July 29, 2014 (Tue) 18:00 - 18:30

[Attendees]

Minoru Muramatsu, Managing Executive Officer

Kouji Noborihayashi, Executive Officer, General Manager of Corporate Management Department

Takeshi Matsumoto, Executive Officer, Division Manager of Development Division

Tetsuo Yoshikawa, Executive Officer, Strategic Sales Planning Unit, Sales & Marketing Division

Eizou Tabaru, Executive Officer, General Manager of Finance & Accounting Department

Hayato Ishida, General Manager of Vaccine Business Development Department

[Q1 FY2014 Earnings Results]

Q. Please explain why the royalty rate for Gilenya appears to be low?

A. The royalty income we receive from Novartis is not determined by the bookclosing date of each quarter. To calculate a reasonable amount of profit for the period, for accounting purposes, we conservatively estimate royalty income commensurate with each quarter. We note that the gap between our estimate and the actual royalty payment received from Novartis is posted in the following quarter.

Q. This is merely my assumption since there is no officially disclosed data to go on. The royalty for Invokana looks somewhat small. Is the royalty income in line with your forecast?

A. Yes, it is in line with our forecast.

Q. Regarding products dealt with by Tanabe Seiyaku Hanbai, can you give us an overview of generic and long-listed drug sales?

A. We have not disclosed a sales breakdown for generics and long-listed drugs but sales for both are trending solidly in line with our initial plans.

Q. What results have you seen from the cost structure reform project?

A. We plan to implement measures that will reduce costs by around ¥3.0 billion by the end of this fiscal year, versus our costs on FY2012. At the end of June, we confirmed that we are smoothly moving forward as planned. This includes progress in the review of purchasing and in processes at each department.

Q. What impact did Medicago have on your earnings results?

A. As we explained at our previous earnings results briefing, we estimate we will incur annual expenses of around ¥5.0 billion. In Q1, we booked related costs of nearly ¥1.0 billion, which mainly consisted of R&D outlays.

Q. Can you explain why R&D costs are declining despite the increase in Medicago-related costs?

A. R&D costs, including those for MT-1303, are declining at a faster pace.

Q. What are R&D costs for MT-1303 declining?

A. The clinical trial is progressing at a faster pace than scheduled.

Q. Can you provide details on the US AWP lawsuit settlement which was posted as an extraordinary loss?

A. A lawsuit was filed against a number of pharmaceutical companies, including Alpha Therapeutic (US), by insurance groups, including the US Employee Pension Fund, for reporting inflated average wholesale prices (AWP). We posted an extraordinary loss of around ¥100 million after reaching a settlement with the plaintiff.

[FY2014 Earnings Forecasts]

Q. The progress in earnings growth shown thus far looks weak in comparison with the full-year earnings forecast. Is your performance on track?

A. So far our earnings are trending in line with plans. We have not changed our earnings forecasts. There is risk of a downturn in sales owing to the negative impact of generics on long-listed drugs but sales trends are solid for other products, including Remicade. In Q2, we plan to post milestone income. Although R&D outlays were postponed in Q1, for SG&A, we consider the yearly trend for an uptick in costs in Q2.

Q. In your earnings forecast, you estimate a COGS ratio (excluding royalties) of 45.3%. In Q1, the ratio was 46.1%, which is higher than your estimate. Is this in line with plans?

A. The COGS ratio is likely to be slightly higher than our forecast due to the impact of generic drugs on long-listed drugs. However, in Q2 in addition to factors such as the launch of Canaglu, we also anticipate an increase in income streams, such as from royalties. Taking this into account, we look for an improvement in the overall COGS ratio and expect it to be in close range with our forecast.

Q. Can you give us details on the milestone payments you expect to receive in Q2?

A. We cannot disclose this information as it is a matter related to the individual contracts we have with our business partners.

[Domestic sales]

Impact of biosimilars on Remicade

Q. Are the figures in your FY2014 sales forecast based on the assumption of a launch, in or around December, of a biosimilar with indications for use to treat three diseases, including rheumatoid arthritis?

A. Yes, our plans are based on the aforementioned assumptions.

Q. In the current fiscal year, do you forecast the impact from NHI drug price revisions will outweigh the impact from biosimilars?

A. Yes.

[Other]

Q. An article reported that you plan to increase the number of medical representatives by 200-300 people. Will this be carried out within the scope of your cost structure reform project or will it exceed the scope of this project?

A. In the field of diabetes, a medical representative's expertise and the number of detailing calls to medical professionals are important factors. Accordingly, we plan to gradually increase our medical representative staff in this domain by reshuffling personnel. Since we plan to reshuffle our personnel, the total number of employees will not increase.

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