

Financial Results for the First Three Months of the Fiscal year ending March 31, 2018 (IFRS, Consolidated)

July 31, 2017

Company name: Mitsubishi Tanabe Pharma Corporation
 Stock exchange listings: Tokyo
 Securities code number: 4508
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Planned date of filing of quarterly securities report: August 8, 2017
 Planned date of start of dividend payments: —
 Provision of supplementary explanatory materials for quarterly results: Yes
 Quarterly results presentation: Yes (for institutional investors and investment analysts)

Notes; Amounts less than ¥1 million have been rounded.

Percentage changes in the list show change in comparison with the same period of the previous fiscal year.

1. Results for 1st Quarter (April 1, 2017 to June 30, 2017)

(1) Consolidated Business Results

	Revenue		Core operating profit		Operating profit	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
1st Quarter of Fiscal year 2017	107,708	2.1	21,986	(24.2)	21,050	(27.9)
1st Quarter of Fiscal year 2016	105,493	6.9	29,019	15.1	29,207	15.9

(Note) "Core operating profit" is a profit except the income and loss recorded by non-recurring items specified by the Group from operating profit.

	Profit before income tax		Profit for the period		Profit attributable to owners of the Company	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
1st Quarter of Fiscal year 2017	21,998	(27.4)	16,413	(22.8)	16,981	(22.5)
1st Quarter of Fiscal year 2016	30,294	18.9	21,268	18.3	21,903	18.4

	Total comprehensive income for the period		Basic earnings per share	Diluted earnings per share
	Millions of Yen	% change	Yen	Yen
1st Quarter of Fiscal year 2017	20,930	64.7	30.27	—
1st Quarter of Fiscal year 2016	12,706	(52.4)	39.04	—

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity attributable to owners of the Company per share
	Millions of Yen	Millions of Yen	Millions of Yen	%	Yen
As of June 30, 2017	983,871	877,737	866,018	88.0	1,543.74
As of March 31, 2017	984,537	871,430	860,505	87.4	1,533.91

2. Dividends

	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year 2016	—	24.00	—	28.00	52.00
Fiscal year 2017	—				
Fiscal year 2017(forecasts)		38.00	—	28.00	66.00

(Note) Revisions to recently announced dividend forecasts: No

3. Forecasts for Fiscal year 2017 (April 1, 2017 to March 31, 2018)

	Revenue		Core Operating profit		Operating profit	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Interim	212,500	4.1	41,500	(13.5)	40,500	(15.3)
Full year	441,000	4.0	90,000	(4.8)	90,000	(4.3)

	Profit before income tax		Profit for the period		Profit attributable to owners of the Company	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Interim	41,000	(17.0)	31,000	(12.0)	32,500	(10.5)
Full year	91,000	(5.3)	68,000	(1.3)	71,500	0.3

Basic earnings per share: Interim 57.93 Full year 127.45

(Note) Revisions to recently announced consolidated earnings forecasts: No

※ Notes

(1) Significant change involving subsidiaries during the period: No

(Change in designated subsidiaries accompanying changes in the scope of consolidation)

(2) Changes in accounting policies and accounting estimates

1. Changes in accounting policies required by IFRS: No

2. Changes in accounting policies other than the above: No

3. Changes in accounting estimates: No

(3) Number of shares issued (ordinary shares)

1. Number of shares issued at the end of the period (including treasury shares)

1st Quarter of Fiscal year 2017	561,417,916 shares	Fiscal year 2016	561,417,916 shares
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2. Number of treasury shares at the end of the period

1st Quarter of Fiscal year 2017	430,012 shares	Fiscal year 2016	429,753 shares
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3. Average number of shares during the period (cumulative total)

1st Quarter of Fiscal year 2017	560,988,065 shares	1st Quarter of Fiscal year 2016	560,988,951 shares
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*This financial results report is exempt from the audit procedures.

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

(Note about forward-looking information)

In these materials, earnings forecasts and other statements about the future are forward-looking statements based on the information currently available and certain assumptions that the Company regards as reasonable. Accordingly, the Company cannot make promises to achieve such forecasts. Actual financial results may differ materially from these forecasts depending on a number of important factors. Please see “1. Qualitative Information for 1st Quarter of Fiscal year 2017 (3) Explanation about Future Prediction Information of Consolidated Earnings Forecasts” on page 3 for information regarding the forecast of consolidated financial results.

(Methods of obtaining the supplementary materials and the content of the results presentation)

• Supplementary materials are shown on page 12 and the subsequent pages of this document in section “3. Supplementary Information.”

• The Company plans to hold a results presentation (conference call) for institutional investors and securities analysts on July 31, 2017 (Monday).

The Company plans to make the presentation materials available on its website at the same time as the release of this document, and the audio materials are provided on the website immediately after the presentation is held.

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1. Qualitative Information for 1st Quarter of Fiscal year 2017

Mitsubishi Tanabe Pharma Corporation (hereinafter “the Company”), its subsidiaries and its associates (collectively, “the Group”, including the Company) have adopted the International Financial Reporting Standards (hereinafter “IFRS”). In applying IFRS, the Group has introduced “core operating profit” as a major profit item showing its recurring profitability and positioned it an important indicator of business management, etc. “Core operating profit” is a profit except the income and loss recorded by non-recurring items (hereinafter “non-recurring items”) specified by the Group from operating profit. The Company assumes income associated with a business transfer, restructuring expenses, impairment losses on intangible assets associated with products, losses on disaster and others as non-recurring items.

(1) Explanation about Results of Operations

Consolidated operating results for the first three months of the fiscal year ending March 31, 2018 (April 1, 2017 to June 30, 2017) were as follows.

(Millions of yen)

	1st quarter of Fiscal year 2016	1st quarter of Fiscal year 2017	Increase / Decrease	% change
Revenue	105,493	107,708	2,215	2.1
Core operating profit	29,019	21,986	(7,033)	(24.2)
Operating profit	29,207	21,050	(8,157)	(27.9)
Profit before income tax	30,294	21,998	(8,296)	(27.4)
Profit attributable to owners of the Company	21,903	16,981	(4,922)	(22.5)

< Research and development expenses >

(Millions of yen)

	1st quarter of Fiscal year 2016	1st quarter of Fiscal year 2017	Increase / Decrease	% change
Research and development expenses	14,507	18,090	3,583	24.7

【Revenue】

Revenue increased by 2.1%, or ¥2.2 billion, year-on-year, to ¥107.7 billion.

(Millions of yen)

	1st quarter of Fiscal year 2016	1st quarter of Fiscal year 2017	Increase / Decrease	% change
Pharmaceuticals	105,493	107,708	2,215	2.1
Domestic ethical drugs	78,415	79,973	1,558	2.0
Overseas ethical drugs	5,574	5,938	364	6.5
Royalty revenue, etc.	19,802	20,476	674	3.4
OTC products	1,015	1,160	145	14.3
Others	687	161	(526)	(76.6)

• Revenue of domestic ethical drugs increased by 2.0%, year-on-year, to ¥79.9 billion because of an increase in revenue of high-priority products such as SIMPONI, for the treatment agent of Rheumatoid arthritis (RA), and TENELIA and CANAGLU, type 2 diabetes mellitus.

- Royalty revenue, etc. increased by 3.4%, year-on-year, to ¥20.4 billion due to the following reasons:
 - Increase in royalty revenue from Gilenya, for the treatment of multiple sclerosis, licensed to Novartis,
 - Occurrence of one-time income associated with out-licensing activities,
 - Decrease in royalty revenue from INVOKANA and the fixed dose combination with metformin, for the treatment of type 2 diabetes mellitus, licensed to Janssen Pharmaceuticals.

【Core operating profit】

Core operating profit decreased by 24.2%, or ¥7.0 billion, year-on-year, to ¥21.9 billion due to the following reasons:

- Increase in revenue of high-priority products and royalty revenue, etc,
- Decrease in revenue of long listed drugs,
- Increase in R&D expenses, and selling, general and administrative expenses in MT Pharma America, Inc., sales and marketing subsidiary in the U.S.

【Operating profit】

Operating profit decreased by 27.9%, or ¥8.1 billion, year-on-year, to ¥21.0 billion. The Group recorded expense of ¥0.9 billion because of mainly the expense associated with the business termination of Bipha Corporation, manufacturing subsidiary in Japan, as a non-recurring item excluded from core operating profit.

【Profit before income tax and profit attributable to owners of the Company】

Profit before income tax decreased by 27.4%, or ¥8.2 billion, year-on-year, to ¥21.9 billion. And profit attributable to owners of the Company decreased by 22.5%, or ¥4.9 billion, year-on-year, to ¥16.9 billion.

【R&D activities】

Research and development expenses were ¥18.0 billion, accounting for 16.8% of revenue. The major progress of clinical development activities during the first three months of the fiscal year ending March 31, 2018 is as follows:

Acquisition of approval

- In May 2017, MCI-186 (generic name: edaravone, U.S. product name: RADICAVA, Japanese product name: RADICUT) was approved for ALS (amyotrophic lateral sclerosis) in the U.S.
- In May 2017, REMICADE was approved for a partial change on administration / dosage (a shortened administration interval) for Crohn's diseases in Japan.

In July 2017, MT-2412, the fixed dose combination of TENELIA (DPP-4 inhibitor) and CANAGLU (SGLT2 inhibitor), was approved for type 2 diabetes mellitus in Japan.

(2) Explanation about Financial Position

【Statement of financial position】

(Millions of yen)

	End of Fiscal year 2016 (As of March 31, 2017)	End of 1st quarter of Fiscal year 2017 (As of June 30, 2017)	Increase / Decrease
Non-current assets	300,778	309,580	8,802
Current assets	683,759	674,291	(9,468)
Total assets	984,537	983,871	(666)
Liabilities	113,107	106,134	(6,973)
Equity	871,430	877,737	6,307
Total liabilities and equity	984,537	983,871	(666)

Total assets at the end of the first quarter of the fiscal year ending March 31, 2018 were ¥983.8 billion, a decrease of ¥0.6 billion from the end of the fiscal year ended March 31, 2017. Major factors causing changes in the consolidated statement of financial position in comparison with the previous year-end were as follows:

- Non-current assets increased by ¥8.8 billion, to ¥309.5 billion, due to an increase in intangible assets associated with products, financial assets including domestic listed shares, and net defined benefit assets.
- Current assets decreased by ¥9.4 billion, to ¥674.2 billion because a decrease in cash and cash equivalents and inventories exceeded an increase in trade and other receivables and other financial assets.
- Liabilities decreased by ¥6.9 billion, to ¥106.1 billion, due to a decrease in trade and other payables and other current liabilities.
- Equity increased by ¥6.3 billion, to ¥877.7 billion, as a result of posting net profit for the period, an increase in fair value measurement of financial assets including domestic listed shares and pension plan assets, and dividend payments.

【Cash flows】

(Millions of yen)

	1st quarter of Fiscal year 2016	1st quarter of Fiscal year 2017	Increase / Decrease
Operating activities	366	7,760	7,394
Investing activities	22,608	(15,859)	(38,467)
Financing activities	(12,555)	(14,696)	(2,141)
Change in cash and cash equivalents	8,904	(22,592)	(31,496)
At the beginning of the year	88,919	113,215	24,296
At the end of the period	97,823	90,625	(7,198)

Net decrease in cash and cash equivalents was ¥22.5 billion, and the balance of cash and cash equivalents at the end of the first quarter ending March 31, 2018 was ¥90.6 billion.

- Net cash provided by operating activities was ¥7.7 billion because cash inflows including profit before income tax exceeded cash outflows including an increase in trade and other receivables, a decrease in trade and other payables and income tax expenses.
- Net cash used in investing activities was ¥15.8 billion because of mainly fund managements and capital investments.
- Net cash used in financing activities was ¥14.6 billion due to mainly dividends paid.

(3) Explanation about Future Prediction Information of Consolidated Earnings Forecasts

There has been no change to the consolidated forecasts for the first half-year and full-year of the fiscal year ending March 31, 2018 announced on May 10, 2017.

The Company is currently examining the potential impact on consolidated business results accompanying with the acquisition of NeuroDerm Ltd. announced on July 24, 2017. Additional guidance will be presented after the acquisition procedures have been completed.

2. Condensed Consolidated Financial Statements and Main Notes

(1) Condensed Consolidated Statement of Income

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Revenue	105,493	107,708
Cost of sales	40,038	42,562
Gross profit	65,455	65,146
Selling, general and administrative expenses	21,587	24,421
Research and development expenses	14,507	18,090
Amortization of intangible assets associated with products	369	527
Other income	491	127
Other expenses	285	1,193
Share of profit of associates and joint ventures accounted for using equity method	9	8
Operating profit	29,207	21,050
Financial income	1,288	1,014
Financial expenses	201	66
Profit before income tax	30,294	21,998
Income tax expenses	9,026	5,585
Profit for the period	21,268	16,413
Profit attributable to:		
Owners of the Company	21,903	16,981
Non-controlling interests	(635)	(568)
Profit for the period	21,268	16,413
Earnings per share		
Basic earnings per share (Yen)	39.04	30.27
Diluted earnings per share (Yen)	—	—

(2) Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit for the period	21,268	16,413
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net changes in financial assets measured at fair value through other comprehensive income	(1,259)	1,198
Remeasurements of defined benefit plans	(2,221)	2,397
Subtotal	(3,480)	3,595
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(5,083)	929
Effective portion of changes in fair value of cash flow hedges	9	—
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(8)	(7)
Subtotal	(5,082)	922
Other comprehensive income (loss), net of tax	(8,562)	4,517
Comprehensive income	12,706	20,930
Comprehensive income (loss) attributable to:		
Owners of the Company	14,283	21,221
Non-controlling interests	(1,577)	(291)
Comprehensive income	12,706	20,930

(3) Condensed Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2017	As of June 30, 2017
Assets		
Non-current assets		
Property, plant and equipment	85,836	84,835
Goodwill	80,328	80,473
Intangible assets	61,209	64,500
Investments in associates and joint ventures accounted for using equity method	245	246
Other financial assets	51,623	53,037
Net defined benefit assets	14,769	18,280
Other non-current assets	482	479
Deferred tax assets	6,286	7,730
Total non-current assets	<u>300,778</u>	<u>309,580</u>
Current assets		
Inventories	79,168	74,188
Trade and other receivables	116,856	126,539
Other financial assets	354,255	364,053
Other current assets	9,183	7,799
Cash and cash equivalents	113,215	90,625
Subtotal	<u>672,677</u>	<u>663,204</u>
Assets held for sale	11,082	11,087
Total current assets	<u>683,759</u>	<u>674,291</u>
Total assets	<u><u>984,537</u></u>	<u><u>983,871</u></u>

	As of March 31, 2017	As of June 30, 2017
Liabilities and equity		
Liabilities		
Non-current liabilities		
Borrowings	581	528
Other financial liabilities	2,405	2,342
Net defined benefit liabilities	1,092	1,148
Provisions	7,890	7,761
Other non-current liabilities	5,576	5,767
Deferred tax liabilities	7,156	7,345
Total non-current liabilities	24,700	24,891
Current liabilities		
Borrowings	127	119
Trade and other payables	35,741	27,400
Other financial liabilities	24,135	23,895
Income taxes payable	4,815	9,548
Provisions	86	99
Other current liabilities	20,358	16,707
Subtotal	85,262	77,768
Liabilities directly related to assets held for sale	3,145	3,475
Total current liabilities	88,407	81,243
Total liabilities	113,107	106,134
Equity		
Share capital	50,000	50,000
Capital surplus	451,187	451,187
Treasury shares	(496)	(497)
Retained earnings	353,427	357,211
Other components of equity	6,387	8,117
Total equity attributable to owners of the Company	860,505	866,018
Non-controlling interests	10,925	11,719
Total equity	871,430	877,737
Total liabilities and equity	984,537	983,871

(4) Condensed Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the Company						
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity		
					Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2016	50,000	451,186	(494)	304,931	(3,911)	4	13,832
Profit for the period	—	—	—	21,903	—	—	—
Other comprehensive income	—	—	—	—	(4,141)	9	(1,259)
Total comprehensive income	—	—	—	21,903	(4,141)	9	(1,259)
Acquisition of treasury shares	—	—	(1)	—	—	—	—
Disposal of treasury shares	—	1	0	—	—	—	—
Dividends	—	—	—	(13,464)	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(2,221)	—	—	—
Total contributions by and distributions to owners	—	1	(1)	(15,685)	—	—	—
Issuance of new shares	—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others	—	—	—	—	—	—	—
Total transactions with owners	—	1	(1)	(15,685)	—	—	—
Balance as of June 30, 2016	50,000	451,187	(495)	311,149	(8,052)	13	12,573
Balance as of April 1, 2017	50,000	451,187	(496)	353,427	(4,666)	—	11,101
Profit for the period	—	—	—	16,981	—	—	—
Other comprehensive income	—	—	—	—	652	—	1,198
Total comprehensive income	—	—	—	16,981	652	—	1,198
Acquisition of treasury shares	—	—	(1)	—	—	—	—
Disposal of treasury shares	—	—	—	—	—	—	—
Dividends	—	—	—	(15,707)	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	2,510	—	—	(113)
Total contributions by and distributions to owners	—	—	(1)	(13,197)	—	—	(113)
Issuance of new shares	—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others	—	—	—	—	—	—	—
Total transactions with owners	—	—	(1)	(13,197)	—	—	(113)
Balance as of June 30, 2017	50,000	451,187	(497)	357,211	(4,014)	—	12,186

(Millions of yen)

	Equity attributable to owners of the Company					
	Other components of equity			Total equity attributable to owners of the Company	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total			
Balance as of April 1, 2016	–	(30)	9,895	815,518	10,798	826,316
Profit for the period	–	–	–	21,903	(635)	21,268
Other comprehensive income	(2,221)	(8)	(7,620)	(7,620)	(942)	(8,562)
Total comprehensive income	(2,221)	(8)	(7,620)	14,283	(1,577)	12,706
Acquisition of treasury shares	–	–	–	(1)	–	(1)
Disposal of treasury shares	–	–	–	1	–	1
Dividends	–	–	–	(13,464)	–	(13,464)
Transfer from other components of equity to retained earnings	2,221	–	2,221	–	–	–
Total contributions by and distributions to owners	2,221	–	2,221	(13,464)	–	(13,464)
Issuance of new shares	–	–	–	–	975	975
Changes in ownership interests in subsidiaries and others	–	–	–	–	975	975
Total transactions with owners	2,221	–	2,221	(13,464)	975	(12,489)
Balance as of June 30, 2016	–	(38)	4,496	816,337	10,196	826,533
Balance as of April 1, 2017	–	(48)	6,387	860,505	10,925	871,430
Profit for the period	–	–	–	16,981	(568)	16,413
Other comprehensive income	2,397	(7)	4,240	4,240	277	4,517
Total comprehensive income	2,397	(7)	4,240	21,221	(291)	20,930
Acquisition of treasury shares	–	–	–	(1)	–	(1)
Disposal of treasury shares	–	–	–	–	–	–
Dividends	–	–	–	(15,707)	–	(15,707)
Transfer from other components of equity to retained earnings	(2,397)	–	(2,510)	–	–	–
Total contributions by and distributions to owners	(2,397)	–	(2,510)	(15,708)	–	(15,708)
Issuance of new shares	–	–	–	–	1,085	1,085
Changes in ownership interests in subsidiaries and others	–	–	–	–	1,085	1,085
Total transactions with owners	(2,397)	–	(2,510)	(15,708)	1,085	(14,623)
Balance as of June 30, 2017	–	(55)	8,117	866,018	11,719	877,737

(5) Condensed Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Cash flows from operating activities:		
Profit before income tax	30,294	21,998
Depreciation and amortization	2,554	2,821
Interest and dividend income	(985)	(530)
Share of profits of associates and joint ventures accounted for using equity method	(9)	(8)
Loss (gain) on sales of property, plant and equipment	(138)	4
Decrease (increase) in trade and other receivables	(8,931)	(9,359)
Decrease (increase) in inventories	2,750	4,730
Increase (decrease) in trade and other payables	(2,197)	(8,097)
Increase (decrease) in provisions	(178)	(116)
Decrease (increase) in net defined benefit assets	(248)	13
Other	(6,486)	(365)
Subtotal	16,426	11,091
Interest received	327	71
Dividends received	455	432
Interest paid	(40)	(36)
Income taxes paid	(16,802)	(3,798)
Net cash flows from operating activities	366	7,760
Cash flows from investing activities:		
Payments into time deposits	(597)	(75)
Proceeds from withdrawal of time deposits	42,339	—
Purchase of property, plant and equipment	(4,136)	(3,335)
Proceeds from sales of property, plant and equipment	532	4
Purchase of intangible assets	(617)	(3,180)
Purchase of investments	(15,500)	(159,000)
Proceeds from sales and redemption of investments	500	149,792
Other	87	(65)
Net cash flows used in investing activities	22,608	(15,859)
Cash flows from financing activities:		
Proceeds from stock issuance to non-controlling interests	975	1,085
Dividends paid	(13,464)	(15,707)
Other	(66)	(74)
Net cash flows used in financing activities	(12,555)	(14,696)
Effect of exchange rate changes on cash and cash equivalents	(1,515)	203
Net increase in cash and cash equivalents	8,904	(22,592)
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	—	2
Cash and cash equivalents at the beginning of the period	88,919	113,215
Cash and cash equivalents at the end of the period	97,823	90,625

(6) Notes to Condensed Consolidated Financial Statements

(Note regarding Going Concern Assumption)

Not applicable.

(Subsequent Event)

(Acquisition of NeuroDerm Ltd.)

The Company has entered into definitive agreement with NeuroDerm Ltd. (hereinafter “NeuroDerm”) pursuant to which the Company will acquire all of the outstanding shares of NeuroDerm.

(1) Objective of the acquisition

NeuroDerm is a clinical-stage pharmaceutical company that develops novel formulation technology and drug-device combinations for Parkinson’s disease. Its lead product candidate, ND0612 has commenced phase 3 clinical trials in the U.S. and Europe, and the product is expected to launch in Fiscal year 2019. Given the importance of controlling blood levels of levodopa in the treatment of Parkinson’s disease, ND0612 is expected to be used to treat advanced stage Parkinson’s disease, and will be used in patients for whom oral levodopa is no longer effective in the control of motor complications. NeuroDerm is the first to develop liquid levodopa and carbidopa in the world. ND0612 can be continuously subcutaneously administered over a 24-hour period through a convenient small belt-worn pump.

In its “Medium-Term Management Plan 16-20: Open Up the Future,” the Company stated that it will strive, through in-house sales, to rapidly build a foundation for sustained growth in the U.S., the world’s largest pharmaceutical market.

As a first step toward advancing its franchise in the U.S., the Company is expected to launch RADICAVA, an FDA approved treatment option for ALS (amyotrophic lateral sclerosis) in the U.S. market in August 2017. Additionally, the acquisition of ND0612 through this transaction is intended to enable the Company to achieve its U.S. sales target of ¥80 billion by Fiscal year 2020, which is part of its Medium-Term Management Plan. The Company will expand its product pipeline in the central nervous system disease area and advance its goal of providing patients with innovative drugs to address unmet medical needs.

(2) Overview of NeuroDerm

- (1) Company name : NeuroDerm Ltd.
- (2) Address : Ruhrberg Science Building, 3 Pekeris Street, Rehovot 7670212, Israel
- (3) Representative : Oded S. Lieberman, PhD, Chief Executive Officer and Director
- (4) Business description : Development of treatments for CNS disorders including Parkinson’s disease
- (5) Capital : USD 49 thousand (as of March 31 2017)

(3) Timing of acquisition of the share of NeuroDerm

October 2017 (plan)

(4) Ratio of equity interest of the voting share to be acquired by the Company

100%

(5) Consideration

The Company will acquire all of the outstanding shares of NeuroDerm, for a total diluted equity value of USD1.1 billion. The offer is subject to customary conditions, including approval by NeuroDerm’s shareholders and receipt of applicable regulatory approvals. The merger will be conducted through a reverse triangular merger in which the Company’s wholly-owned merger subsidiary established in Israel solely for the purpose of the acquisition process will merge into NeuroDerm, after which NeuroDerm will become the surviving entity. Upon the closing of the transaction, NeuroDerm will become a wholly-owned subsidiary of the Company.

(Note) The consideration is translated at the rate of 111.13 USD/JPY.

3. Supplementary information

(1) Consolidated financial indicators for 1st quarter of FY2017

(Amounts less than ¥ 100 million are rounded off.)

i. Profit and Loss

[Billion yen]

	Q1 FY2017	Y-on-Y			Comparison to forecasts		Notes [Y-on-Y comparison]
		Q1 FY2016	Increase (decrease)	Change %	Forecasts *1	Achieved %	
Revenue	107.7	105.4	2.2	2.1	212.5	50.7	Ethical drugs domestic sales 1.5 Ethical drugs overseas sales 0.3 Royalty income, etc. 0.6 See "Sales Revenues of Main Products" on page 13. Overseas sales ratio Q1 FY2017: 23.8% Q1 FY2016: 23.8%
Domestic	82.0	80.4	1.6	2.1	158.7	51.7	
Overseas	25.6	25.0	0.5	2.2	53.7	47.7	
Cost of sales	42.5	40.0	2.5	6.3	82.5	51.6	Product mix change due to increased sales of purchased products
Sales cost ratio	39.5%	38.0%			38.8%		
Gross profit	65.1	65.4	(0.3)	(0.5)	130.0	50.1	
SG&A expense	24.4	21.5	2.8	13.1	52.0	47.0	
% of revenue	22.7%	20.5%			24.5%		
R&D expense	18.0	14.5	3.5	24.7	35.5	51.0	
% of revenue	16.8%	13.8%			16.7%		
Amortization of intangible assets associated with products	0.5	0.3	0.1	42.8	1.0	52.7	
Other income (expense) *2	(0.1)	0.0	(0.1)	-	-	-	
Core operating profit	21.9	29.0	(7.0)	(24.2)	41.5	53.0	
Non-recurring items *2	(0.9)	0.1	(1.1)	-	(1.0)	-	
Operating profit	21.0	29.2	(8.1)	(27.9)	40.5	52.0	
Financial income	1.0	1.2	(0.2)	(21.3)	-	-	
Interest income and dividends income	0.5	0.9	(0.4)	(46.2)	-	-	
Foreign exchange income	0.1	0.3	(0.1)	(35.0)	-	-	
Others	0.2	0.1	0.1	158.6	-	-	
Financial expense	0.0	0.2	(0.1)	(67.2)	-	-	
Profit before tax for the period	21.9	30.2	(8.2)	(27.4)	41.0	53.7	
Income taxes	5.5	9.0	(3.4)	(38.1)	-	-	
Net profit for the period	16.4	21.2	(4.8)	(22.8)	-	-	
Net profit attributable to owners of the Company	16.9	21.9	(4.9)	(22.5)	32.5	52.2	
Total labor cost	18.2	17.1	1.1	6.4	36.3	50.3	

*1: Published forecasts announced on May 10, 2017 in the financial results of FY2016.

*2: Brackets indicate expense and loss

Exchange rate

[Yen]

	Q1 FY2017 average	Q1 FY2016 average	FY2017 planned
US \$	111.42	107.87	110.00
Euro	124.26	120.72	115.00

Effect of exchange rate changes for the 1st quarter of FY2017

increase in revenue by ¥ 0.8 billion

increase in core operating profit by ¥ 0.3 billion

ii. Revenue of main products

[Billion yen]

	Q1 FY2017	Y-on-Y			Comparison to Forecasts	
		Q1 FY2016	Increase (Decrease)	Change %	Forecasts ^{*1}	Achieved %
Ethical drugs domestic sales	79.9	78.4	1.5	2.0	154.2	51.8
Remicade	16.8	17.3	(0.5)	(3.2)	32.6	51.5
Simponi	7.5	6.3	1.2	19.5	13.9	53.9
Tenelia	4.6	3.8	0.8	20.9	8.6	54.0
Talion	4.0	4.1	(0.1)	(2.5)	8.2	48.7
Lexapro	3.1	2.8	0.2	9.2	6.1	50.9
Ceredist	3.0	3.5	(0.4)	(13.5)	5.6	54.5
Maintate	2.9	3.3	(0.3)	(11.1)	5.2	56.9
Kremezin	1.7	2.1	(0.3)	(16.8)	3.4	50.8
Canaglu	1.4	0.7	0.7	102.1	3.0	48.5
Urso	1.4	1.7	(0.3)	(17.2)	2.6	54.9
Radicut	1.4	1.5	(0.1)	(10.0)	3.0	46.5
Imusera	1.2	1.3	(0.0)	(1.0)	2.4	51.8
BIKEN products [vaccines]	6.8	7.3	(0.4)	(6.7)	15.0	45.4
Tetrabik	2.3	2.7	(0.4)	(15.1)	4.4	52.5
Mearubik	1.5	1.7	(0.1)	(8.4)	2.6	58.5
Varicella vaccine	1.4	1.4	0.0	0.3	2.8	50.7
Influenza vaccine	(0.0)	(0.1)	0.0	-	2.4	-
Tanabe Seiyaku Hanbai products ^{*2}	3.4	3.5	(0.0)	(2.8)	6.9	49.4
Ethical drugs overseas sales	5.9	5.5	0.3	6.5	12.9	46.0
Herbesser	1.5	1.5	(0.0)	(0.4)	3.3	45.1
Argatroban (Novastan)	0.4	0.5	(0.0)	(10.0)	0.9	48.7
Simponi	0.4	0.3	0.1	43.2	0.7	57.9
Tanatril	0.3	0.5	(0.2)	(38.7)	0.8	44.3
Royalty revenue, etc.	20.4	19.8	0.6	3.4	41.7	49.0
Royalty from Gilenya	14.5	13.8	0.7	5.4	Undisclosed	-
Royalty from INVOKANA	3.6	4.9	(1.3)	(27.8)	Undisclosed	-
OTC products	1.1	1.0	0.1	14.3	3.2	35.6
Others ^{*3}	0.1	0.6	(0.5)	(76.6)	0.3	50.5
Total revenue	107.7	105.4	2.2	2.1	212.5	50.7

*1: Published forecasts announced on May 10, 2017 in the financial results of FY2016.

*2: Tanabe Seiyaku Hanbai products are composed of generic drugs and the long-listed drugs which were transferred from MTPC.

*3: Active pharmaceutical ingredients and others ordered by other companies.

iii. Quarterly Trend (PL)

[Billion yen]

	FY2016					FY2017		
	Q1 Apr. to Jun.	Q2 Jul. to Sep.	Q3 Oct. to Dec.	Q4 Jan. to Mar.	Full year Actual	Q1 Apr. to Jun.	1H forecasts ^{*1}	Full year forecasts ^{*1}
Revenue	105.4 24.9%	98.6 23.3%	120.2 28.4%	99.6 23.5%	423.9 100.0%	107.7 24.4%	212.5 48.2%	441.0 100.0%
Domestic	80.4 25.1%	74.9 23.4%	93.2 29.1%	71.6 22.4%	320.3 100.0%	82.0 25.2%	158.7 48.8%	325.5 100.0%
Overseas	25.0 24.2%	23.6 22.8%	26.9 26.0%	27.9 27.0%	103.6 100.0%	25.6 22.2%	53.7 46.5%	115.5 100.0%
Cost of sales	40.0	38.3	48.6	37.4	164.3	42.5	82.5	169.5
Sales cost ratio	38.0%	38.9%	40.4%	37.6%	38.8%	39.5%	38.8%	38.4%
Gross profit	65.4 25.2%	60.3 23.2%	71.6 27.6%	62.1 24.0%	259.5 100.0%	65.1 24.0%	130.0 47.9%	271.5 100.0%
SG&A expense	21.5 22.0%	25.0 25.5%	24.3 24.8%	27.2 27.7%	98.3 100.0%	24.4 23.3%	52.0 49.5%	105.0 100.0%
R&D expense	14.5 22.4%	15.8 24.4%	14.7 22.8%	19.7 30.4%	64.7 100.0%	18.0 24.6%	35.5 48.3%	73.5 100.0%
Amortization of intangible assets associated with products	0.3 24.1%	0.3 24.1%	0.3 24.2%	0.4 27.6%	1.5 100.0%	0.5 21.1%	1.0 40.0%	2.5 100.0%
Other income (expense) ^{*2}	0.0 -	(0.0) -	(0.1) -	(0.2) -	(0.4) -	(0.1) -	- -	(0.5) -
Core operating profit	29.0 30.7%	18.9 20.0%	31.9 33.9%	14.5 15.4%	94.5 100.0%	21.9 24.4%	41.5 46.1%	90.0 100.0%
Operating profit	29.2 31.0%	18.6 19.8%	31.9 34.0%	14.3 15.2%	94.0 100.0%	21.0 23.4%	40.5 45.0%	90.0 100.0%
Profit before tax	30.2 31.5%	19.1 19.9%	32.0 33.4%	14.5 15.2%	96.0 100.0%	21.9 24.2%	41.0 45.1%	91.0 100.0%
Net profit attributable to owners of the Company	21.9 30.7%	14.3 20.2%	23.8 33.5%	11.0 15.5%	71.2 100.0%	16.9 23.7%	32.5 45.5%	71.5 100.0%

The each figure (excluding "cost of sales") in the lower displays the progress rate.

*1: Published forecasts announced on May 10, 2017 in the financial results of FY2016.

*2: Brackets indicate expense and loss

iv. Quarterly Trend (Revenue of main products)

[Billion yen]

	FY2016					FY2017		
	Q1	Q2	Q3	Q4	Full year actual	Q1	1H forecasts ^{*1}	Full year forecasts ^{*1}
	Apr. to Jun.	Jul. to Sep.	Oct. to Dec.	Jan. to Mar.		Apr. to Jun.		
Domestic ethical drugs	78.4 25.0%	73.5 23.4%	91.3 29.1%	70.8 22.5%	314.2 100.0%	79.9 25.4%	154.2 48.9%	315.4 100.0%
Remicade	17.3 26.0%	16.4 24.7%	18.2 27.3%	14.7 22.1%	66.8 100.0%	16.8 26.0%	32.6 50.4%	64.7 100.0%
Simponi	6.3 25.3%	5.8 23.6%	6.9 27.9%	5.7 23.2%	24.9 100.0%	7.5 26.0%	13.9 48.2%	29.0 100.0%
Tenelia	3.8 23.4%	4.1 25.3%	5.1 31.0%	3.3 20.3%	16.5 100.0%	4.6 24.5%	8.6 45.4%	19.1 100.0%
Talion	4.1 21.7%	3.3 17.7%	5.2 27.8%	6.2 32.9%	18.9 100.0%	4.0 19.3%	8.2 39.6%	20.8 100.0%
Lexapro	2.8 25.4%	2.6 23.7%	3.1 28.3%	2.5 22.6%	11.2 100.0%	3.1 24.2%	6.1 47.5%	12.9 100.0%
Ceredist	3.5 28.9%	2.9 23.8%	3.3 27.3%	2.4 20.0%	12.3 100.0%	3.0 28.3%	5.6 51.9%	10.8 100.0%
Maintate	3.3 28.3%	2.7 23.4%	3.2 27.3%	2.4 21.1%	11.8 100.0%	2.9 29.1%	5.2 51.1%	10.2 100.0%
Kremezin	2.1 28.1%	1.8 24.5%	2.0 27.1%	1.5 20.3%	7.5 100.0%	1.7 26.6%	3.4 52.3%	6.6 100.0%
Canaglu	0.7 20.6%	0.7 22.8%	1.0 30.9%	0.9 25.8%	3.4 100.0%	1.4 20.9%	3.0 43.1%	6.9 100.0%
Urso	1.7 28.6%	1.4 24.2%	1.6 26.6%	1.2 20.5%	6.1 100.0%	1.4 28.6%	2.6 52.2%	5.0 100.0%
Radicut	1.5 27.2%	1.4 24.1%	1.6 28.5%	1.1 20.3%	5.8 100.0%	1.4 23.1%	3.0 49.7%	6.2 100.0%
Imusera	1.3 26.6%	1.1 23.4%	1.3 28.5%	1.0 21.6%	4.9 100.0%	1.2 25.3%	2.4 48.8%	5.1 100.0%
BIKEN products [vaccines]	7.3 18.8%	9.1 23.5%	14.6 37.5%	7.8 20.1%	38.9 100.0%	6.8 17.5%	15.0 38.5%	39.1 100.0%
Tetrabik	2.7 27.7%	2.3 23.4%	2.5 25.6%	2.3 23.3%	9.9 100.0%	2.3 25.4%	4.4 48.4%	9.2 100.0%
Mearubik	1.7 29.1%	1.5 26.2%	1.2 20.6%	1.4 24.1%	5.9 100.0%	1.5 29.8%	2.6 50.9%	5.2 100.0%
Varicella vaccine	1.4 26.5%	1.3 25.3%	1.3 24.6%	1.2 23.7%	5.4 100.0%	1.4 25.2%	2.8 49.6%	5.7 100.0%
Influenza vaccine	(0.1) (0.9%)	2.6 20.6%	8.5 66.6%	1.7 13.7%	12.7 100.0%	(0.0) (0.2%)	2.4 17.5%	14.1 100.0%
Tanabe Seiyaku Hanbai products ^{*2}	3.5 24.8%	3.3 23.5%	4.0 28.3%	3.3 23.4%	14.1 100.0%	3.4 49.4%	6.9 100.0%	6.9 100.0%
Overseas ethical drugs	5.5 24.6%	5.0 22.5%	5.5 24.3%	6.5 28.7%	22.6 100.0%	5.9 18.3%	12.9 39.7%	32.4 100.0%
Herbesser	1.5 25.0%	1.3 22.4%	1.5 25.7%	1.6 26.9%	6.0 100.0%	1.5 21.9%	3.3 48.5%	6.8 100.0%
Argatroban (Novastan)	0.5 26.8%	0.4 24.5%	0.4 25.3%	0.4 23.4%	1.9 100.0%	0.4 24.9%	0.9 51.1%	1.9 100.0%
Simponi	0.3 21.5%	0.3 23.1%	0.3 25.7%	0.4 29.6%	1.4 100.0%	0.4 27.8%	0.7 47.9%	1.6 100.0%
Tanatril	0.5 34.7%	0.3 21.2%	0.3 20.5%	0.3 23.6%	1.6 100.0%	0.3 22.7%	0.8 51.1%	1.5 100.0%
Royalty revenue, etc.	19.8 24.1%	18.7 22.7%	22.0 26.9%	21.6 26.3%	82.2 100.0%	20.4 23.4%	41.7 47.8%	87.4 100.0%
Royalty from Gilenya	13.8 25.8%	13.7 25.5%	14.4 26.9%	11.7 21.9%	53.7 100.0%	14.5 -	Undisclosed -	Undisclosed -
Royalty from INVOKANA	4.9 26.4%	4.0 21.5%	6.3 33.4%	3.5 18.6%	18.8 100.0%	3.6 -	Undisclosed -	Undisclosed -
OTC products	1.0 29.7%	0.9 27.2%	0.9 27.7%	0.5 15.3%	3.4 100.0%	1.1 22.8%	3.2 64.0%	5.0 100.0%
Others ^{*3}	0.6 48.6%	0.3 21.8%	0.2 21.1%	0.1 8.6%	1.4 100.0%	0.1 27.0%	0.3 53.5%	0.5 100.0%
Total revenue	105.4 24.9%	98.6 23.3%	120.2 28.4%	99.6 23.5%	423.9 100.0%	107.7 24.4%	212.5 48.2%	441.0 100.0%

The each figure in the lower displays the progress rate.

*1: Published forecasts announced on May 10, 2017 in the financial results of FY2016.

*2: Tanabe Seiyaku Hanbai Products are composed of generic drugs and the long-listed drugs which were transferred from the Company.

*3: Contracted manufacturing products, etc. by outside companies

(2) State of New Product Development (as of July 31, 2017)

i. Autoimmune diseases

Development code Product name (Generic name)	Category (Indications)	Region	Stage	Origin/licensee
FTY720 Imusera/Gilenya (fingolimod)	S1P receptor functional antagonist (Chronic inflammatory demyelinating polyradiculoneuropathy)	Japan, US, Europe, and others	Phase 3 (Global clinical trial)	Discovered in-house Co-developed with Novartis Pharma (Japan) in Japan, licensed to Novartis (Switzerland) overseas
MT-1303 (amiselimod)	S1P receptor functional antagonist (Multiple sclerosis)	Europe	Phase 2	In-house
	(Psoriasis)	Europe	Phase 2	
	(Crohn's disease)	Japan, Europe	Phase 2	
	(Inflammatory diseases, autoimmune diseases)	Japan, Europe, US	Phase 1	
MT-7117	Dermatologicals, etc. (Inflammatory diseases, autoimmune diseases, etc.)	Europe	Phase 1	In-house
MT-2990	Inflammatory diseases, autoimmune diseases, etc.	Europe	Phase 1	In-house

ii. Diabetes and kidney diseases

Development code Product name (Generic name)	Category (Indications)	Region	Stage	Origin/licensee
TA-7284 Canaglu/ INVOKANA (canagliflozin)	SGLT2 inhibitor (Diabetic nephropathy)	Japan, US, Europe, and others	Phase 3 (Global clinical trial)	Discovered in-house Sponsor: Janssen Research & Development (US)
	(Type 1 Diabetes Mellitus)	US, Canada	Phase 2	Discovered in-house Licensed to Janssen Pharmaceuticals (US)
	(Obesity / co-administration with phentermine)	US	Phase 2	
MP-513 (teneligliptin)	DPP-4 inhibitor (Type 2 diabetes mellitus)	Indonesia	Filed (Apr., 2015)	In-house
		China	Phase 3	
		Europe	Phase 2	
		US	Phase 1	
MT-3995 (apararenone)	Selective mineralocorticoid receptor antagonist (Diabetic nephropathy)	Europe	Phase 2	In-house
		Japan	Phase 2	
		US	Phase 1	
		(Non-alcoholic steatohepatitis: NASH)	Japan	
MT-6548 (vadadustat)	Hypoxia inducible factor prolyl hydroxylase inhibitor (Renal anemia)	Japan	Phase 2	Licensed from Akebia (US)

iii. Central nervous system diseases

Development code (Generic name)	Category (Indications)	Region	Stage	Origin/licensee
MP-214 (cariprazine)	Dopamine D3/D2 receptor partial agonist (Schizophrenia)	Japan, Asia	Phase 2/3	Licensed from Gedeon Richter(Hungary)
MT-210	5-HT2A/ Sigma 2 receptor antagonist (Schizophrenia)	Europe	Phase 2	Licensed to Minerva Neurosciences(US)
Wf-516	Multiple mechanisms on several receptors* (Major depressive disorder)	Europe	Phase 2	Licensed to Minerva Neurosciences(US)
MP-124	Nervous system	US	Phase 1	In-house
MT-8554	Nervous system, etc.	Europe	Phase 1	In-house
MT-5199 (valbenazine)	Vesicular monoamine transporter type 2 inhibitor (Tardive dyskinesia)	Japan	Phase 1	Licensed from Neurocrine Biosciences(US)

*SSRI, 5-HT1A, dopamine transporter, and alpha-1A and B

iv. Vaccines

Development code (Generic name)	Category (Indications)	Region	Stage	Origin/licensee
MT-2355	Combined vaccine (Prophylaxis of pertussis, diphtheria, tetanus, poliomyelitis and prophylaxis of Hib infection in infants)	Japan	Phase 3	Co-developed with The Research Foundation for Microbial Diseases of Osaka University (Japan)
Influenza vaccine	Plant-based VLP vaccine (Prophylaxis of H5N1 influenza)	Canada	Phase 2	In-house
Influenza vaccine	Plant-based VLP vaccine (Prophylaxis of seasonal influenza)	US, Canada	Phase 2	In-house
Influenza vaccine	Plant-based VLP vaccine (Prophylaxis of H7N9 influenza)	Canada	Phase 1	In-house

v. Other diseases

Development code Product name (Generic name)	Category (Indications)	Region	Stage	Origin/licensee
Novastan (argatroban)	Selective antithrombin agent (Acute cerebral infarction)	China	Filed (Feb., 2017)	In-house
MT-4580 (evocalcet)	Ca sensing receptor agonist (Secondary hyperparathyroidism in chronic kidney disease patients on maintenance dialysis)	Japan	Filed (Apr., 2017)	Licensed to Kyowa Hakko Kirin(Japan)
Y-39983	ROCK (rho-kinase) inhibitor (Glaucoma)	Japan	Phase 2	Licensed to Senju Pharmaceutical (Japan)
MCC-847 (masilukast)	Leukotriene D4 receptor antagonist (Asthma)	Korea	Phase 2	Licensed to SAMA Pharma (Korea)
Y-803	Bromodomain inhibitor (Cancer)	Europe, Canada	Phase 2	Licensed to Merck (US)
GB-1057 (recombinant human serum albumin)	Blood and blood forming organs	US	Phase 1	In-house
MP-157	Cardiovascular system	Europe	Phase 1	In-house
MT-0814	Ophthalmologicals	Japan	Phase 1	In-house
sTU-199 (tenatoprazole)	Alimentary tract and metabolism	Europe	Phase 1	Licensed to Negma/Sidem (France)
MT-4129	Cardiovascular system, etc.	Europe	Phase 1	In-house

Changes Since Previous Announcement on May 10, 2017

Development code Product name (Generic name)	Category (Indications)	Region	As of May 10, 2017	As of July 31, 2017	Origin / licensee
Remicade (infliximab)	Anti-human TNF α monoclonal antibody (Crohn's disease:shortened administration interval)	Japan	Filed (Sep., 2016)	Approved (May., 2017)	Licensed from Janssen Biotech (US)
MT-2412 (teneligliptin, canagliflozin)	Fixed-dose combination of DPP-4 inhibitor and SGLT2 inhibitor (Type 2 diabetes mellitus)	Japan	Filed (Aug., 2016)	Approved (Jul., 2016)	In-house
MT-2990	Inflammatory diseases, autoimmune diseases, etc.	Europe	None	Phase 1	In-house