for business use, the smallest amount is the asset group, while the corresponding unit for leased assets and idle assets is the individual asset.

Previous fiscal year (April 1, 2011 to March 31, 2012)

For the fiscal year under review, the amount of the write-down (¥3,334 million) was recorded as an impairment loss under extraordinary losses.

The following are the primary assets on which impairment losses were recognized:

| Location | Use | Type |
|---|---|---|
| Mitsubishi Tanabe Pharma<br>Sanban-cho Building (Chiyoda-ku, Tokyo) | Administrative and selling operations | Land, buildings and structures |
| Mitsubishi Tanabe Pharma<br>Kashima Building for Raw Materials (Kamisu City, Ibaraki) | Research facility | Buildings and structures |
| Mitsubishi Tanabe Pharma<br>No.3 Hirano-machi Building (Chuo-ku, Osaka) | Administrative and selling operations | Land |

Breakdown by location

・Sanban-cho Building (Mitsubishi Tanabe Pharma)

¥2,923 million (Land – ¥2,442 million; Buildings – ¥481 million)

・Kashima Building for Raw Materials (Mitsubishi Tanabe Pharma)

¥206 million (Buildings and structures – ¥206 million)

・No.3 Hirano-machi Building (Mitsubishi Tanabe Pharma)

¥141 million (Land – ¥141 million)

Accompanying the relocation of the Company's Tokyo Branch, Sanban-cho Building will become an idle asset. Also, the Company decided to sell Kashima Building for Raw Materials and No.3 Hirano-machi Building. Consequently, the book value of those assets was written down to their recoverable value. The recoverable value is the net sales amount, calculated using rational estimates based on declared values, etc or an estimated sales value.

Current fiscal year (April 1, 2012 to March 31, 2013)
For the fiscal year under review, the amount of the write-down (¥756 million) was recorded as an impairment loss under extraordinary losses.
The following are the primary assets on which impairment losses were recognized:

| Location | Use | Type |
|---|---|---|
| Mitsubishi Tanabe Pharma<br>No.2 Nabari Training Center (Nabari-City, Mie) | Training facility | Land, buildings and structures |
| Mitsubishi Tanabe Pharma<br>Former Fukusaki Laboratory (Kanzaki-Gun, Hyogo) | Idle asset | Land, buildings and structures |
| Mitsubishi Tanabe Pharma<br>Former Hirakata Laboratory (Hirakata-City, Osaka) | Idle asset | Land |

Breakdown by location
・No.2 Nabari Training Center (Mitsubishi Tanabe Pharma)
¥184 million (Land – ¥60 million; Buildings and structures – ¥124 million)
・Former Fukusaki Laboratory (Mitsubishi Tanabe Pharma)
¥121 million (Land – ¥120 million; Buildings and structures – ¥1 million)
・Former Hirakata Laboratory (Mitsubishi Tanabe Pharma)
¥324 million (Land – ¥324 million)

As the Company decided to sell No.2 Nabari Training Center, the former Fukusaki Laboratory and the former Hirakata Laboratory, the book value of those assets was written down to their recoverable value. The recoverable value is the net sales amount, calculated using an estimated sales value.

(Notes to Consolidated Statements of Changes in Net Assets)

Previous Fiscal Period (April 1, 2011 to March 31, 2012)

1. Type and number of shares outstanding and treasury stock (Unit: thousand of shares)

| | 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 |
|---|---|---|---|---|
| Shares outstanding (common stock) | 561,417 | – | – | 561,417 |
| Total | 561,417 | – | – | 561,417 |
| Treasury stock (common stock) | 353 | 70 | 0 | 423 |
| Total | 353 | 70 | 0 | 423 |

Notes

1. The increase of 70 thousand shares in the number of shares of treasury stock (common stock) was due to the purchase of 69 thousand shares of untraceable shareholders on February 28, 2012, and the purchase of one thousand shares constituting less than one unit.
2. The decrease of 0 thousand shares in the number of shares of treasury stock (common stock) was due to the sale of shares constituting less than one unit.

2. Items related to stock options and own stock options

No applicable items

3. Dividends

(1) Dividends paid

At the ordinary general meeting of shareholders held on June 22, 2011, the following was approved.

Common stock dividends

| | |
|---|---|
| Total amount of dividends | 7,854 millions of yen |
| Dividend per share | 14 yen |
| Record date | 31-Mar-11 |
| Effective date | 23-Jun-11 |

The following plan was adopted at the Board of Directors meeting held on October 31, 2011.

Common stock dividends

| | |
|---|---|
| Total amount of dividends | 8,415 millions of yen |
| Dividend per share | 15 yen |
| Record date | 30-Sep-11 |
| Effective date | 1-Dec-11 |

(2) Dividends with a record date in the period but an effective date after the end of the period

The following is to be approved at the ordinary general meeting scheduled on June 22, 2012.

Common stock dividends

| | |
|---|---|
| Total amount of dividends | 11,219 millions of yen |
| Funds for dividends | Retained earnings |
| Dividend per share | 20 yen |
| Record date | 31-Mar-12 |
| Effective date | 25-Jun-12 |

Current Fiscal Period (April 1, 2012 to March 31, 2013)

1. Type and number of shares outstanding and treasury stock (Unit: thousand of shares)

| | 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 |
|---|---|---|---|---|
| Shares outstanding (common stock) | 561,417 | – | – | 561,417 |
| Total | 561,417 | – | – | 561,417 |
| Treasury stock (common stock) | 423 | 1 | 0 | 424 |
| Total | 423 | 1 | 0 | 424 |

Notes

1. The increase of 1 thousand shares in the number of shares of treasury stock (common stock) was due to the purchase of one thousand shares constituting less than one unit.
2. The decrease of 0 thousand shares in the number of shares of treasury stock (common stock) was due to the sale of shares constituting less than one unit.

2. Items related to stock options and own stock options

No applicable items

3. Dividends

(1) Dividends paid

At the ordinary general meeting of shareholders held on June 22, 2012, the following was approved.

Common stock dividends

| | |
|---|---|
| Total amount of dividends | 11,219 millions of yen |
| Dividend per share | 20 yen |
| Record date | 31-Mar-12 |
| Effective date | 25-Jun-12 |

The following plan was adopted at the Board of Directors meeting held on October 29, 2012.

Common stock dividends

| | |
|---|---|
| Total amount of dividends | 11,219 millions of yen |
| Dividend per share | 20 yen |
| Record date | 30-Sep-12 |
| Effective date | 3-Dec-12 |

(2) Dividends with a record date in the period but an effective date after the end of the period

The following is to be approved at the ordinary general meeting scheduled on June 21, 2013.

Common stock dividends

| | |
|---|---|
| Total amount of dividends | 11,219 millions of yen |
| Funds for dividends | Retained earnings |
| Dividend per share | 20 yen |
| Record date | 31-Mar-13 |
| Effective date | 24-Jun-13 |

(Notes relating to consolidated statements of cash flows)

1. The reconciliation of items in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of the end of the fiscal year

(millions of yen)

| | Apr.1, 2011– Mar.31, 2012 | Apr.1, 2012– Mar.31, 2013 |
|---|---|---|
| Cash and time deposits | 15,466 | 20,281 |
| Time deposits maturing after three months | (2,498) | (2,388) |
| Short-term marketable securities maturing within three months from acquisition date | 21,196 | 20,593 |
| Cash equivalents included in short-term loans (other in current assets)※1 | 142 | 177 |
| Cash equivalents included in deposits ※2 | 20,038 | 20,082 |
| Cash and cash equivalents | 54,344 | 58,745 |

※1 CMS (Cash management servise)
※2 Deposits (within 3 months)

2. Main details of the decrease in assets and liabilities relating to the business transfer
The Company transferred the plasma fractionation operations of Benesis Corporation.
Assets and liabilities related to the business transfer are as follows;

| | (millions of yen) |
|---|---|
| Current assets | 8,767 |
| Fixed assets | 6,522 |
| Current liabilities | 1 |
| Long-term liabilities | 1 |
| Gain on transfer of business | – |
| Amount of transfer of business | 15,287 |
| Cash and cash equivalents | – |
| Balance in accrued amount receivable for business transfer | 15,287 |
| Proceeds from transfer of business | – |

Proceeds from transfer of business of ¥1,384 million in consolidated statements of cash flows is from the transfer of fine chemical operations.

(Notes relating to employees' retirement benefits)

1. Overview of retirement benefit plan

The Company and certain consolidated subsidiaries have a system that offers a choice between a defined contribution pension plan and a prepaid plan, a system that offers a choice between a cash balance plan and a prepaid plan, a contract-type defined-benefit corporate pension system, and a system of lump-sum payments at retirement. There are also cases in which additional retirement funds not included in the actuarial calculation as per retirement benefit accounting are paid when an employee retires. In addition, the Company has established a retirement benefit trust. On April 1 2011, the Company transitioned from the (closed-type) qualified pension system to a contract-type defined-benefit corporate pension system in accordance with the Defined-Benefit Corporate Pension Act.

2. Retirement benefit obligation

(millions of yen)

| | (As of March 31, 2012) | (As of March 31, 2013) |
|---|---|---|
| Retirement benefit obligation | (150,320) | (147,810) |
| Pension assets | 143,895 | 155,419 |
| Unfunded retirement benefit obligation | (6,425) | 7,609 |
| Unrecognized actuarial differences | 39,387 | 20,970 |
| Unrecognized prior service cost (reduced obligation) | (1,445) | (1,139) |
| Net amount shown on the consolidated balance sheets | 31,517 | 27,440 |
| Prepaid pension expenses | 42,101 | 36,883 |
| Accrued employees' retirement benefits | (10,584) | (9,443) |

(Note) Some of the subsidiaries adopted a simplified method of calculating the retirement benefit obligation.

3. Severance and pension benefit costs

(millions of yen)

| | (Apr. 1, 2011 – Mar. 31, 2012) | (Apr. 1, 2012 – Mar. 31, 2013) |
|---|---|---|
| Service costs (Note1) | 2,497 | 2,728 |
| Interest costs | 3,549 | 2,710 |
| Expected earnings of return | (3,461) | (3,593) |
| Amortization of actuarial differences | 6,417 | 7,686 |
| Amortization of prior service cost | (210) | (203) |
| Contributions to multiple employer pension system | 8 | – |
| Severance and pension benefit costs | 8,800 | 9,328 |
| Other (Note3) | 912 | 935 |
| Severance and pension benefit costs | 9,712 | 10,263 |

(Notes)

1. Some of the subsidiaries that adopted a simplified method in calculating retirement benefit obligation include such severance and pension cost in the service costs.

2. In addition to the retirement benefit expenses listed above, ¥109 million of special retirement benefits were recorded as an extraordinary loss in the previous fiscal year.

3. "Other" is contributions to defined benefit pension plans.

4. Basic assumptions for calculating retirement benefit obligation

(1) Period allocation method for estimated retirement benefits:
Fixed period standard

(2) Discount rate:

| Apr.1, 2011–<br>Mar.31, 2012 | Apr.1, 2012–<br>Mar.31, 2013 |
|---|---|
| 1.8% | 1.8% |

(3) Expected rate of return:

| Apr.1, 2011–<br>Mar.31, 2012 | Apr.1, 2012–<br>Mar.31, 2013 |
|---|---|
| 2.5% | 2.5% |

(4) Number of years for amortization of prior services cost:
10 years
(to be charged to expense based on the straight-line method within the average remaining service period of employees)

(5) Number of years for amortization of actuarial differences:
10 years
To be charged to expense from the following consolidated financial year based on the straight-line method within the average remaining service period of employees calculated in the previous period.
Actuarial calculation discrepancies that arose prior to the integration are expensed from the fiscal year following the year in which they arise based on the straight-line method.
Former-Tanabe Seiyaku retirement benefit system : 13 years
Former-Mitsubishi Pharma retirement benefit system and certain subsidiaries: 5 years

(Notes relating to deferred tax accounting)

1. Significant components of the deferred tax assets and liabilities are as follows :

(millions of yen)

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| Deferred tax assets | | |
| Accrued bonuses | 4,089 | 3,811 |
| Enterprise taxes payable | 808 | 1,490 |
| Losses resulting from revaluation of inventory | 2,007 | 2,486 |
| Unrealized gains on inventory | 1,980 | 522 |
| Accrued employees' retirement benefits | 228 | 284 |
| Reserve for health management allowances for SMON compensation | 478 | 358 |
| Reserve for health management allowances for HIV compensation | 522 | 579 |
| Reserve for HCV litigation | 955 | 1,310 |
| Write-down of stock | 96 | 97 |
| Excess of amortization of long-term prepaid expenses | 4,480 | 3,117 |
| Prepaid research and development expenses | 9,796 | 10,118 |
| Net operating loss carryforwards | 16,833 | 8,985 |
| Depreciation | 1,364 | 500 |
| Loss on impairment of fixed assets | 1,425 | 347 |
| Self-fundation goodwill | – | 2,942 |
| Other | 1,163 | 1,488 |
| Gross deferred tax assets | 46,224 | 38,434 |
| Valuation allowance | (17,056) | (10,038) |
| Total deferred tax assets | 29,168 | 28,396 |
| Deferred tax liabilities | | |
| Prepaid pension costs | (4,690) | (3,228) |
| Unrealized holding gains on securities | (6,103) | (9,831) |
| Deferred gains on sale of fixed assets | (1,510) | (1,225) |
| Reserve for special account on sale of fixed assets | – | (1,418) |
| Unrealized holding gains on land | (8,618) | (7,366) |
| Deferred (Losses) gains on hedges | – | (1,000) |
| Other | (355) | (221) |
| Total deferred tax liabilities | (21,276) | (24,289) |
| Net deferred tax assets | 7,892 | 4,107 |

(Notes)

Net deferred tax assets is included in the following items of the consolidated balance sheets.

(millions of yen)

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| Deferred income taxes in current assets | 9,343 | 8,373 |
| Deferred income taxes in fixed assets | 7,898 | 4,173 |
| Other in current liabilities | 11 | 74 |
| Deferred income taxes in long-term liabilities | 9,338 | 8,365 |

2. The following table summarizes the significant differences between the statutory tax rate and the actual effective tax rate.

| | As of March 31, 2012 | As of March 31, 2013 |
|---|---|---|
| | % | % |
| Statutory tax rate | 40.6 | 37.9 |
| (Adjustments) | | |
| Amortization of goodwill | 6.4 | 5.7 |
| Non-deductible expenses | 2.8 | 1.4 |
| Non-taxable dividend income, etc. | (1.9) | (1.7) |
| Elimination of dividends upon consolidation | 1.6 | 1.5 |
| Adjustment for per capital inhabitants tax | 0.2 | 0.3 |
| Special deduction for R&D expenses | (9.2) | (5.3) |
| Decrease(increase) in valuation allowance | (0.2) | (2.0) |
| Effect of revised corporate tax rate | (1.3) | – |
| Other | (0.5) | 0.2 |
| Actual effective tax rate | 38.5 | 38.0 |

3. Change in amounts of deferred tax assets and deferred tax liabilities due to change in tax rate

Previous fiscal year (April 1, 2011 to March 31, 2012)

Due to the promulgation on December 2, 2011, of the Law to Revise the Income Tax, etc., in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure, and the Act on Special Measures for Securing the Financial Resources to Implement the Restoration from the Tohoku Earthquake, the effective statutory tax rate used to measure deferred tax assets and liabilities in the fiscal year under review has been changed from 40.6% used in the previous fiscal year to 37.9% for items expected to be eliminated from fiscal years beginning in the period from April 1, 2012, to March 31, 2015, and to 35.5% for items expected to be eliminated in fiscal years beginning on or after April 1, 2015.

As a result of this change, the net amount of deferred tax assets increased by ¥828 million, deferred gain on hedges increased by ¥4 million, income taxes-deferred decreased by ¥839 million, and unrealized holding gains on securities decreased by ¥15 million.

Current fiscal year (April 1, 2012 to March 31, 2013)

No applicable items

(Business combination related)

1 Transactions under common control

1. Outline of the transaction

(1) Name and business of combined company

Name:Bipha Corporation

Business lines:Production of pharmaceutical products and others

(2) Date of business combination

September 5, 2012

(3) Legal form of business combination

Additional acquisition of subsidiary's shares

(4) Name of company after business combination

There is no change in the name.

(5) Outline and purpose of the transaction

The Company acquired the shares held by minority shareholder to pursue the efficiency in consolidated management.

2. Outline of accounting methods

The Company accounted for as a transaction with minority shareholders under common control based on the Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued December 26, 2008) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued December 26, 2008).

3. Additional acquisition of subsidiary's shares

(1) Acquisition cost and its breakdown

| | | |
|---|---|---|
| Acquisition price | Cash and deposits | ¥ 5,800 million |
| Expenditures directly related to acquisition | Advisory expenses | ¥ 40 million |
| Acquisition cost | | ¥ 5,840 million |

(2) Resulting goodwill amount, reason for occurrence, amortization method, and amortization period

① Resulting goodwill amount: ¥ 4,204 million

② Reason for occurrence:

Goodwill resulted from the difference between the acquisition cost of additional acquisition of subsidiary's shares and the decrease in minority interest accompanying such additional acquisition.

③ Amortization method and amortization period:

15 years with the straight-line method.

2 Business divestitures

The Company concluded the agreement with the Japanese Red Cross Society about the integration of the plasma fractionation operations on May 7, 2012. Based on this agreement and its accompanying business transfer agreement, on October 1 2012, the Company transferred the plasma fractionation operations of Benesis Corporation, the wholly owned subsidiary that is engaged in the production and sale of plasma fractionation products to the "Japan Blood Products Organization" established by the Japanese Red Cross Society on June 1, 2012.

1. Outline of the business divestitures

(1) Name of the transferee

The Japan Blood Products Organization

(2) Divested business lines

The plasma fractionation operations of Benesis Corporation

(3) The purpose of business divestitures

The organization will secure sound operations by leveraging economics of scale to reduce costs at the production and supply stages. The Japanese Red Cross Society and Mitsubishi Tanabe Pharma Corporation believe that the Japan Blood Products Organization will make a broad contribution to enhance the health of people in Japan in the years ahead by contributing to the achievement of national self-sufficiency in plasma fractionation products in accordance with the basic prinsiples of the Act on securing a stable supply of safe blood products, thus the Company transferred the plasma fractionation operations of Benesis Corporation.

(4) Date of the business divestitures

October 1, 2012

(5) Outline of the transaction including legal form

The transfer of operations for which consideration received is limited to assets including cash

2. Outline of accounting methods

(1) Amount of gain (loss) on business transfer

There is no gain (loss) on business transfer.

(2) Appropriate book value and its breakdown of assets and liabilities pertaining to the transferred operations.

| | | |
|---|---|---|
| Current assets | 8,767 | million of yen |
| Fixed assets | 6,522 | |
| Total assets | 15,289 | |
| Current liabilities | 1 | |
| Long-term liabilities | 1 | |
| Total liabilities | 2 | |

3. Reportable segment in which the divested business was included

Pharmaceuticals

4. Approximate amount of gain (loss) pertaining to the divested business in the consolidated statement of income for the fiscal year ended March 31, 2013

| | Total gain (loss) | |
|---|---|---|
| Sales | - | million of yen |
| Operationg income | 948 | |

(Note) The Company continues to purchase the blood products from the Japan Blood Products Organization and to sell them to the wholesalers for a certain term after the transfer of the plasma fractionation operations, so there is no effect on sales.

(Segment Information)

a.Segment information

1.Overview of Reportable Segments

The Company conducts business activities centered on the research and development, manufacturing, procurement, and sales of pharmaceuticals, and "Pharmaceuticals" is a reportable segment. In Pharmaceuticals, the Company conducts business activities related to ethical drugs and OTC drugs in Japan and overseas.

2. Method of calculating amounts of net sales, profit/loss, assets, liabilities, and other items by reportable segment

"Pharmaceuticals" is the Company's only reportable segment, and as a result presentation has been omitted.

3. Information regarding amounts of net sales, profit/loss, assets, liabilities, and other items by reportable segment

"Pharmaceuticals" is the Company's only reportable segment, and as a result presentation has been omitted.

4. Differences between totals for reportable segments and amounts presented in consolidated financial statements and major details about such differences (items related to adjustment of such differences)

"Pharmaceuticals" is the Company's only reportable segment, and as a result presentation has been omitted.

b.Related information

Previous fiscal year (April 1, 2011 – March 31, 2012)

1. Information by product/service

Sales of products/services to external customers in a single segment account for more than 90% of net sales in the consolidated statements of income, and as a result presentation has been omitted.

2. Information by region

(1) Net sales

Sales of products/services to external customers in Japan account for more than 90% of net sales in the consolidated statements of income, and as a result presentation has been omitted.

(2) Property, plant and equipment

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, and as a result presentation has been omitted.

3. Information by major customer (millions of yen)

| Customer name | Net sales | Related segment name |
|---|---|---|
| SUZUKEN CO., LTD. | 74,484 | Pharmaceuticals |
| Toho Pharmaceutical Co., Ltd. | 68,837 | Pharmaceuticals |
| Alfresa Corporation | 58,305 | Pharmaceuticals |
| MEDICEO CORPORATION | 57,092 | Pharmaceuticals |

Fiscal year under review (April 1, 2012 – March 31, 2013)

1. Information by product/service

Sales of products/services to external customers in a single segment account for more than 90% of net sales in the consolidated statements of income, and as a result presentation has been omitted.

2. Information by region

(1) Net sales

(millions of yen)

| Japan | Europe | Asia | North America | Others | Total |
|---|---|---|---|---|---|
| 371,444 | 26,492 | 16,591 | 3,940 | 712 | 419,179 |

(Note) Segmentation of countries and regions is based on the location of clients.

(2) Property, plant and equipment

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, and as a result presentation has been omitted.

3. Information by major customer

(millions of yen)

| Customer name | Net sales | Related segment name |
|---|---|---|
| SUZUKEN CO., LTD. | 72,151 | Pharmaceuticals |
| Toho Pharmaceutical Co., Ltd. | 68,379 | Pharmaceuticals |
| Alfresa Corporation | 54,970 | Pharmaceuticals |
| MEDICEO CORPORATION | 53,652 | Pharmaceuticals |

c. Information regarding impairment losses on fixed assets by reportable segment

Previous fiscal year (April 1, 2011 – March 31, 2012)

"Pharmaceuticals" is the Company's only reportable segment, and as a result presentation has been omitted.

Fiscal year under review (April 1, 2012 – March 31, 2013)

"Pharmaceuticals" is the Company's only reportable segment, and as a result presentation has been omitted.

d. Information regarding amount of amortization of goodwill and unamortized balance by reportable segment

Previous fiscal year (April 1, 2011 – March 31, 2012)

"Pharmaceuticals" is the Company's only reportable segment, and as a result presentation has been omitted.

Fiscal year under review (April 1, 2012 – March 31, 2013)

"Pharmaceuticals" is the Company's only reportable segment, and as a result presentation has been omitted.

e. Information regarding gain on negative goodwill by reportable segment

Previous fiscal year (April 1, 2011 – March 31, 2012)

Not applicable.

Fiscal year under review (April 1, 2012 – March 31, 2013)

Not applicable.

(Per-Share Data) (yen)

| | Apr.1, 2011–Mar.31, 2012 | Apr.1, 2012–Mar.31, 2013 |
|---|---|---|
| Net assets per share | 1,275.85 | 1,333.22 |
| Net income per share | 69.54 | 74.67 |

(Notes) 1. Fully diluted net income per share are not presented because there are no potential shares.

2. Net income per share and diluted net income per share are calculated as follows:

| | Apr.1, 2011–Mar.31, 2012 | Apr.1, 2012–Mar.31, 2013 |
|---|---|---|
| Net income per share | | |
| Net income (millions of yen) | 39,014 | 41,892 |
| Amount not belonging to shareholders of common stock (millions of yen) | — | — |
| Net income related to common stock (millions of yen) | 39,014 | 41,892 |
| Average number of shares of common stock outstanding (thousand shares) | 561,053 | 560,993 |

(Notes) 3. Net assets per share are calculated as follows:

| | Apr.1, 2011–Mar.31, 2012 | Apr.1, 2012–Mar.31, 2013 |
|---|---|---|
| Total net assets (millions of yen) | 721,485 | 752,922 |
| Amount deducted from total net assets (millions of yen) | 5,740 | 4,993 |
| [Including minority interests] (millions of yen) | [5,740] | [4,993] |
| Net assets at year-end available to common stock (millions of yen) | 715,745 | 747,929 |
| Number of shares of common stock at year-end used in the calculation of net assets per share (thousand shares) | 560,994 | 560,992 |

(Subsequent event)

Not applicable.

### (6) Other

The situation in major court action was as follows:

【Court action for damages relating to HCV (hepatitis C virus) infection】

Since 2002, the Company and its subsidiary Benesis Corporation, together with the Japanese government and other parties, have been defendants in lawsuits in which the plaintiffs seek compensation for damages allegedly suffered through HCV (hepatitis C virus) infection following use of a fibrinogen product or a blood coagulant factor IX product (Christmassin) sold by the former Green Cross Corporation, one of the predecessors of the Company. However, to resolve these lawsuits, on January 16, 2008, Japan's 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). Subsequently, on September 28, 2008, a "basic agreement" for the conclusion of the court action was signed with the nationwide plaintiff group.

After the Special Law was put into effect, in accordance with the procedures determined by the law, patients filed a lawsuit against the government and established their eligibility for relief. Subsequently, a settlement with the government was reached, with relief for the patients provided through the payment of benefits.

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 Minister of Health, Labour and Welfare, and those standards were announced by the Minister of Health, Labour and Welfare on April 10, 2009.

On September 14, 2012, the Special Law was made a partial amendment and promulgated, and the period of suing 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 for damages relating to HIV (human immunodeficiency virus) infection】

A wholly-owned U.S. subsidiary of the Company, Alpha Therapeutic Corporation, together with three other U.S. manufacturers of blood products, are defendants in a U.S. class action lawsuit filed chiefly by non-U.S. residents (residents of Europe, etc.) claiming to have been infected with HIV or other viruses by non-heat-treated concentrated preparations sold in the 1980s. In September 2010, a settlement was reached with more than 95% of the more than 2,650 plaintiffs, and as a result the majority of this lawsuit has been concluded.

In regard to this lawsuit, Alpha Therapeutic Corporation has product liability insurance, and as to insurance coverage, negotiations with the insurance companies are underway.

【U.S. court action regarding average wholesale price】

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 reporting of prices that were higher than actual sales prices resulted in an average wholesale price (AWP) that led to payments higher than past payments under public reimbursement systems. These suits are currently pending. In certain of the AWP lawsuits, settlements have been reached with the plaintiffs.