

Mitsubishi Tanabe Pharma Corporation

2nd Quarter of FY2014

Business Results

(April – September, 2014)

October 30, 2014

Masayuki Mitsuka

**President & Representative
Director, CEO**



Mitsubishi Tanabe Pharma

Q2 FY2014 Business Results



Overview of Q2 FY2014 Business Results

Net sales

¥ 198.9 billion -1.9%, year-on-year

Operating income

¥ 35.0 billion +14.8%, year-on-year

Net income

¥ 32.5 billion +13.9%, year-on-year

Topics

- Launch of CANAGLU for type2 diabetes mellitus in September
- Announcement of research collaboration in diabetic nephropathy with AstraZeneca in August
- Approval of additional indication of chronic hepatitis C genotype 2 of TELAVIC in September
- Announcement of termination of sales collaboration of plasma fractionation products with Japan Blood Products Organization in September

Q2 FY2014 Financial Results

	FY2014	FY2013	Increase/decrease		1H forecasts*	Achieved
	Billion yen	Billion yen	Billion yen	%	Billion yen	%
Sales	198.9	202.8	-4.0	-1.9	201.0	98.9
Cost of sales	78.2	82.4	-4.2	-5.1	78.5	99.6
Sales cost ratio	39.3%	40.6%			39.1%	
Gross operation profit	120.7	120.4	+0.3	+0.2	122.5	98.5
SG&A	85.8	90.0	-4.2	-4.7	93.0	92.2
Operating income	35.0	30.5	+4.5	+14.8	29.5	118.5
Ordinary income	35.5	32.2	+3.3	+10.1	30.5	116.2
Net income	32.5	28.5	+4.0	+13.9	21.0	154.8

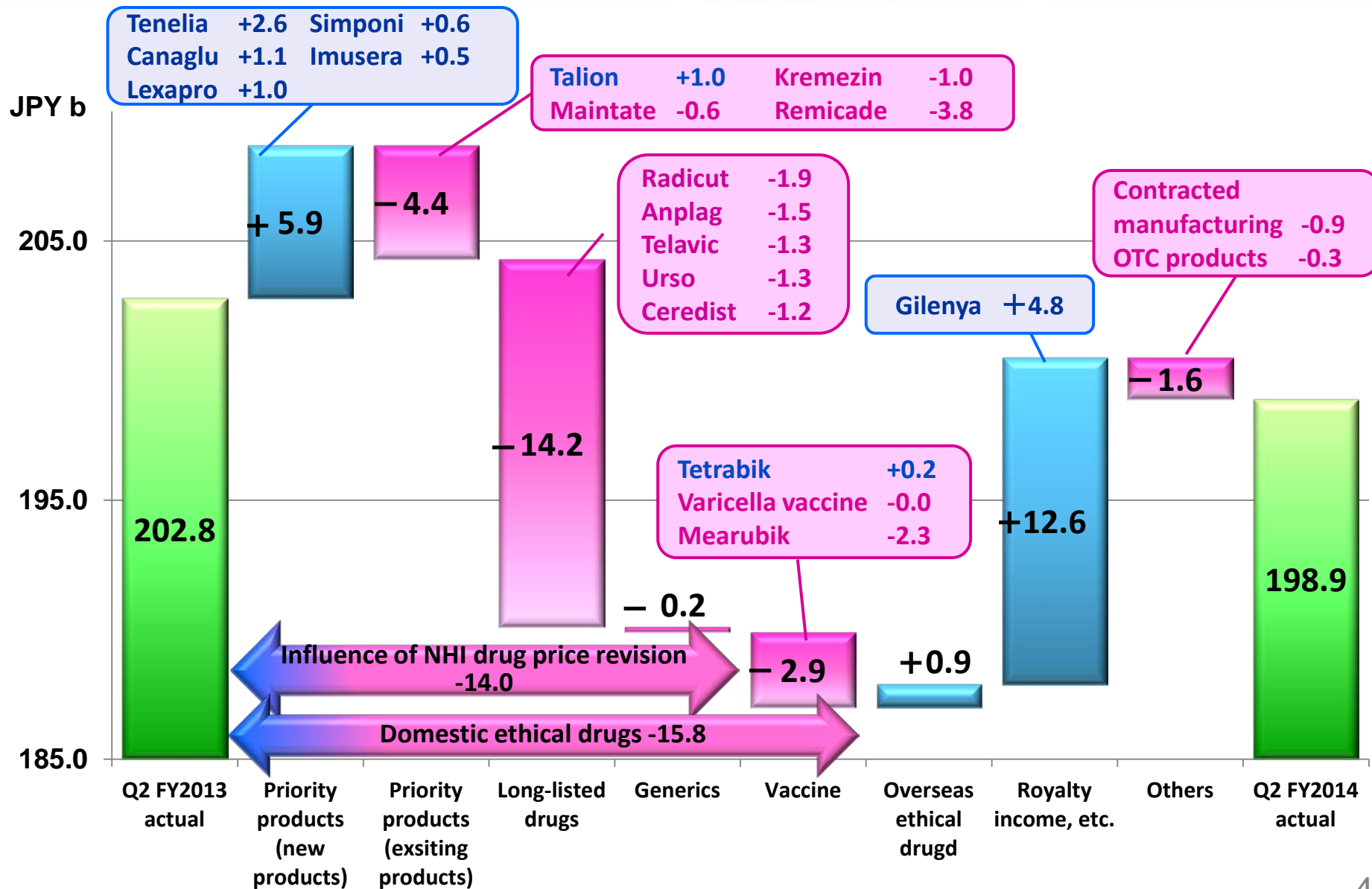
*: Published forecasts announced on May 8, 2014 in the financial results of FY2013

The Company announced revisions to 1st half forecasts of sales, operating income, ordinary income, and net income on October 21, 2014.

Sales Trends

New **Value** Creation

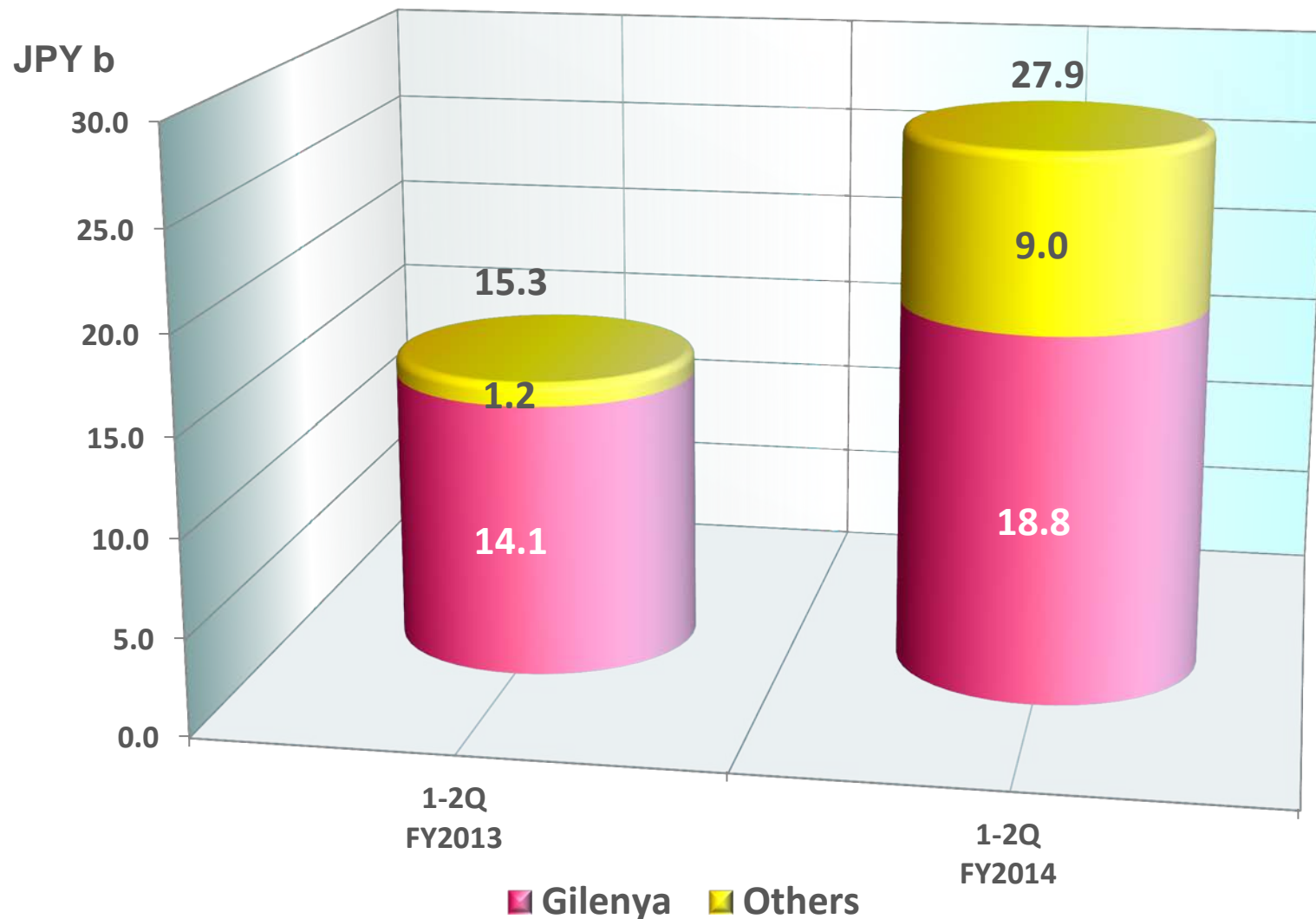
【Q2 FY2014 Business Results】



Royalty Income, etc.

New **Value** Creation

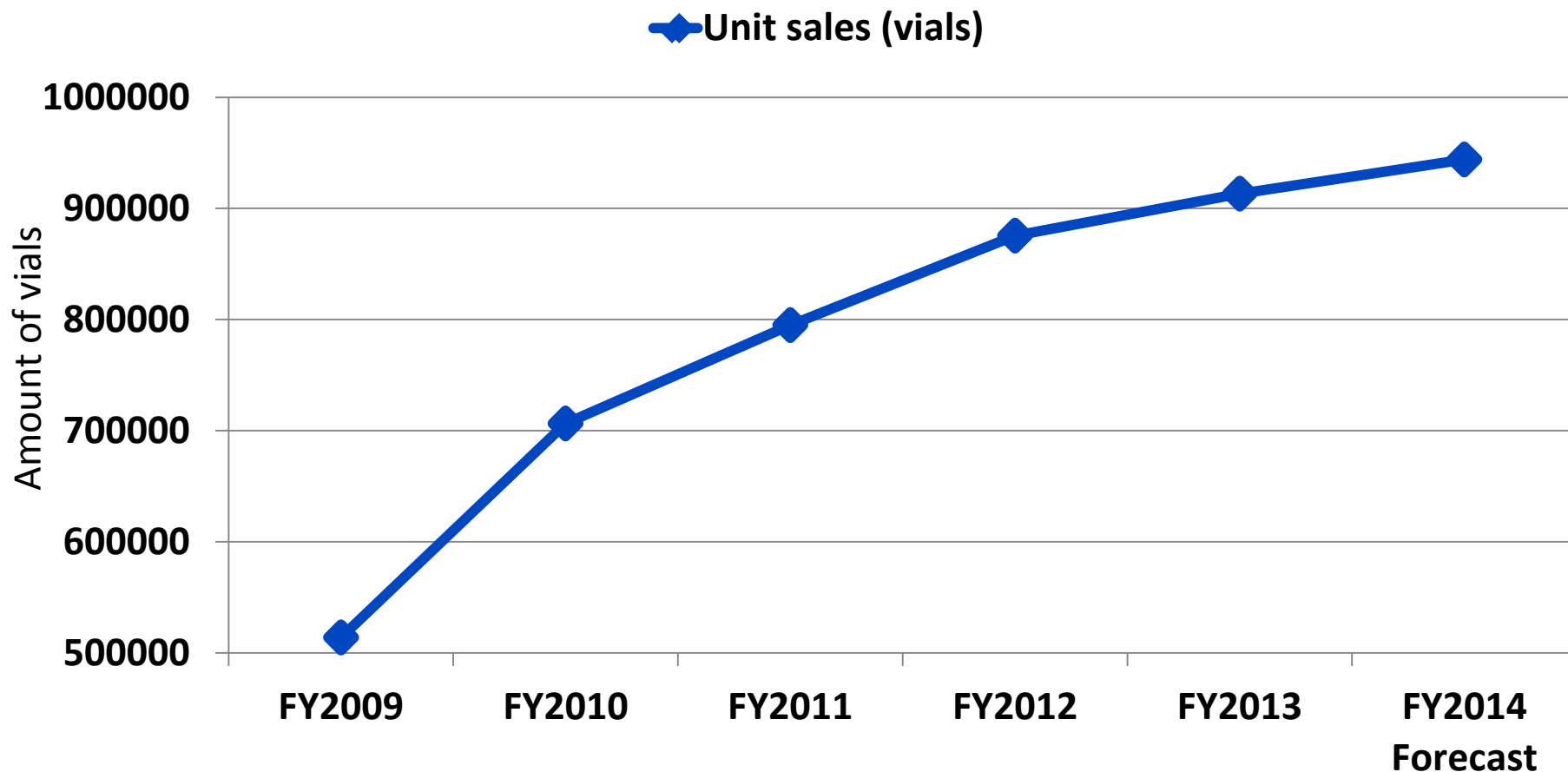
【Q2 FY2014 Business Results】



Growth of Remicade

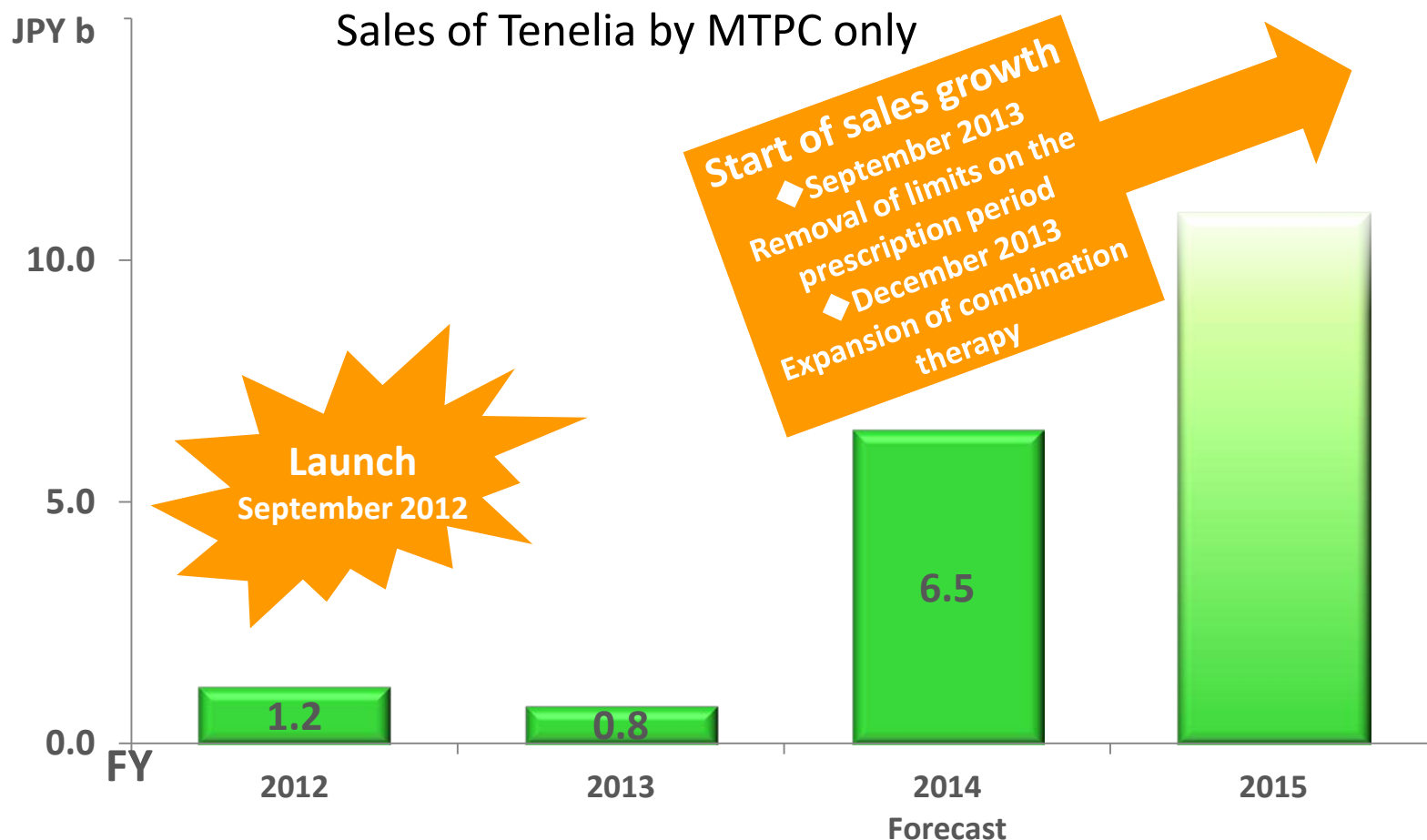
【Q2 FY2014 Business Results】

- ◆ The decline in FY2014 sales is due to significant NHI drug price revision (-10.8%).
- ◆ Unit sales increased by 8%, y-o-y, actual sales basis in 1st half of FY2014.



Sales Trend of Tenelia

- ◆ Discovered by MTPC, sold jointly with Daiichi Sankyo
- ◆ The conditions to compete against other products have been met, and Tenelia has started to record growth in sales from FY2014.



Domestic development initiatives for Tenelia/Canaglu

New **Value** Creation



【Q2 FY2014 Business Results】

◆ Aiming to be No. 1 in the domestic diabetes field, based on the strength of Tenelia and Canaglu

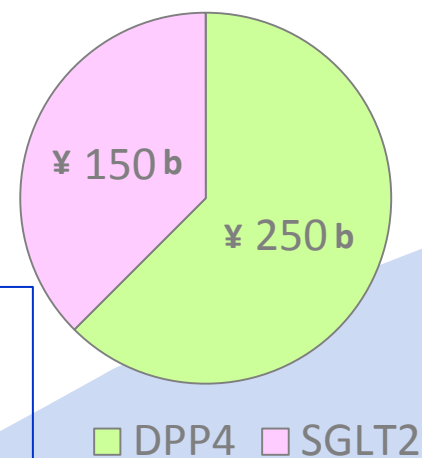
◆ Conclusion of joint sales contracts with Daiichi Sankyo for Tenelia and Canaglu

◆ Launch of Tenelia (Sep, 2012)

◆ Removal of limits on the prescription period for Tenelia
◆ Receipt of approval for a partial change in indication related to use in combination therapy

◆ Launch of Canaglu (September 2014)
◆ Canaglu / Diabetic nephropathy (multinational study P3)
◆ Combination drug for Tenelia and Canaglu (P3)

Market size (forecast)



Appropriate usage
Building of evidence

Maximizing sales of
Tenelia/Canaglu

11 12 13 14 15 16 17 18 19 20 FY

Cost of Sales, SG&A

New **Value** Creation

【Q2 FY2014 Business Results】



	FY2014	FY2013	Increase/decrease		1H forecasts*	Achieved
	Billion yen	Billion yen	Billion yen	%	Billion yen	%
Sales	198.9	202.8	-4.0	-1.9	201.0	98.9
Cost of Sales	78.2	82.4	-4.2	-5.1	78.5	99.6
Sales cost ratio	39.3%	40.6%			39.1%	
Gross operation profit	120.7	120.4	+0.3	+0.2	122.5	98.5
SG&A	85.8	90.0	-4.2	-4.7	93.0	92.2
R&D expenses	31.9	34.3	-2.4	-6.9	36.0	88.7
Labor cost	23.0	23.9	-0.8	-3.5	23.5	98.0
Amortization of goodwill	5.4	5.3	+0.1	+2.5	5.4	99.9
Others	25.4	26.6	-1.2	-4.4	28.1	90.4
Operating income	35.0	30.5	+4.5	+14.8	29.5	118.5

*: Published forecasts announced on May 8, 2014 in the financial results of FY2013

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Non-operating Income and Loss/Extraordinary Income and Loss

【Q2 FY2014 Business Results】

New **Value** Creation



	FY2014	FY2013	Increase/decrease		1H forecasts*	Achieved
	Billion yen	Billion yen	Billion yen	%	Billion yen	%
Operating income	35.0	30.5	+4.5	+14.8	29.5	118.5
Non-operating income and loss	0.5	1.7	-1.2	-71.2	1.0	50.1
Ordinary income	35.5	32.2	+3.3	+10.1	30.5	116.2
Extraordinary income	13.6	11.9	1.6	+13.5		
Gain on sales of property, plant and equipment	11.9	-				
Gain on sale of investment in securities	1.1	-				
Profit on arbitration award	-	11.0				
Gain on step acquisitions	-	0.9				
Gain on sales of shares of subsidiaries and affiliates	0.6	-				
Extraordinary loss	2.7	0.9	+1.8	+206.1		
Impairment loss	0.9	0.8				
Loss on valuation of investment in securities	0.1	-				
Loss on liquidation of subsidiaries and affiliates	1.4	-				
Others	0.2	0.1				
Net income	32.5	28.5	+4.0	+13.9	21.0	154.8

*: Published forecasts announced on May 8, 2014 in the financial results of FY2013

The Company announced revisions to 1st half forecasts of sales, operating income, ordinary income, and net income on October 21, 2014. 10

Forecasts for FY2014



Revised Forecasts for FY2014

	FY2014				FY2013		
	Revised forecasts	Previous forecasts	Increase/decrease		Actual	Increase/decrease*	
	Billion yen	Billion yen	Billion yen	%	Billion yen	Billion yen	%
Sales	406.0	409.0	-3.0	-0.7	412.7	-6.7	-1.6
Cost of sales	164.0	161.5	+2.5	+1.5	169.4	-5.4	-3.2
Sales cost ratio	40.4%	39.5%			41.0%		
Gross operation profit	242.0	247.5	-5.5	-2.2	243.3	-1.3	-0.5
SG&A	182.0	187.5	-5.5	-2.9	184.2	-2.2	-1.2
R&D expenses	72.5	73.0	0.5	-0.7	70.4	+2.1	+3.0
Labor cost	46.2	47.0	0.8	-1.7	48.4	-2.2	-4.5
Amortization of goodwill	10.8	10.8	0.0	0.0	10.6	+0.2	+1.5
Others	52.5	56.7	-4.2	-7.4	54.8	-2.3	-4.2
Operating income	60.0	60.0	0.0	0	59.1	+0.9	+1.5
Non-operating income and loss	1.5	1.5	0.0	0	2.8	-1.3	-45.5
Ordinary income	61.5	61.5	0.0	0	61.9	-0.4	-0.6
Extraordinary income and loss	0.0	0.0	0.0	0	10.6	-10.6	-
Net income	40.5	40.5	0.0	0	45.4	-4.9	-10.8

*: Comparison to the revised forecasts

Revised Forecasts for FY2014

--Sales of Main Products--

New **Value** Creation



	FY2014				FY2013		
	Revised forecasts	Previous forecasts	Increase/decrease		Actual	Increase/decrease*	
	Billion yen	Billion yen	Billion yen	%	Billion yen	Billion yen	%
Domestic ethical drugs	322.5	326.0	-3.5	-1.1	341.7	-19.3	-5.6
Remicade	70.3	68.7	+1.6	+2.4	76.3	-6.0	-7.9
Talion	16.4	15.7	+0.7	+4.3	13.7	+2.7	+19.6
Maintate	14.5	16.0	-1.5	-9.7	15.5	-1.0	-6.5
Simponi	11.5	12.0	-0.5	-3.9	9.4	+2.2	+23.2
Kremezin	10.5	12.0	-1.5	-12.4	12.6	-2.0	-16.2
Lexapro	8.0	9.4	-1.4	-14.8	6.5	+1.6	+24.0
Tenelia	6.5	6.7	-0.2	-3.5	0.8	+5.7	+714.4
Imusera	3.5	3.6	-0.1	-3.2	2.3	+1.2	+53.7
Vaccine	28.2	27.3	+0.9	+3.3	28.4	-0.2	-0.7
Influenza	7.6	7.5	+0.1	+1.2	7.2	+0.4	+5.1
Tetrabik	7.1	7.6	-0.5	-7.1	6.7	+0.3	+5.1
Varicella vaccine	5.2	4.2	+1.0	+24.4	3.6	+1.6	+45.7
Generics	13.7	14.4	-0.7	-4.9	14.1	-0.4	-2.5
Royalty income, etc.	53.6	53.6	0.0	0.0	37.6	+16.0	+42.5
Gilenya	Undisclosed	Undisclosed	—	—	32.2	—	—

*: Comparison to the revised forecasts

Shareholders Return

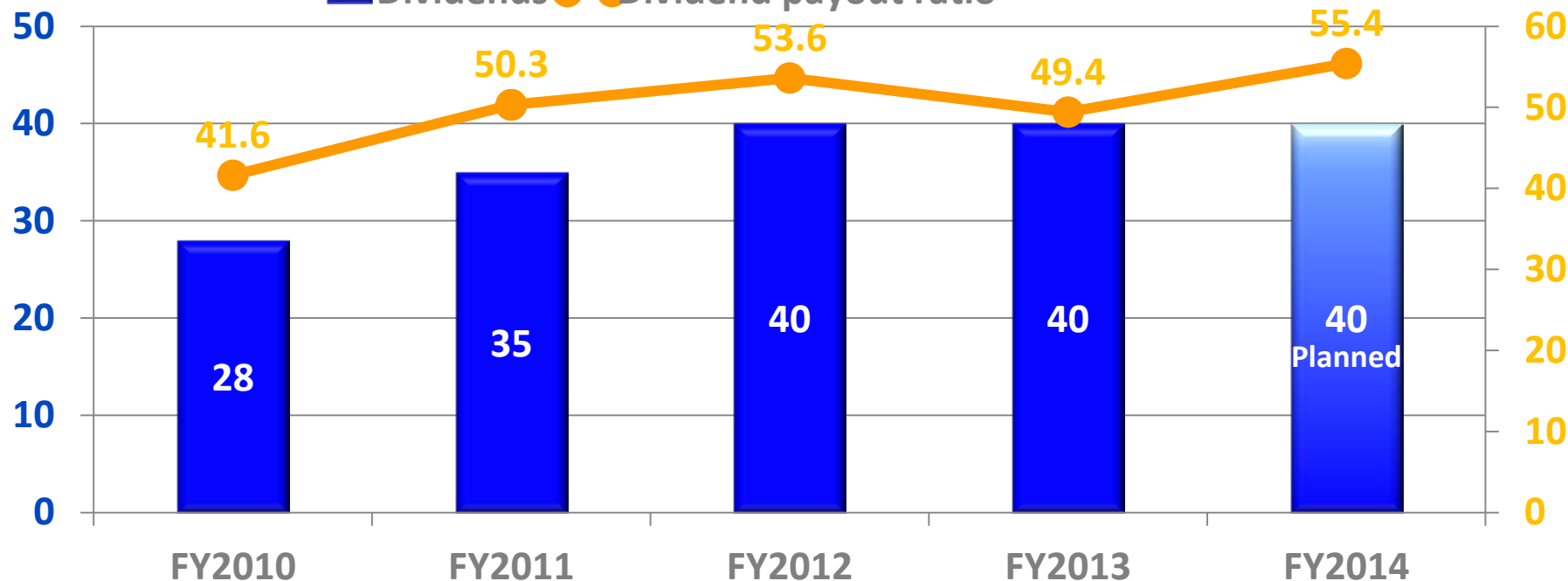
■ Policy

- MTPC'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 this medium-term management plan, in addition to profit growth, the basic for the dividend payout ratio is 50% (that prior to amortization of goodwill is 40%), and MTPC will work to provide an enhanced return to shareholders.

Bar chart: JPY

■ Dividends ● Dividend payout ratio

Line chart: %



Progress of Development Pipeline

A decorative horizontal bar with a blue-to-white gradient, starting with a solid blue on the left and fading to white on the right.

Progress of Development Pipeline

(Progress after July 29, 2014)

New **Value** Creation



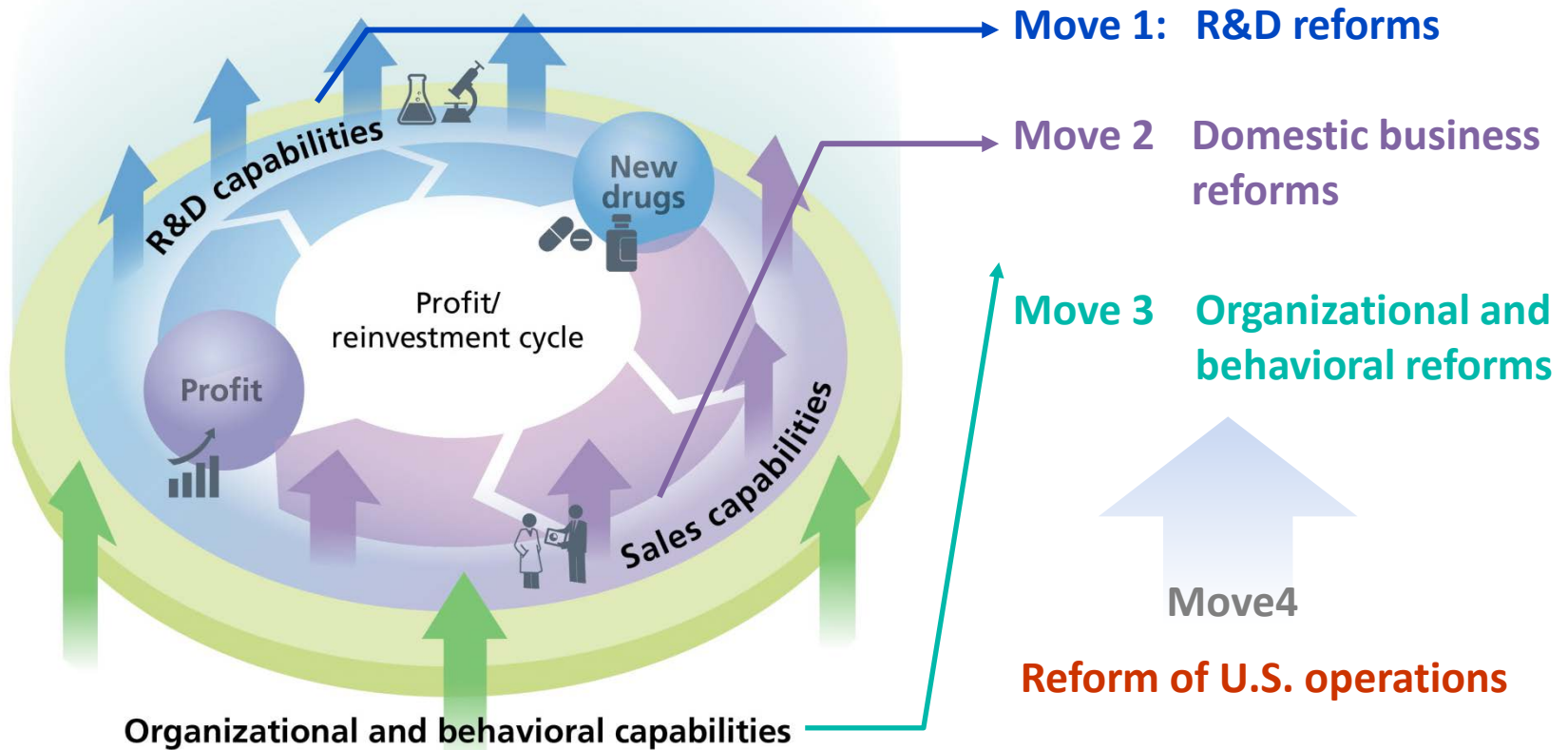
	Development code/Product name	Mode of action (Indication)	Region	P1	P2	P3	Filed	Approved
In-house	Telavic	NS3-4A protease inhibitor (Chronic hepatitis C, [genotype2])	Japan					
	MP-424	NS3-4A protease inhibitor (Chronic hepatitis C)	Taiwan					
	MT-2412	FDC of DPP-4 inhibitor and SGLT2 inhibitor (Type2 diabetes mellitus)	Japan					
	Seasonal influenza vaccine	Plant-based VLP vaccine (Prophylaxis of seasonal influenza)	US, Canada					
	MT-0814	CC chemokine receptor 3 antagonist (Age-related macular degeneration)	Japan					
Out-licensed	TA-7284 (Licensee: Janssen Pharmaceuticals)	SGLT2 inhibitor (Type2 diabetes mellitus/ FDC with metformin, IR)	US					
	MT-4580 (Licensee: Kyowa Hakko Kirin)	Ca sensing receptor agonist (Secondary hyperparathyroidism in hemodialysis patients)	Japan					

Promoting Reforms with the Password “Move”

Best practices for the realization of Value (for Customers) and Differentiation require being **the first to deliver original value**

Implementing **reforms** to be a research-driven pharmaceutical company that works with a sense of speed and is the first to deliver original value

Companywide initiatives to
clarify issues, time limits, and responsibility



Move 1: R&D reforms, Move4: Reform of U.S. operations Strengthening of Development Pipeline and Launch of U.S. operations

New **Value** Creation



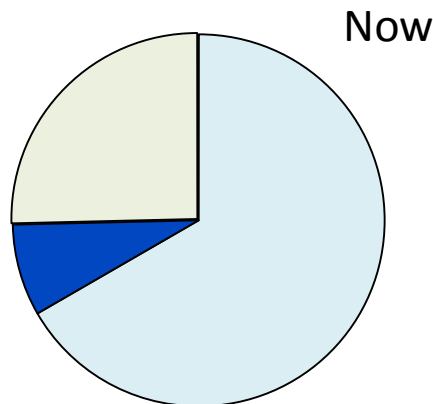
The first to deliver original value

Move 1: R&D reforms **Improvement of the quality of R&D and increase of projects**

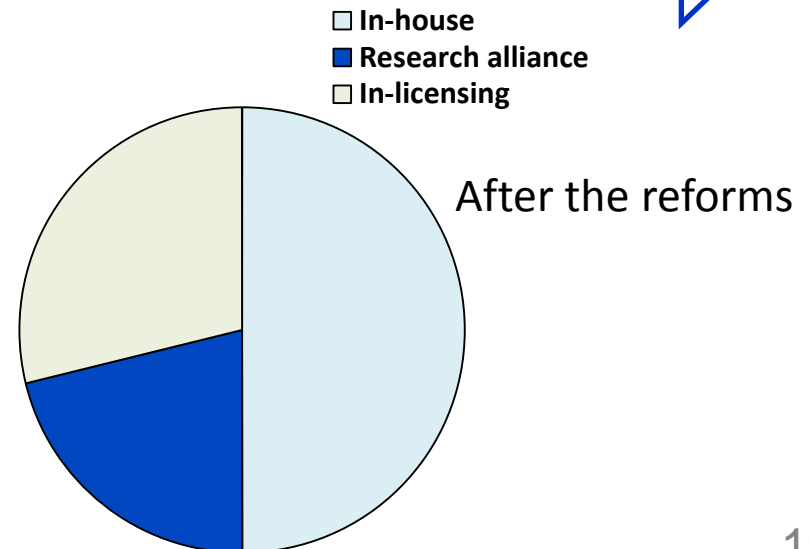
Move 3: Organizational and behavioral reforms **Reallocate of resources by structural reforms**

Move4: Reform of U.S. operations **Strengthening of operating base and development pipeline**

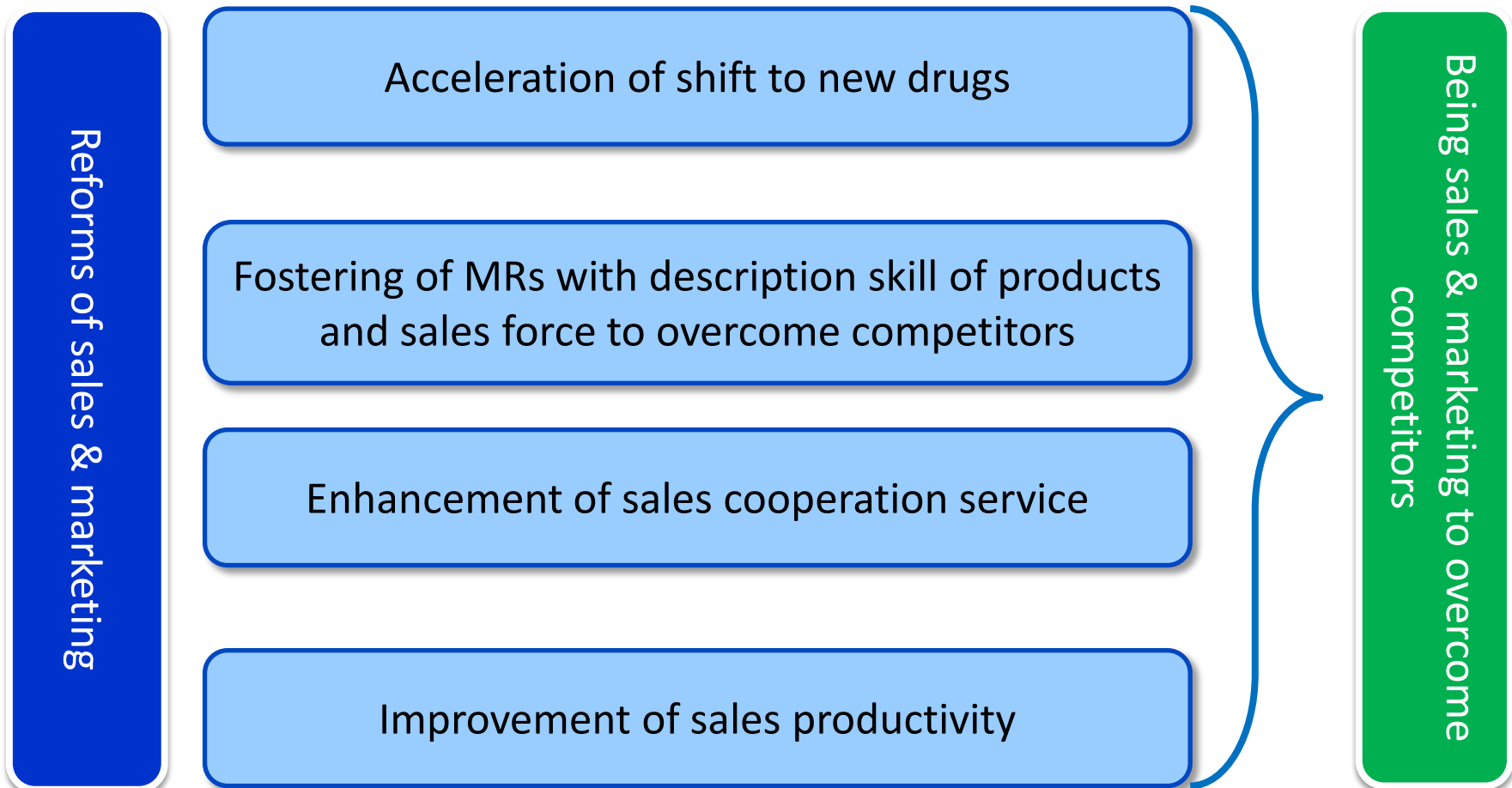
- ◆ Enhancement of translational research and development of products for U.S. market
- ◆ Launch of the business in the biggest market expected to grow more in the future



**Image of investments
for R&D**



Points of reforms

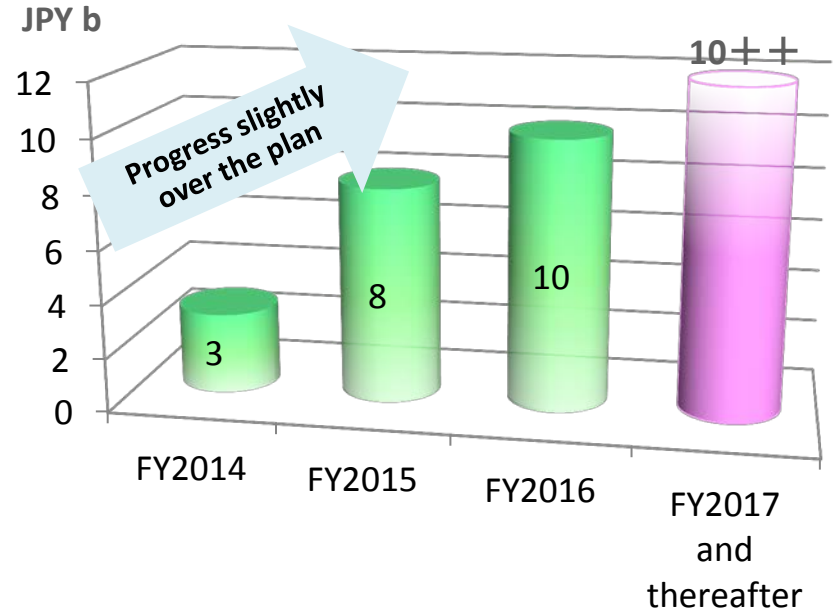


Structural Reform Project

Structural Reform Project

- ◆ We will reduce costs by about ¥10.0 billion in FY2016.
- ◆ Progress situation
 - ◆ Progressing slightly over the plan in FY2014
 - ◆ Transfer of the infusion solution operation in China in Oct, 2014 as a result of revision of the business

Cost reduction targets



Production base reorganization

- ◆ Production: Consolidation from 5 domestic bases to 2
- ◆ Sale of Ashikaga Plant completed in FY2014, sale of Kashima Plant planned for FY2015, closure of Osaka Plant by end FY2017.

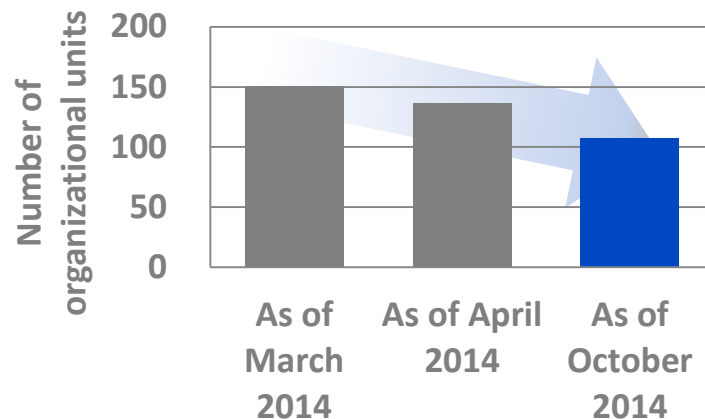
Production base	Policy	Plan/Situation
Ashikaga	Transferred to CMIC Holdings	Transfer was completed in Apr, 2014
Kashima	Transferred to Sawai	Basic agreement (Jun, 2014) → Final agreement (Nov, 2014) → The transfer will be completed in Apr, 2015.
Osaka	Closing	It will be closed by the end of Mar, 2018

Streamline corporate framework by strengthening organizational functions

In addition to the Structural Reform Project, which we have been implementing since last year, we are also taking steps to **revise our personnel and organizational systems and strengthen organizational functions** (decision-making, methods of working, etc.).

Strengthening organizational functions and streamlining corporate framework

- ◆ A flatter organization with close links between the intent of management and the independent activities of employees.
- ◆ An organization that is centered on the viewpoints of customers and competitors and does not waste energy on internal maneuvering.



In continued initiatives for **reform**, we will use “**Move**” in the sense of the activities of all employees and in the sense of Company policies. In this way, we will make great strides in moving forward.



MOVE

*New **Value** Creation*

Becoming a “Company that Can Continue to Create New Value”

Appendix



Sales by Business Segment

	FY2014	FY2013	Increase/decrease		1 st half forecasts*	Achieved
	Billion yen	Billion yen	Billion yen	%	Billion yen	%
Sales	198.9	202.8	-4.0	-1.9	201.0	98.9
(Overseas)	(33.9)	(26.2)	(+7.7)	(+29.5)	(33.8)	(+0.2)
Pharmaceuticals	198.7	202.1	-3.4	-1.7	200.8	98.9
Domestic ethical drugs	155.2	171.0	-15.8	-9.2	157.9	98.3
Royalty income, etc.	27.9	15.3	+12.6	+82.3	27.7	100.6
Overseas ethical drugs	11.3	10.4	+0.9	+8.7	11.3	100.3
OTC products	2.2	2.4	-0.3	-10.3	2.2	99.2
Contracted manufacturing products	2.1	2.9	-0.9	-29.3	1.7	122.3
Others	0.2	0.8	-0.5	-71.2	0.2	111.5

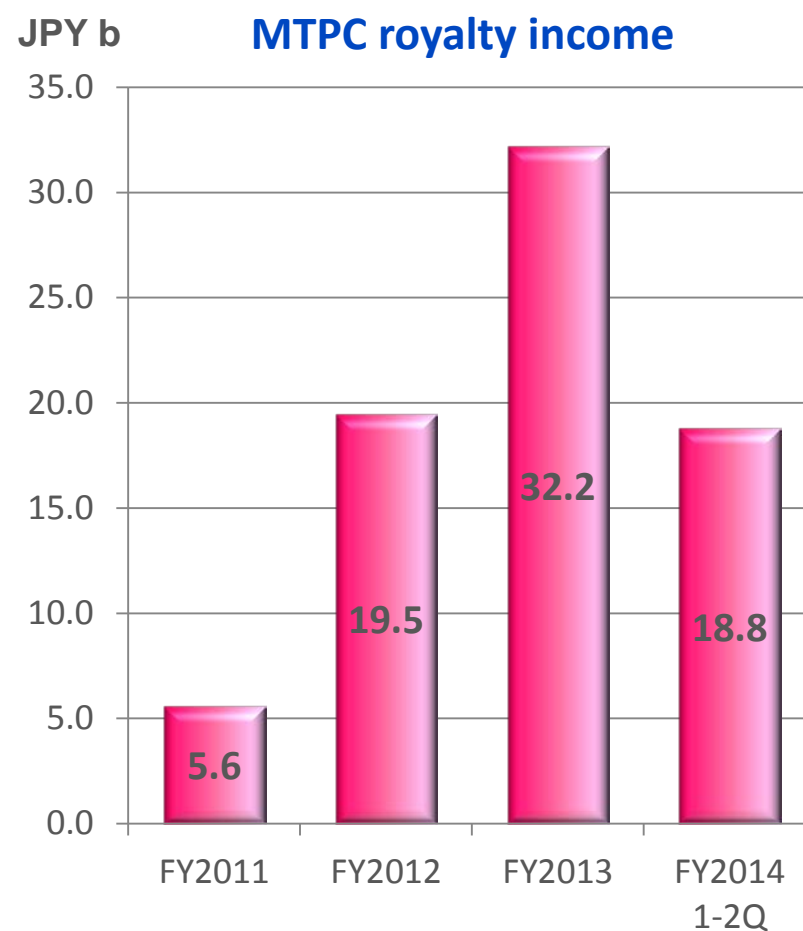
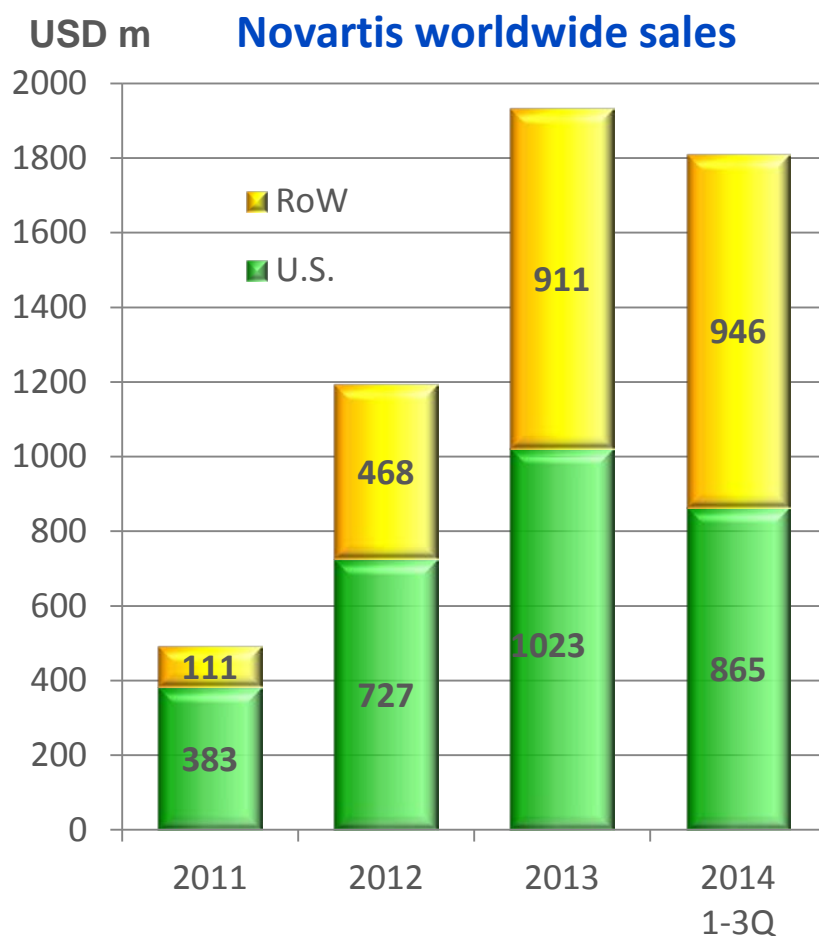
*: Published forecasts announced on May 8, 2014 in the financial results of FY2013
The Company announced revisions to 1st half forecasts of sales on October 21, 2014.

Ethical Drugs Domestic Sales: Priority Products

	FY2014	FY2013	Increase/decrease		1 st half forecasts*1	Achieved
	Billion yen	Billion yen	Billion yen	%	Billion yen	%
Simponi	5.0	4.4	+0.6	+13.8	5.4	93.3
Lexapro	3.4	2.4	+1.0	+40.1	4.2	81.2
Tenelia	2.7	0.0	+2.6	-	3.1	86.0
Imusera	1.5	1.0	+0.5	+50.4	1.7	87.3
Canaglu	1.1	-	+1.1	-	—	—
Total of new products(1)	13.7	7.9	+5.9	+74.3	14.4*2	87.5*2
Remicade	35.2	39.0	-3.8	-9.8	33.3	105.8
Maintate	7.2	7.7	-0.6	-7.4	7.9	90.6
Talion	6.1	5.1	+1.0	+18.6	5.6	108.6
Kremezin	5.4	6.4	-1.0	-15.4	6.0	90.3
Total of existing products(2)	53.9	58.3	-4.4	-7.6	52.8	102.1
Tetrabik	3.6	3.4	+0.2	+4.8	3.9	91.4
Varicella vaccine	1.9	1.9	-0.0	-0.4	1.2	160.4
Total of vaccines(3)	5.5	5.3	+0.2	+2.9	5.1	107.6
Total of priority products(1)+(2)+(3)	73.1	71.5	+1.6	+2.2	72.3*2	99.6*2

*1: Published forecasts announced on May 8, 2014 in the financial results of FY2013, *2: Except for Canaglu

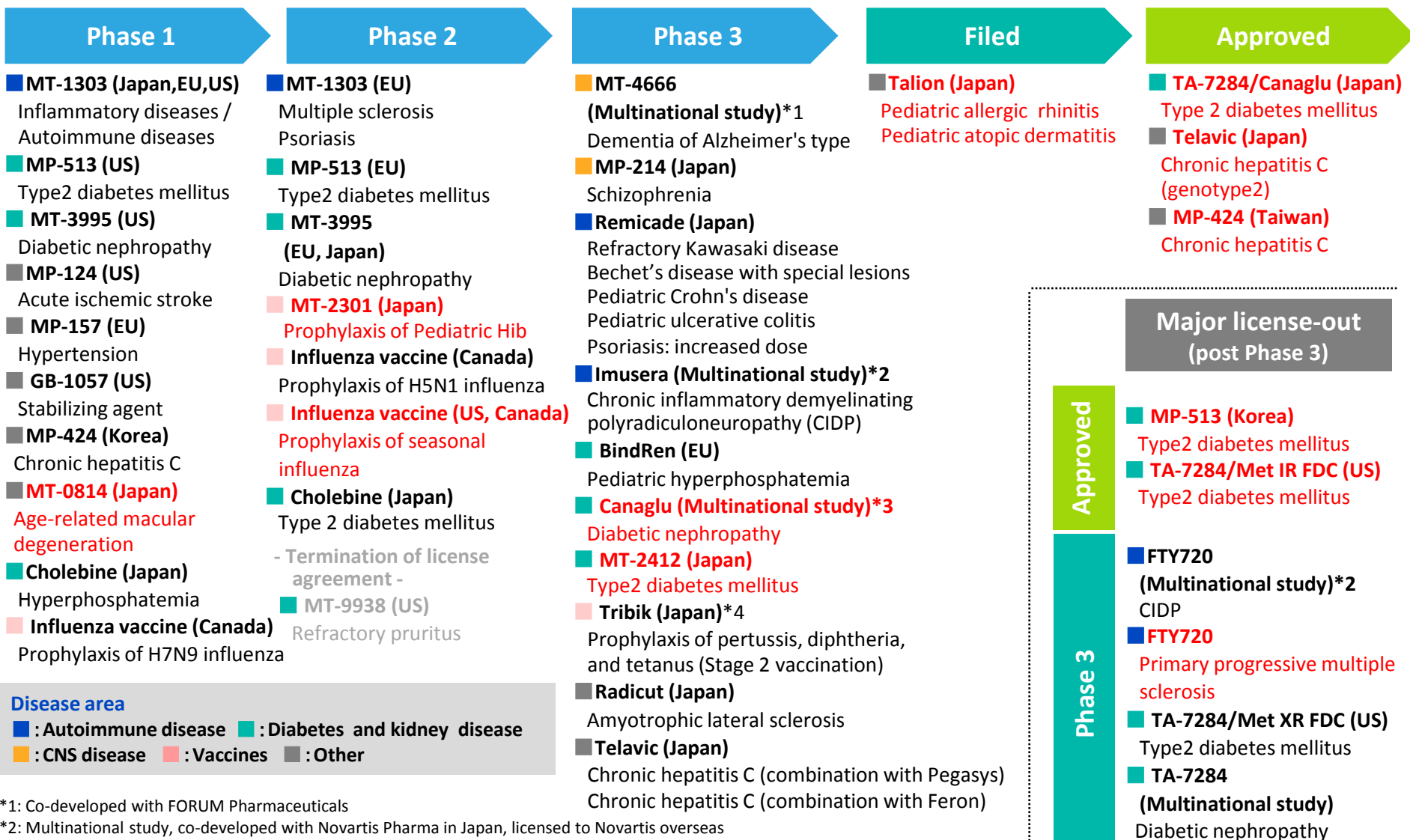
- ◆ Novartis worldwide sales in January to September, 2014: \$ 1,811 m, up by 29%, y-o-y
- ◆ MTPC royalty income in April to September, 2014: ¥ 18.8 b, up by 33.9%, y-o-y



Pipeline Status (New Drugs, Additional Indications)

Red: progress after May 8, 2014, the financial results for FY2013

As of October 29, 2014



*1: Co-developed with FORUM Pharmaceuticals

*2: Multinational study, co-developed with Novartis Pharma in Japan, licensed to Novartis overseas

*3: Sponsor: Janssen Research & Development

*4: Co-developed with BIKEN

Cautionary Statement

The statements contained in this presentation is based on a number of assumptions and belief in light of the information currently available to management of the company and is subject to significant risks and uncertainties.