

Management's Discussion and Analysis

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

Revenue

In fiscal 2018, revenue decreased by ¥9.0 billion year on year, to ¥427.7 billion. The pharmaceuticals segment, which is the Company's only segment, comprises domestic ethical drugs, overseas ethical drugs, royalty revenue, etc., OTC products, and other in pharmaceuticals.

Revenue of domestic ethical drugs decreased by 3.4%, year-on-year, to ¥298.7 billion. There was an increase in sales, contributed to by priority products such as SIMPONI, a treatment agent for rheumatoid arthritis (RA); CANALIA, a type 2 diabetes mellitus treatment agent launched in September 2017; and STELARA, a treatment for Crohn's disease, among others, jointly promoted with Janssen Pharmaceutical K.K. following the updating of the co-promotion framework in July 2018. Yet, in spite of this, the NHI drug price revision of April 2018 and the transfer of the generic drug business in October 2017 had a net negative impact on revenue.

On the other hand, revenue from overseas ethical drugs increased 42.9%, to ¥55.1 billion, with a strong contribution from Radicava, an amyotrophic lateral sclerosis (ALS) treatment agent, which was launched in the U.S. in August 2017.

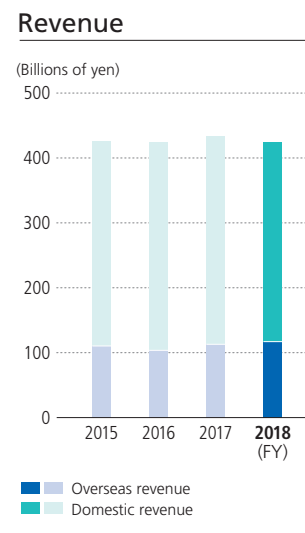
Royalty revenue, etc. was down 20.3% year on year, to ¥63.1 billion, primarily due to decreases in royalty revenue from Gilenya, a treatment agent for multiple sclerosis licensed to Novartis; from Invokana, a treatment agent for type 2 diabetes mellitus; and from the fixed dose combination of Invokana and metformin, which are both licensed to Janssen Pharmaceuticals.

In addition, revenue from OTC products was up ¥0.0 billion, at ¥3.7 billion (the same as the previous year), and revenue from the "Other" category of pharmaceuticals operations increased ¥0.9 billion over the previous year, to ¥3.9 billion.

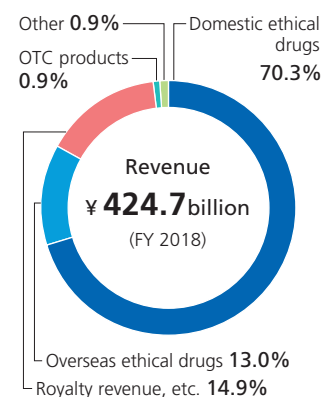
Overseas revenue rose ¥4.0 billion, to ¥117.0 billion, and the overseas revenue ratio was up 1.6 percentage points, to 27.6%.

	(Billions of yen)				
	FY 2017	FY 2018		Change	% Change
Revenue	433.8	424.7	(100.0)	-9.0	-2.1
Domestic ethical drugs	309.3	298.7	(70.3)	-10.5	-3.4
Overseas ethical drugs	38.5	55.1	(13.0)	+16.5	+42.9
Royalty revenue, etc.	79.1	63.1	(14.9)	-16.0	-20.3
OTC products	3.7	3.7	(0.9)	+0.0	+1.0
Other	3.0	3.9	(0.9)	+0.9	+30.9
Revenue by region:					
Domestic	320.8	307.7	(72.4)	-13.1	-4.1
Overseas	112.9	117.0	(27.6)	+4.0	+3.6

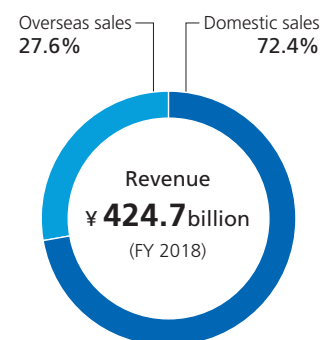
Note: Figures in parentheses are percentages of revenue.



Percentage of revenue by business



Percentage of revenue by region



Revenue from major ethical drugs

	(Billions of yen)			
	FY 2017	FY 2018	Change	% Change
Domestic ethical drugs				
Priority products in fiscal 2018	140.0	162.6	+22.6	+16.1
Remicade	64.6	58.8	-5.8	-9.1
Simponi	32.1	37.4	+5.3	+16.7
Tenelia	17.5	15.2	-2.3	-13.3
Stelara	0.3	15.2	+14.8	-
Lexapro	12.7	14.0	+1.2	+9.7
Canalia	1.8	7.4	+5.6	+310.8
Canaglu	5.6	6.7	+1.1	+19.9
Imusera	4.7	4.3	-0.3	-8.2
Rupafin	0.4	3.4	+3.0	-
Vaccines	35.0	37.3	+2.2	+6.4
Influenza vaccine	9.9	10.2	+0.3	+3.1
Tetrabik	8.7	8.5	-0.1	-2.1
Mearubik	5.0	6.8	+1.8	+37.0
JEBIK V	5.2	5.5	+0.3	+5.8
Varicella vaccine	5.2	5.1	-0.1	-3.5
Overseas ethical drugs				
Radicava	12.3	27.0	+14.7	+119.9
Royalty revenue, etc.				
Royalties from Gilenya	57.7	49.7	-7.9	-13.8
Royalties from Invokana	13.9	10.5	-3.4	-24.4

Core operating profit

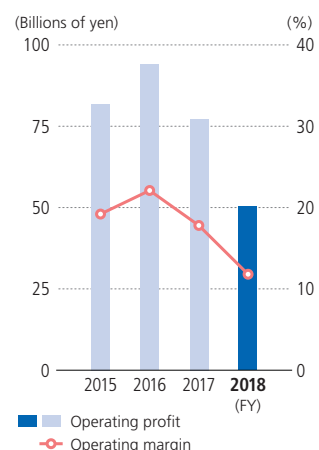
With the adoption of IFRS, the Company, its subsidiaries and its affiliates (collectively, "the Group") has introduced "core operating profit" as a major profit index to demonstrate its recurring profitability and positioned it as an important indicator of business management, etc. "Core operating profit" is profit excluding the income and loss recorded by non-recurring items specified by the Group (hereinafter "non-recurring items") from operating profit. Non-recurring items include gain or loss associated with a business transfer, restructuring loss, and impairment losses on intangible assets associated with products.

In fiscal 2018, core operating profit decreased ¥22.7 billion year on year, to ¥55.8 billion. There was sales growth from domestic priority products and Radicava in the U.S. and a decrease in SG&A expenses owing to promotion of operational productivity reforms, but NHI drug price revisions and the decline in royalty revenue had a negative impact, and R&D expenses increased with advancement to late-stage development and the acquisition of NeuroDerm Ltd. The decrease in core operating profit is attributable mainly to these factors.

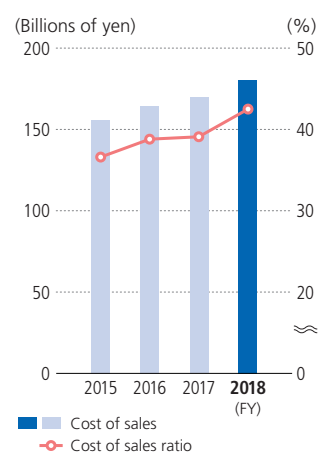
SG&A expenses decreased ¥5.8 billion, to ¥98.2 billion. In addition, R&D expenses increased ¥7.4 billion, to ¥86.5 billion, and the R&D expenses ratio was up 2.2 percentage points year on year, to 20.4%.

The cost of sales ratio was up 3.4 percentage point, to 42.5%, but gross profit was down ¥19.9 billion, to ¥244.1 billion, due to the increase in revenue.

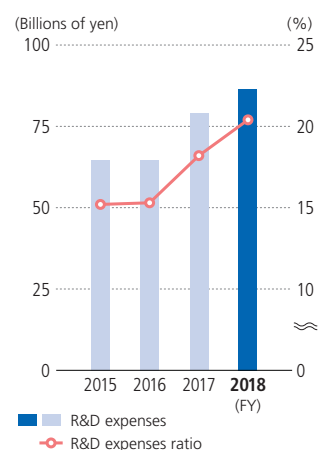
Operating profit / Operating margin



Cost of sales / Cost of sales ratio



R&D expenses / R&D expenses ratio



Management's Discussion and Analysis

Operating profit

Operating profit was down ¥26.9 billion year on year to ¥50.3 billion. In non-recurring items, restructuring expenses and impairment losses were recorded. Non-recurring items in fiscal 2018 were a loss of ¥5.5 billion, compared with a loss of ¥1.2 billion in the previous fiscal year.

The operating margin declined 6.0 percentage points, to 11.8%.

Profit attributable to owners of the Company

As a result of the decrease in operating profit, profit attributable to owners of the Company was down ¥20.5 billion year on year to ¥37.3 billion.

	(Billions of yen)				
	FY 2017	FY 2018		Change	% Change
Cost of sales	169.7	180.6	(42.5)	+10.8	+6.4
Gross profit	264.1	244.1	(57.5)	-19.9	-7.6
SG&A expenses	104.0	98.2	(23.1)	-5.8	-5.6
R&D expenses	79.0	86.5	(20.4)	+7.4	+9.4
Core operating profit	78.5	55.8	(13.1)	-22.7	-28.9
Operating profit	77.2	50.3	(11.8)	-26.9	-34.9
Profit attributable to owners of the company	57.9	37.3	(8.8)	-20.5	-35.5

Note: Figures in parentheses are percentages of revenue.

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

Total assets, total liabilities, and total equity

Total assets at the end of the fiscal year were ¥1,056.2 billion, an increase of ¥7.8 billion from the previous fiscal year-end.

Total non-current assets increased ¥4.9 billion year on year, to ¥467.8 billion. Deferred tax assets increased ¥6.9 billion, and intangible assets increased ¥5.9 billion due primarily to product-related increases from currency fluctuations. At the same time, property, plant and equipment decreased ¥7.1 billion due largely to impairment associated with the closure of the Company's Toda Office, and net defined benefit assets declined ¥1.2 billion.

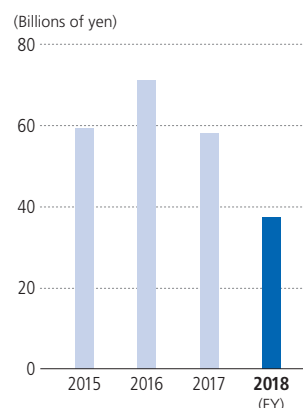
Total current assets increased ¥2.9 billion year on year, to ¥588.4 billion. Other financial assets increased ¥24.6 billion from an increase in securities, but cash and cash equivalents declined ¥15.1 billion and trade and other receivables decreased ¥6.5 billion.

Total liabilities were down ¥7.6 billion from the end of the previous fiscal year, to ¥145.9 billion. Income taxes payable were down ¥8.5 billion.

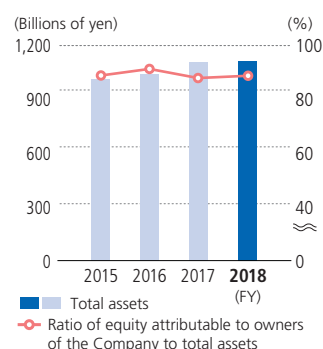
Total equity at the end of the period was up ¥15.5 billion from the end of the previous fiscal year, to ¥910.3 billion. Profit attributable to owners of the Company was ¥37.3 billion, while dividends paid were ¥31.4 billion. As a result, retained earnings increased ¥5.8 billion.

Consequently, the ratio of equity attributable to owners of the Company to total assets increased 0.8 percentage points, to 85.0%.

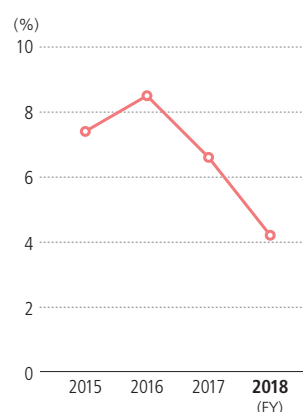
Profit attributable to owners of the Company



Total assets / Ratio of equity attributable to owners of the Company to total assets



ROE



	(Billions of yen)				
	At the end of FY2017	At the end of FY2018		Change	% Change
Total assets	1,048.4	1,056.2	(100.0)	+7.8	+0.7
Non-current assets	462.9	467.8	(44.3)	+4.9	+1.1
Current assets	585.5	588.4	(55.7)	+2.9	+0.5
Total liabilities	153.6	145.9	(13.8)	-7.6	-5.0
Non-current liabilities	55.4	54.2	(5.1)	-1.1	-2.1
Current liabilities	98.1	91.6	(8.7)	-6.4	-6.6
Total equity	894.8	910.3	(86.2)	+15.5	+1.7
Total liabilities and equity	1,048.4	1,056.2	(100.0)	+7.8	+0.7

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

Cash flows

Net cash provided by operating activities was ¥41.4 billion. Inflows, which included profit before income tax of ¥50.4 billion, exceeded outflows, which included income taxes paid of ¥35.5 billion.

Net cash used in investing activities was ¥31.2 billion mainly due to investment of cash reserves.

Net cash used in financing activities was ¥25.8 billion mainly resulting from dividends paid.

As a result, net cash outflows for fiscal 2018 were ¥15.0 billion, and the balance of cash and cash equivalents at fiscal year-end was ¥111.8 billion.

	(Billions of yen)		
	FY 2017	FY 2018	Change
Net cash provided by operating activities	66.9	41.4	-25.4
Net cash used in investing activities	-19.1	-31.2	-12.0
Net cash used in financing activities	-32.5	-25.8	+6.6
Cash and cash equivalents at the end of the year	127.0	111.8	-15.1

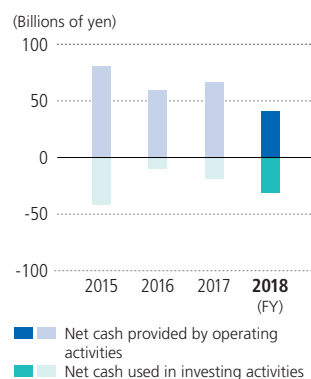
Dividends

Mitsubishi Tanabe Pharma aims to maximize corporate value through actively carrying out strategic investment and R&D investment targeting sustainable growth and provide a stable and continuous return to shareholders. In accordance with the revision of the "Medium-Term Management Plan 16-20" released in November 2018, the Company has made a basic policy of maintaining the current level of dividends distribution (annual dividend of ¥56 per share).

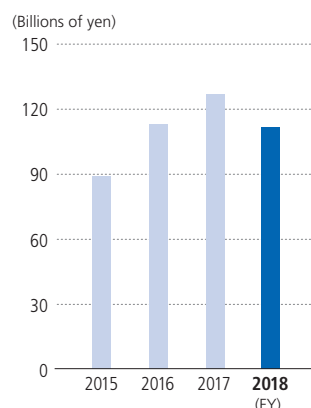
Given the arbitration proceedings with Novartis, there was a decrease in revenue in the fiscal year ended March 31, 2019 because a part of the "GILENYA Royalties" income was not recognized as sales revenue, in accordance with IFRS 15. Besides the impact of this matter, profit shifted in line with expectations following the revision of the Medium-Term Plan.

Accordingly, based on the above dividend policy, the Company paid a year-end dividend for fiscal 2018 of ¥28 per share. Combined with the interim dividend, the annual dividend was ¥56 per share, and the consolidated dividend payout ratio was 84.0%, compared with 63.9% in the previous fiscal year.

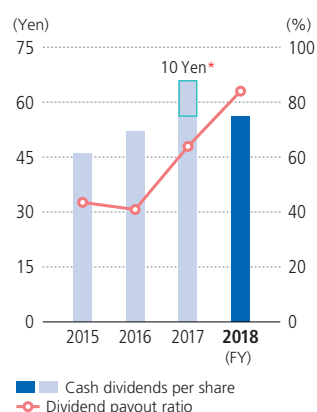
Net cash provided by operating activities / Net cash used in investing activities



Cash and cash equivalents at the end of the year



Cash dividends per share / Dividend payout ratio



* In commemoration of the 10th anniversary of its founding, the Company implemented a commemorative dividend of ¥10 per share in fiscal 2017.