CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

MITSUBISHI TANABE PHARMA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2018

MITSUBISHI TANABE PHARMA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

Year ended March 31, 2018

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Independent Auditor's Report

The Board of Directors
Mitsubishi Tanabe Pharma Corporation

We have audited the accompanying consolidated financial statements of Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young Shin Nihon LLC

June 22, 2018
Osaka, Japan

MITSUBISHI TANABE PHARMA CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Income

Year ended March 31, 2018

	Notes	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 2) 2018
Revenue	7	423,977	**433,855**	**4,083,725**
Cost of sales		164,397	**169,750**	**1,597,797**
Gross profit		259,580	**264,105**	**2,485,928**
Selling, general and administrative expenses		98,302	**104,055**	**979,433**
Research and development expenses		64,783	**79,083**	**744,381**
Amortization of intangible assets associated with products	18	1,528	**2,451**	**23,070**
Other income	8	974	**6,661**	**62,698**
Other expenses	9	1,882	**7,915**	**74,501**
Share of profit of associates and joint ventures accounted for using equity method		24	**23**	**216**
Operating profit		94,083	**77,285**	**727,457**
Financial income	11	2,212	**1,881**	**17,705**
Financial expenses	12	236	**402**	**3,784**
Profit before income tax		96,059	**78,764**	**741,378**
Income tax expenses	13	27,137	**24,772**	**233,170**
Profit for the year		68,922	**53,992**	**508,208**
Profit attributable to:				
Owners of the Company		71,263	**57,963**	**545,585**
Non-controlling interests		(2,341)	**(3,971)**	**(37,377)**
Profit for the year		68,922	**53,992**	**508,208**

	Notes	Yen 2017	Yen 2018	U.S. dollars (Note 2) 2018
Earnings per share				
Basic earnings per share	14	127.03	**103.35**	**0.97**
Diluted earnings per share	14	–	**103.35**	**0.97**

MITSUBISHI TANABE PHARMA CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Comprehensive Income

Year ended March 31, 2018

	Notes	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 2) 2018
Profit for the year		68,922	**53,992**	**508,208**
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	15	(2,229)	**4,542**	**42,752**
Remeasurements of defined benefit plans	15	3,658	**5,823**	**54,810**
Subtotal		1,429	**10,365**	**97,562**
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translation of foreign operations	15	(1,020)	**(8,798)**	**(82,813)**
Effective portion of changes in fair value of cash flow hedges	15	(4)	**1,033**	**9,723**
Share of other comprehensive income of associates and joint ventures accounted for using equity method	15	(18)	**28**	**264**
Subtotal		(1,042)	**(7,737)**	**(72,826)**
Other comprehensive income (loss), net of tax		387	**2,628**	**24,736**
Comprehensive income		69,309	**56,620**	**532,944**
Comprehensive income (loss) attributable to:				
Owners of the Company		71,915	**60,861**	**572,863**
Non-controlling interests		(2,606)	**(4,241)**	**(39,919)**
Comprehensive income		69,309	**56,620**	**532,944**

MITSUBISHI TANABE PHARMA CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Financial Position

March 31, 2018

	Notes	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 2) 2018
Assets				
Non-current assets				
Property, plant and equipment	16	85,836	**80,457**	**757,313**
Goodwill	17	80,328	**90,313**	**850,085**
Intangible assets	18	61,209	**200,940**	**1,891,378**
Investments in associates and joint ventures accounted for using equity method	19	245	**16,445**	**154,791**
Other financial assets	20,36	51,623	**46,109**	**434,008**
Net defined benefit assets	29	14,769	**22,711**	**213,771**
Other non-current assets	21	482	**379**	**3,567**
Deferred tax assets	13	6,286	**4,742**	**44,635**
Total non-current assets		300,778	**462,096**	**4,349,548**
Current assets				
Inventories	22	79,168	**81,998**	**771,818**
Trade and other receivables	23,36	116,856	**123,537**	**1,162,811**
Other financial assets	20,36	354,255	**246,733**	**2,322,411**
Other current assets	21	9,183	**6,227**	**58,613**
Cash and cash equivalents	24	113,215	**127,030**	**1,195,689**
Subtotal		672,677	**585,525**	**5,511,342**
Assets held for sale	25	11,082	**—**	**—**
Total current assets		683,759	**585,525**	**5,511,342**
Total assets		984,537	**1,047,621**	**9,860,890**

	Notes	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 2) 2018
Liabilities and equity				
Liabilities				
Non-current liabilities				
Borrowings	26,36	581	**420**	**3,953**
Other financial liabilities	27,28,36	2,405	**2,199**	**20,698**
Net defined benefit liabilities	29	1,092	**868**	**8,170**
Provisions	32	7,890	**8,571**	**80,676**
Other non-current liabilities	30	5,576	**5,505**	**51,817**
Deferred tax liabilities	13	7,156	**37,861**	**356,372**
Total non-current liabilities		24,700	**55,424**	**521,686**
Current liabilities				
Borrowings	26,36	127	**122**	**1,149**
Trade and other payables	31,36	35,741	**35,631**	**335,382**
Other financial liabilities	27,28,36	24,135	**20,737**	**195,190**
Income taxes payable		4,815	**18,093**	**170,303**
Provisions	32	86	**1,934**	**18,204**
Other current liabilities	30	20,358	**20,853**	**196,282**
Subtotal		85,262	**97,370**	**916,510**
Liabilities directly related to assets held for sale	25	3,145	—	—
Total current liabilities		88,407	**97,370**	**916,510**
Total liabilities		113,107	**152,794**	**1,438,196**
Equity				
Share capital	33	50,000	**50,000**	**470,632**
Capital surplus	33	451,187	**451,228**	**4,247,251**
Treasury shares	33	(496)	**(1,045)**	**(9,836)**
Retained earnings	33	353,427	**382,122**	**3,596,781**
Other components of equity	33	6,387	**503**	**4,735**
Total equity attributable to owners of the Company		860,505	**882,808**	**8,309,563**
Non-controlling interests		10,925	**12,019**	**113,131**
Total equity		871,430	**894,827**	**8,422,694**
Total liabilities and equity		984,537	**1,047,621**	**9,860,890**

MITSUBISHI TANABE PHARMA CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Changes in Equity

Year ended March 31, 2018

	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	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
		Millions of yen						
		Equity attributable to owners of the Company						
						Other components of equity		
Balance as of April 1, 2016		50,000	451,186	(494)	304,931	(3,911)	4	13,832
Profit for the year		–	–	–	71,263	–	–	–
Other comprehensive income		–	–	–	–	(755)	(4)	(2,229)
Total comprehensive income		–	–	–	71,263	(755)	(4)	(2,229)
Acquisition of treasury shares	33	–	–	(2)	–	–	–	–
Disposal of treasury shares	33	–	1	0	–	–	–	–
Dividends	34	–	–	–	(26,927)	–	–	–
Share-based payments	35	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	4,160	–	–	(502)
Transfer from other components of equity to non-financial assets		–	–	–	–	–	–	–
Total contributions by and distributions to owners		–	1	(2)	(22,767)	–	–	(502)
Issuance of new shares		–	–	–	–	–	–	–
Changes in ownership interests in subsidiaries and others		–	–	–	–	–	–	–
Total transactions with owners		–	1	(2)	(22,767)	–	–	(502)
Balance as of March 31, 2017		50,000	451,187	(496)	353,427	(4,666)	–	11,101
Balance as of April 1, 2017		**50,000**	**451,187**	**(496)**	**353,427**	**(4,666)**	**—**	**11,101**
Profit for the year		**—**	**—**	**—**	**57,963**	**—**	**—**	**—**
Other comprehensive income		**—**	**—**	**—**	**—**	**(8,528)**	**1,033**	**4,542**
Total comprehensive income		**—**	**—**	**—**	**57,963**	**(8,528)**	**1,033**	**4,542**
Acquisition of treasury shares	33	**—**	**—**	**(549)**	**—**	**—**	**—**	**—**
Disposal of treasury shares	33	**—**	**0**	**0**	**—**	**—**	**—**	**—**
Dividends	34	**—**	**—**	**—**	**(37,017)**	**—**	**—**	**—**
Share-based payments	35	**—**	**41**	**—**	**—**	**—**	**—**	**—**
Transfer from other components of equity to retained earnings		**—**	**—**	**—**	**7,749**	**—**	**—**	**(1,926)**
Transfer from other components of equity to non-financial assets		**—**	**—**	**—**	**—**	**—**	**(1,033)**	**—**
Total contributions by and distributions to owners		**—**	**41**	**(549)**	**(29,268)**	**—**	**(1,033)**	**(1,926)**
Issuance of new shares		**—**	**—**	**—**	**—**	**—**	**—**	**—**
Changes in ownership interests in subsidiaries and others		**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total transactions with owners		**—**	**41**	**(549)**	**(29,268)**	**—**	**(1,033)**	**(1,926)**
Balance as of March 31, 2018		**50,000**	**451,228**	**(1,045)**	**382,122**	**(13,194)**	**—**	**13,717**

MITSUBISHI TANABE PHARMA CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Changes in Equity (continued)

Year ended March 31, 2018

	Notes	Remeasurements of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
		Millions of yen					
		Equity attributable to owners of the Company					
		Other components of equity					
Balance as of April 1, 2016		–	(30)	9,895	815,518	10,798	826,316
Profit for the year		–	–	–	71,263	(2,341)	68,922
Other comprehensive income		3,658	(18)	652	652	(265)	387
Total comprehensive income		3,658	(18)	652	71,915	(2,606)	69,309
Acquisition of treasury shares	33	–	–	–	(2)	–	(2)
Disposal of treasury shares	33	–	–	–	1	–	1
Dividends	34	–	–	–	(26,927)	(80)	(27,007)
Share-based payments	35	–	–	–	–	–	–
Transfer from other components of equity to retained earnings		(3,658)	–	(4,160)	–	–	–
Transfer from other components of equity to non-financial assets		–	–	–	–	–	–
Total contributions by and distributions to owners		(3,658)	–	(4,160)	(26,928)	(80)	(27,008)
Issuance of new shares		–	–	–	–	2,813	2,813
Changes in ownership interests in subsidiaries and others		–	–	–	–	2,813	2,813
Total transactions with owners		(3,658)	–	(4,160)	(26,928)	2,733	(24,195)
Balance as of March 31, 2017		–	(48)	6,387	860,505	10,925	871,430
Balance as of April 1, 2017		**—**	**(48)**	**6,387**	**860,505**	**10,925**	**871,430**
Profit for the year		**—**	**—**	**—**	**57,963**	**(3,971)**	**53,992**
Other comprehensive income		**5,823**	**28**	**2,898**	**2,898**	**(270)**	**2,628**
Total comprehensive income		**5,823**	**28**	**2,898**	**60,861**	**(4,241)**	**56,620**
Acquisition of treasury shares	33	**—**	**—**	**—**	**(549)**	**—**	**(549)**
Disposal of treasury shares	33	**—**	**—**	**—**	**0**	**—**	**0**
Dividends	34	**—**	**—**	**—**	**(37,017)**	**(138)**	**(37,155)**
Share-based payments	35	**—**	**—**	**—**	**41**	**—**	**41**
Transfer from other components of equity to retained earnings		**(5,823)**	**—**	**(7,749)**	**—**	**—**	**—**
Transfer from other components of equity to non-financial assets		**—**	**—**	**(1,033)**	**(1,033)**	**—**	**(1,033)**
Total contributions by and distributions to owners		**(5,823)**	**—**	**(8,782)**	**(38,558)**	**(138)**	**(38,696)**
Issuance of new shares		**—**	**—**	**—**	**—**	**5,473**	**5,473**
Changes in ownership interests in subsidiaries and others		**—**	**—**	**—**	**—**	**5,473**	**5,473**
Total transactions with owners		**(5,823)**	**—**	**(8,782)**	**(38,558)**	**5,335**	**(33,223)**
Balance as of March 31, 2018		**—**	**(20)**	**503**	**882,808**	**12,019**	**894,827**

Consolidated Statement of Changes in Equity (continued)

Year ended March 31, 2018

		Thousands of U.S. dollars (Note 2)						
		Equity attributable to owners of the Company						
						Other components of equity		
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	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, 2017		**470,632**	**4,246,865**	**(4,668)**	**3,326,685**	**(43,919)**	—	**104,490**
Profit for the year		—	—	—	**545,585**	—	—	—
Other comprehensive income		—	—	—	—	**(80,271)**	**9,723**	**42,752**
Total comprehensive income		—	—	—	**545,585**	**(80,271)**	**9,723**	**42,752**
Acquisition of treasury shares	33	—	—	**(5,168)**	—	—	—	—
Disposal of treasury shares	33	—	**0**	**0**	—	—	—	—
Dividends	34	—	—	—	**(348,428)**	—	—	—
Share-based payments	35	—	**386**	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	**72,939**	—	—	**(18,129)**
Transfer from other components of equity to non-financial assets		—	—	—	—	—	**(9,723)**	—
Total contributions by and distributions to owners		—	**386**	**(5,168)**	**(275,489)**	—	**(9,723)**	**(18,129)**
Issuance of new shares		—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others		—	—	—	—	—	—	—
Total transactions with owners		—	**386**	**(5,168)**	**(275,489)**	—	**(9,723)**	**(18,129)**
Balance as of March 31, 2018		**470,632**	**4,247,251**	**(9,836)**	**3,596,781**	**(124,190)**	—	**129,113**

Consolidated Statement of Changes in Equity (continued)

Year ended March 31, 2018

	Notes	Thousands of U.S. dollars (Note 2)					
		Equity attributable to owners of the Company					
		Other components of equity					
		Remeasure-ments of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2017		—	**(452)**	**60,119**	**8,099,633**	**102,833**	**8,202,466**
Profit for the year		—	—	—	**545,585**	**(37,377)**	**508,208**
Other comprehensive income		**54,810**	**264**	**27,278**	**27,278**	**(2,542)**	**24,736**
Total comprehensive income		**54,810**	**264**	**27,278**	**572,863**	**(39,919)**	**532,944**
Acquisition of treasury shares	33	—	—	—	**(5,168)**	—	**(5,168)**
Disposal of treasury shares	33	—	—	—	**0**	—	**0**
Dividends	34	—	—	—	**(348,428)**	**(1,299)**	**(349,727)**
Share-based payments	35	—	—	—	**386**	—	**386**
Transfer from other components of equity to retained earnings		**(54,810)**	—	**(72,939)**	—	—	—
Transfer from other components of equity to non-financial assets		—	—	**(9,723)**	**(9,723)**	—	**(9,723)**
Total contributions by and distributions to owners		**(54,810)**	—	**(82,662)**	**(362,933)**	**(1,299)**	**(364,232)**
Issuance of new shares		—	—	—	—	**51,516**	**51,516**
Changes in ownership interests in subsidiaries and others		—	—	—	—	**51,516**	**51,516**
Total transactions with owners		**(54,810)**	—	**(82,662)**	**(362,933)**	**50,217**	**(312,716)**
Balance as of March 31, 2018		—	**(188)**	**4,735**	**8,309,563**	**113,131**	**8,422,694**

MITSUBISHI TANABE PHARMA CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended March 31, 2018

	Notes	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 2) 2018
Cash flows from operating activities:				
Profit before income tax		96,059	**78,764**	**741,378**
Depreciation and amortization		10,454	**11,535**	**108,575**
Impairment losses		185	**3,791**	**35,683**
Interest and dividend income		(1,864)	**(1,238)**	**(11,653)**
Share of profits of associates and joint ventures accounted for using equity method		(24)	**(23)**	**(216)**
Loss (gain) on sales of property, plant and equipment		(67)	**(2,287)**	**(21,527)**
Loss (gain) on sales of investments in subsidiaries		–	**(3,565)**	**(33,556)**
Restructuring loss		484	**2,144**	**20,181**
Decrease (increase) in trade and other receivables		(2,030)	**(6,111)**	**(57,521)**
Decrease (increase) in inventories		(7,842)	**(2,683)**	**(25,254)**
Increase (decrease) in trade and other payables		4,997	**56**	**527**
Increase (decrease) in provisions		(1,267)	**2,529**	**23,805**
Decrease (increase) in net defined benefit assets		(863)	**1,153**	**10,853**
Increase (decrease) in net defined benefit liabilities		(185)	**(948)**	**(8,923)**
Increase (decrease) in deferred income		(7,265)	**(480)**	**(4,518)**
Other		(331)	**(2,965)**	**(27,909)**
Subtotal		90,441	**79,672**	**749,925**
Interest received		1,211	**522**	**4,913**
Dividends received		737	**772**	**7,267**
Interest paid		(178)	**(160)**	**(1,506)**
Income taxes paid		(32,426)	**(13,863)**	**(130,488)**
Net cash flows provided by operating activities		59,785	**66,943**	**630,111**
Cash flows from investing activities:				
Payments into time deposits		(684)	**(3,742)**	**(35,222)**
Proceeds from withdrawal of time deposits		118,468	**8,407**	**79,132**
Purchase of property, plant and equipment		(14,271)	**(6,416)**	**(60,392)**
Proceeds from sales of property, plant and equipment		2,325	**3,703**	**34,855**
Purchase of intangible assets		(6,658)	**(22,034)**	**(207,398)**
Purchase of investments		(309,930)	**(391,749)**	**(3,687,396)**
Proceeds from sales and redemption of investments		197,454	**428,741**	**4,035,589**
Proceeds from withdrawal of deposits		–	**70,000**	**658,885**
Proceeds from sales of subsidiaries	37	–	**10,803**	**101,685**
Purchase of subsidiaries	6	–	**(119,724)**	**(1,126,920)**
Proceeds from transfer of business		3,056	**3,000**	**28,238**
Other		(326)	**(167)**	**(1,572)**
Net cash flows used in investing activities		(10,566)	**(19,178)**	**(180,516)**
Cash flows from financing activities:				
Purchase of treasury shares	2, 33	(2)	**(549)**	**(5,168)**
Proceeds from stock issuance to non-controlling interests		2,813	**5,409**	**50,913**
Dividends paid	34	(26,927)	**(37,017)**	**(348,428)**
Other		(292)	**(344)**	**(3,238)**
Net cash flows used in financing activities		(24,408)	**(32,501)**	**(305,921)**
Effect of exchange rate changes on cash and cash equivalents		(507)	**(1,457)**	**(13,714)**
Net increase in cash and cash equivalents		24,304	**13,807**	**129,960**
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale		(8)	**8**	**76**
Cash and cash equivalents at the beginning of the year		88,919	**113,215**	**1,065,653**
Cash and cash equivalents at the end of the year	24	113,215	**127,030**	**1,195,689**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2018

1. Reporting Entity

Mitsubishi Tanabe Pharma Corporation (hereinafter "the Company") is incorporated in Japan. The shares of the Company are listed on the First Section of the Tokyo Stock Exchange. The registered address of its headquarters is available on the Company's website (https://www.mt-pharma.co.jp/).
The Company's consolidated financial statements for the year ended March 31, 2018 comprise of the Company, its subsidiaries and its associates (collectively, "the Group,") and the interests in joint arrangements.
The Group is principally engaged in the pharmaceuticals business.
The Company's parent company is Mitsubishi Chemical Holdings Corporation.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards ("IFRS")

The consolidated financial statements of the Group have been prepared in accordance with IFRS pursuant to the provisions set forth in Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements, since the Group meets the requirements for a "Specified Company Applying Designated IFRS prescribed in Article 1-2 of said ordinance.

(2) Approval of consolidated financial statements

The Group's consolidated financial statements were approved by the President and Representative Director, Masayuki Mitsuka, on June 22, 2018.

(3) Basis of measurement

The Group's consolidated financial statements have been prepared on a historical acquisition cost basis, except for specific financial instruments described in "3. Significant Accounting Policies (11) Financial instruments."

(4) Presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is also the Company's functional currency, and figures are rounded to the nearest million yen.

The translation of the Japanese yen amounts to U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate of ¥106.24 to U.S. $1 as of March 31, 2018. This translation of convenience should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(5) Early adoption of new accounting standards

The Group has early adopted IFRS 9 "Financial Instruments" (issued in November 2009, revised in July 2014) (hereinafter "IFRS 9").

2. Basis of Preparation (continued)

(6) Change in method of presentation

(Consolidated statement of cash flows)

"Purchase of treasury shares," which was included in "Other" under "Cash flows from financing activities" for the fiscal year ended March 31, 2017, is separately presented for the fiscal year ended March 31, 2018 due to increased quantitative materiality.
To reflect this change in method of presentation, certain reclassifications have been made to the consolidated financial statements for the fiscal year ended March 31, 2017.
As a result, in the consolidated statement of cash flows for the fiscal year ended March 31, 2017, the amount previously included in "Other" under "Cash flows from financing activities" of ¥(294) million is reclassified as "Purchase of treasury shares" of ¥(2) million and "Other" of ¥(292) million.

(7) New IFRS standards and interpretations not yet adopted

The following IFRS standards and interpretations were newly established by the approval date of the Group's consolidated financial statements. However, the Group has not early applied these standards and interpretations.
The effects on the Group's consolidated financial statements due to the application of IFRS 15 are expected to be immaterial. In the application of this standard, the Group will recognize the cumulative effect retrospectively at the date of initial application (modified retrospective approach), which is permitted as a transitional measure. In addition, the effects on the Group's consolidated financial statements due to the application of IFRS 16 are still under consideration and cannot be estimated at this time.

Standards and interpretations		Mandatory adoption (Fiscal years beginning on or after)	To be adopted by the Group from	Overview of the new or amended standards and interpretations
IFRS 15	Revenue from contracts with customers	January 1, 2018	Fiscal year ending March 31, 2019	IFRS 15 describes that revision of current accounting treatment for revenue recognition and disclosure. Mainly, IFRS15 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	IFRS 16 describes that revision of current accounting treatment for lease and disclosure. Mainly, IFRS 16 introduces a single lessee accounting model and requires lessees to recognize its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months in principle.

3. Significant Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group has power over the entity, is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

When the end of reporting period of a subsidiary is different from that of the Group, the subsidiary prepares its financial statements for consolidation purposes, based on provisional accounting as of the Group's closing date.

All intercompany balances, transactions and unrealized gains or losses on transactions within the Group are eliminated in preparing the consolidated financial statements.

In case of changes in the ownership interest in subsidiaries, if the Group retains control over the subsidiaries, they are accounted for as equity transactions. Any difference between the adjustment to the non-controlling interests and the fair value of the consideration transferred or received is recognized directly in equity attributable to owners of the Group.

When there is a loss of control, any retained interest in the entity is measured at the fair value on the date when the Group loses control. The difference between the carrying amount of subsidiary on the date when control is lost and the fair value of the retained interest and the amount received by disposal is recognized in profit or loss.

Non-controlling interests in the consolidated subsidiary's net assets are identified separately from those of the Group. Furthermore, comprehensive income of the consolidated subsidiary is attributed to owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2) Associates

Associates are entities over which the Group has significant influence on their financial and operating policies but does not have control or joint control. If the Group owns between 20% and 50% of the voting power of an entity, it is presumed that the Group has significant influence over the entity. The Group accounts for investments in associates using the equity method.

3) Joint arrangements

A joint arrangement is an arrangement in which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control. One type of joint arrangement in which the Group has an interest is a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group accounts for its investments in joint ventures using the equity method.

3. Significant Accounting Policies (continued)

(1) Basis of consolidation (continued)

4) Business combinations

Business combinations are accounted for by using the acquisition method.
If the initial accounting for a business combination has not been completed by the end of the period in which the business combination occurs, the Group reports provisional amounts and adjusts the amounts in the measurement period, which is within one year from the acquisition date.
The acquiree's identifiable assets and liabilities are measured at their acquisition-date fair values, excluding certain assets and liabilities required under IFRS.
The excess of the aggregate of the consideration transferred, the fair value of equity interests in the acquiree held by the Group prior to acquisition-date in case of step acquisition, and the amount of non-controlling interest in the acquiree over the acquisition-date net value of the identifiable assets and liabilities is recorded as goodwill. If the excess is negative, then the excess is immediately recognized in profit or loss.
The consideration transferred is measured as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred to former owners of the acquiree and the equity interests issued by the acquirer.
Non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.
Acquisition-related costs incurred in connection with business combinations, such as finder's fees and advisory fees, are expensed when incurred.

(2) Foreign currency translation

1) Foreign currency transactions

Each entity of the Group uses its own functional currency as the currency of the primary economic environment in which the entity operates. Transactions of each entity are measured at the functional currency.
Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions or an approximation of the rates.
At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot exchange rates at the end of the reporting period.
Translation differences arising from the translation and settlement are recognized in profit or loss.
However, translation differences arising from financial assets measured at fair value through other comprehensive income and from cash flow hedges are recognized as other comprehensive income.

2) Foreign operations

Assets and liabilities of foreign operations in the statement of financial position are translated into Japanese yen using the exchange rate at the end of the reporting period. Income and expenses items of foreign operations and other comprehensive income are translated into Japanese yen using the average exchange rates for the period.
Exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income.
In cases of disposition of whole interests of foreign operations or certain interests involving a loss of joint control, the cumulative amount of other comprehensive income is reclassified to part of profit or loss on disposal.

3. Significant Accounting Policies (continued)

(3) Revenue

1) Sale of goods

Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:
(a) Significant risks and rewards of ownership of the goods have been transferred to the buyers;
(b) The Group retains neither continuing involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) The amount of revenue can be measured reliably;
(d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.
Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any sales discounts, rebates, and consumption taxes.

2) Rendering of services

Revenue from the rendering of services is recognized at the point when the services are provided to external customers.

3) Royalty income, etc.

Some of the Group's revenues are generated from licensing agreements under which third parties have been granted rights to produce or market products or rights to use technologies.
Upfront payments under agreements where the rights or obligations still exist are initially recognized as deferred income and then recognized in profit or loss as earned over the period in which the performance obligations stipulated in the agreements are fulfilled.
Milestone payment is recognized upon achievement of the milestones defined in the respective agreements.
Running royalty is recognized on an accrual basis in accordance with the substance of the relevant agreement.

4) Interest income

Interest income is recognized using the effective interest method.

5) Dividend income

In principle, dividend income is recognized when the shareholder's right to receive payment is established.

3. Significant Accounting Policies (continued)

(4) Income taxes

Income taxes are comprised of current and deferred taxes, and recognized in profit or loss, except for taxes related to business combinations and to items that are recognized in other comprehensive income or directly in equity.
Current tax is calculated at the amount expected to be paid to or recovered from the taxation authority by applying the statutory tax rate and tax laws enacted or substantially enacted at the end of the reporting period.
Deferred tax assets and liabilities are determined based on temporary differences between tax base of assets and liabilities and their accounting carrying amount at the end of the reporting period, unused tax credits and unused tax loss. However, deferred tax assets and liabilities are not recognized for:

(a) taxable temporary differences arising from the initial recognition of goodwill.
(b) taxable or deductible temporary differences arising from the initial recognition of assets and liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit (tax loss).
(c) deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements when it is not probable that the temporary difference will reverse in the foreseeable future or there will not be sufficient taxable profits against which the deductible temporary differences can be utilized.
(d) taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements when the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax loss, and unused tax credits can be utilized.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on statutory tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.
Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

(5) Earnings per share

Basic earnings per share are calculated by dividing profit (loss) attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusting treasury shares.
Diluted earnings per share are calculated reflecting the adjustment of the impact from all potential shares with dilutive effect.

(6) Property, plant and equipment (excluding leased assets)

Property, plant and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.
The cost of an item of property, plant and equipment includes any costs directly attributable to the acquisition of the item, costs of dismantling, removing and restoring the item and borrowing costs eligible for capitalization.
An item of property, plant and equipment other than land and construction in progress is depreciated in a way that allows the depreciable amount, which is determined by deducting its residual value from its cost, to be allocated regularly on a straight-line basis over the following useful lives.

Buildings and structures	2 to 60 years
Machinery and vehicles	2 to 22 years
Tools, furniture and fixtures	2 to 20 years

The depreciation methods, residual values and useful lives of property, plant and equipment are revised at the end of each fiscal year, and changed, as necessary.

3. Significant Accounting Policies (continued)

(7) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership of leased assets are transferred to the Group. All other leases are classified as operating leases.
Under finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease.
Lease payments are allocated to the financial costs and the repayment of the outstanding obligation based on the interest method. Financial costs are recognized in the consolidated statement of income.
Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or lease terms.
Under operating lease transactions, lease payments are recognized as an expense on a straight-line basis over the lease term.
The Group determines whether an arrangement is, or contains a lease, based on the substance of the arrangement.

(8) Goodwill

Goodwill is not amortized but carried at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash-generating units that are expected to benefit from the synergies of the business combination.
Measurement at the initial recognition of goodwill is described in “(1) Basis of consolidation, 3) Business combinations.”
Impairment of goodwill is described in “(10) Impairment of property, plant and equipment, goodwill, and intangible assets, 2) Impairment of goodwill.”

(9) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, other than goodwill, including patents and technologies, marketing rights, and in-process research and development acquired in a business combination or acquired separately.
Intangible assets after recognition are measured by using the cost model and are carried at cost less accumulated amortization and accumulated impairment losses.
Intangible assets acquired separately are measured at cost including costs directly related to the acquisition upon initial recognition.
Cost of intangible assets acquired through business combinations is measured at fair value at the acquisition date.
Internally incurred expenditures in the research stage are recognized as an expense when incurred. Expenditures in the development stage are capitalized as intangible assets only if the Group can prove all the following requirements.

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
(b) The intention to complete the intangible asset and use or sell it.
(c) The ability to use or sell the intangible asset.
(d) How the intangible asset will generate future economic benefits.
(e) The availability of adequate resources to complete the development of the intangible asset.
(f) The ability to reliably measure the expenditure attributable to the intangible asset during its development.

The Group considers that expenditures incurred for ongoing development projects do not meet the requirements for capitalization unless marketing approval is obtained from the regulatory authorities in a major market, and recognizes such expenditures as an expense when incurred.
Except for intangible assets with indefinite useful lives and intangible assets that are not yet available for use, each asset is amortized over the estimated useful life on a straight-line basis.
The estimated useful life of an intangible asset acquired through a business combination or under the in-licensing of technologies, etc. is the shorter of the period of legal protection or its economic life in principle. However, if there is a more suitable period in which the effect of the intangible asset is expected, with the purpose of the expenditures and economic substance of the transaction taken into account, this period is deemed as the estimated useful life.

3. Significant Accounting Policies (continued)

(9) Intangible assets (continued)

The estimated useful lives of major asset items are as follows:

Intangible assets associated with products	4 to 11 years
Software	3 to 5 years

Since intangible assets acquired through business combinations and under the in-licensing of technologies, etc. consist of combined rights such as licensing and marketing rights for products under development and it is difficult to classify and identify the amortization expense for these assets by function, such amortization expense is separately presented as "amortization of intangible assets associated with products" in the consolidated statement of income.

The amortization methods, residual values and useful lives of intangible assets are reviewed at the end of each fiscal year, and changed, as necessary.

(10) Impairment of property, plant and equipment, goodwill, and intangible assets

1) Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, the Group assesses whether there is any indication that its property, plant and equipment and intangible assets may be impaired. If there is an indication of impairment, the recoverable amount of the asset is estimated. Intangible assets not yet available for use or with indefinite useful lives are tested for impairment annually irrespective of whether there is any indication of impairment.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of each cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, or value in use. Fair value is calculated using the appropriate evaluation model supported by available fair value indicators. Value in use is determined as the discounted present value of estimated future cash flows using a pretax discount rate that reflects current market evaluation for the time value of money and the risks specific to the asset.

If the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, the asset is written down to its recoverable amount and impairment loss is recognized in profit or loss.

2) Impairment of goodwill

Goodwill is tested for impairment annually or whenever there is any indication of impairment.

3) Reversal of impairment loss

For assets on which an impairment loss was recognized in prior years, other than goodwill, the Group confirms whether there is any indication that the loss may have decreased or may no longer exist, including any change in assumptions based on which the recoverable amount is determined as of the end of the reporting period.

If the above indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount is greater than the carrying amount before impairment of the asset in the asset or cash-generating unit after taking into account the depreciation, a reversal of an impairment loss is recognized, to the extent the amount does not exceed the lower of the recoverable amount or the carrying amount before impairment after taking into account depreciation. A reversal of an impairment loss is recognized in profit or loss.

Any impairment loss recognized for goodwill is not reversed.

3. Significant Accounting Policies (continued)

(11) Financial instruments

1) Financial assets (excluding derivatives)

(i) Initial recognition and measurement

The Group initially recognizes trade receivables at the date of occurrence. All other financial assets are initially recognized at the transaction date when the Group becomes a contractual party to such financial assets.

Financial assets are classified as “financial assets measured at amortized cost,” “financial assets measured at fair value through other comprehensive income” and “financial assets measured at fair value through profit or loss” upon initial recognition.

(Debt financial assets)

Debt financial assets that meet all the following conditions are classified as “financial assets measured at amortized cost.”

(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

(b) The contractual terms of the financial asset give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets that meet all the following conditions are classified as “financial assets measured at fair value through other comprehensive income.”

(c) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale.

(d) The contractual terms of the financial asset give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets other than “financial assets measured at amortized cost” and “financial assets measured at fair value through other comprehensive income” are classified as “financial assets measured at fair value through profit or loss.”

(Equity financial assets)

Equity financial assets, except those held for trading, are designated as “financial assets measured at fair value through other comprehensive income” or “financial assets measured at fair value through profit or loss,” and the classification is applied continuously.

All financial assets are measured at fair value plus transaction costs that are directly attributable to the financial assets, except for “financial assets measured at fair value through profit or loss.”

3. Significant Accounting Policies (continued)

(11) Financial instruments (continued)

1) Financial assets (excluding derivatives) (continued)

(ii) Subsequent measurement

After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and any gain or loss in the case of derecognition of financial assets are recognized in profit or loss.

(b) Financial assets measured at fair value through other comprehensive income

Any change in fair value is recognized as other comprehensive income. If equity financial assets are derecognized or the fair value decreases significantly, accumulated other comprehensive income is transferred to retained earnings.

(c) Financial assets measured at fair value through profit or loss

Changes in fair value are recognized in profit or loss.

(iii) Impairment loss

The Group recognizes impairment loss on financial assets based on its evaluation at the end of each reporting period whether there is a significant increase in credit risk of the financial assets or groups of financial assets since initial recognition. Specifically, when there is no significant increase in the credit risk since initial recognition, expected credit losses for 12 months are recognized as allowance for credit losses.

On the other hand, when there is a significant increase in credit risk since initial recognition, expected credit losses for the remaining life of the financial assets are recognized as allowance for credit losses.

Whether or not there is a significant increase in credit risk is determined based on the changes in default risk. To determine if there is a change in the default risk, factors such as delinquencies or the external credit rating of the financial asset are considered. However, expected credit losses of trade and other receivables are recognized over their remaining lives since inception solely based on historical credit loss experience.

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received.

(iv) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset.

In cases where the Group neither transfers nor retains substantially all the risks and rewards of ownership but continues to control the assets transferred, the Group recognizes the retained interest in the assets and related liabilities that might be payable.

3. Significant Accounting Policies (continued)

(11) Financial instruments (continued)

2) Financial liabilities (excluding derivatives)

(i) Initial recognition and measurement
Upon initial recognition, financial liabilities held for trading are classified as financial liabilities measured at fair value through profit or loss, while other financial liabilities are classified as financial liabilities measured at amortized cost.
All financial liabilities are measured at fair value at initial recognition. Financial liabilities measured at amortized cost are measured at fair value after deducting transaction costs that are directly attributable to the issue of the financial liabilities.

(ii) Subsequent measurement
After initial recognition, financial liabilities are measured based on the classification as follows:
(a) Financial liabilities measured at amortized cost
Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and any gain or loss in the case of derecognition of financial liabilities are recognized in profit or loss.
(b) Financial liabilities measured at fair value through profit or loss
Changes in fair value are recognized in profit or loss.
(iii) Derecognition
Financial liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or expired.

3) Derivatives

The Group enters into derivative financial instruments such as forward exchange contracts and currency options to hedge the risks of fluctuations mainly in foreign exchange rates and interest rates.
Derivatives are initially recognized at fair value on the date when the contracts are entered into and are subsequently measured at fair value at the end of the reporting period.
Derivatives to which hedge accounting is not applied are classified as financial assets or liabilities measured at fair value through profit or loss, and any change in fair value is recognized at the end of the reporting period.

4) Hedge accounting

Hedges that meet criteria for hedge accounting are accounted for as follows:
The relationship between the hedging instrument and the hedged item is documented based on the risk management strategy and the risk management purpose at the inception of the hedge.

(i) Fair value hedges
Changes in the fair value of derivatives are recognized in profit or loss.
Changes in the fair value of the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in profit or loss.

3. Significant Accounting Policies (continued)

(11) Financial instruments (continued)

4) Hedge accounting (continued)

(ii) Cash flow hedges

The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.
The cumulative amounts of hedging instruments recognized in other comprehensive income as equity are reclassified to profit or loss when the hedged transaction affects profit or loss.
If a hedged item results in the recognition of a non-financial asset or a non-financial liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the carrying amount of the non-financial asset or the non-financial liability.
When any forecast transaction is no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income as equity is reclassified to profit or loss.
When any hedging instrument expires, is sold, or terminated or exercised without the replacement or rollover of the hedging instrument into another hedging instrument, or when any hedge designation regarding all or the portion of the hedge relationship accompanying the change in the risk management purpose is revoked, the cumulative amount that has been recognized in other comprehensive income as equity is continued to be recognized as equity until the forecast transaction occurs or is no longer expected to occur.

5) Offsetting financial instruments

Financial assets and financial liabilities are offset only when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

6) Fair value of financial instruments

With regard to the fair value of financial instruments traded on active financial markets as of the end of each reporting period, the Group refers to the fair value in the market or dealer prices.
The Group calculates the fair value of financial instruments for which an active market does not exist by reference to an appropriate evaluation technique or offered prices by financial institutions.

(12) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with banks withdrawable on demand, and short-term investments having maturities of three months or less from the date of acquisition, which are readily convertible to cash and subject to an insignificant risk of any change in their value.

(13) Inventories

Inventories are measured at the lower of cost and net realizable value.
Cost of inventories is determined mainly using the weighted average method and includes cost of purchase, cost of conversion and all other costs incurred in bringing the inventories to their present location and condition.
Net realizable value is calculated as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell.

3. Significant Accounting Policies (continued)

(14) Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.
To be classified as assets held for sale, the asset must be available for immediate sale in its present condition, and the sale must be highly probable. Management of the Group must have a firm commitment to execute the plan to sell the asset and the sale is expected to be completed within one year from the date of classification, as a general rule.
Non-current assets (or disposal groups) held for sale are not depreciated or amortized. Non-current assets (or disposal groups) are measured at the lower of their carrying amounts and fair values less costs to sell. The resulting losses are recognized as impairment losses.

(15) Equity

1) Ordinary shares

Ordinary shares are recorded in share capital and capital surplus at their issue price.

2) Treasury shares

When the Company reacquires its own treasury shares, the amount of the consideration paid is deducted from equity. When the Company sells treasury shares, the difference between the carrying amount and the consideration received from the sale is recognized in capital surplus.

(16) Share-based payment

The Group has an equity-settled share-based payment plan for the Company’s directors and executive officers (excluding residents outside Japan and part-time directors).
Equity-settled share-based payment plan
Under the equity-settled share-based payment plan, services received are measured at the fair value of the equity instruments at the grant date, and are recognized as expenses from the grant date over the vesting period, with a corresponding increase in equity.

(17) Employee benefits

1) Post-employment benefits

The Group operates defined benefit plans and defined contribution plans as post-employment benefit plans for its employees.

(i) Defined benefit plans
Retirement benefit obligations of each plan are determined using the projected unit credit method and, the discount rate is determined by reference to market yield on high-quality corporate bonds having maturity terms consistent with the estimated term of the related pension obligations.
The defined benefit assets and liabilities are calculated by deducting fair value of plan assets from retirement benefit obligations.
The Group recognizes the actuarial gains or losses in other comprehensive income and immediately transfers them to retained earnings in the fiscal year when incurred.
Past service cost is recognized in profit or loss in the fiscal year when incurred.

3. Significant Accounting Policies (continued)

(17) Employee benefits (continued)

(ii) Defined contribution plans
For defined contribution plans, the amount of contributions corresponding to the period in which employees rendered services is recorded as expenses.

2) Short-term employee benefits
Short-term employee benefits are recognized as an expense when the related service is rendered.
Paid absences are recognized as a liability when the Group has legal or constructive obligations resulting from past service rendered by the employees and reliable estimates of the obligations can be made.

(18) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will occur to settle the obligations, and reliable estimates of the obligations can be made.
When the effect of the time value of money is material in measuring the provisions, the present value of the expenditures expected to be required to settle the obligations is used.
In calculating the present value, the Group principally uses a pretax discount rate reflecting the time value of money and the risks specific to the liability.

(19) Government grants

Government grants are measured and recognized at fair value, if there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.
Government grants related to revenue are deducted directly from related costs covered by the grants.
Government grants related to assets are deducted directly from the acquisition cost of the assets.

4. Significant Accounting Estimates and Judgments Accompanying Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.
The actual results may differ from these estimates by their nature.
Estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimates are revised and future periods.
Major judgments and estimates made by management and which significantly affect the consolidated financial statements are as follows:

- Impairment of non-financial assets (Notes 16, 17 and 18)
- Recoverability of deferred tax assets (Note 13)
- Measurement of the defined benefit obligation (Note 29)
- Fair value of financial instruments (Note 36)
- Provisions (Note 32)

5. Segment Information

(1) Overview of reportable segments

As the Group is engaged in a single segment, the pharmaceuticals business, it does not have multiple operating segments. As part of its pharmaceuticals business, the Group conducts operations related to ethical drugs and OTC products in Japan and overseas.

(2) Information about products and services

The components of revenue are as follows:

(Millions of yen)

	2017		**2018**	
	Revenue	Ratio (%)	Revenue	Ratio (%)
Pharmaceuticals				
Domestic ethical drugs	314,221	74.1	**309,372**	**71.3**
Overseas ethical drugs	22,689	5.4	**38,574**	**8.9**
Royalty revenue, etc.	82,239	19.4	**79,151**	**18.2**
OTC products	3,413	0.8	**3,732**	**0.9**
Others	1,415	0.3	**3,026**	**0.7**
Total	423,977	100.0	**433,855**	**100.0**

(3) Geographical information

The geographical breakdown of revenue from external customers and non-current assets is as follows:

1) Revenue from external customers

(Millions of yen)

	2017	**2018**
Japan	320,369	**320,889**
Europe	57,425	**62,649**
North America	27,039	**27,583**
Asia	18,752	**22,477**
Others	392	**257**
Total	423,977	**433,855**

Note: Revenue is classified by country or region based on the location of customers.

5. Segment Information (continued)

(3) Geographical information (continued)

2) Non-current assets

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Japan	185,385	**191,141**
Europe	54	**73**
North America	37,888	**37,732**
Asia	4,528	**143,143**
Total	227,855	**372,089**

Note: Non-current assets are classified based on the location of assets and do not include investments in associates and joint ventures accounted for using the equity method, other financial assets, defined benefit assets and deferred tax assets.

(4) Information about major customers
External customers that account for 10% or more of revenue on the consolidated statement of income are as follows:

(Millions of yen)

Customer name	Related segment name	2017	**2018**
SUZUKEN CO., LTD.	Pharmaceuticals	64,596	**63,660**
Toho Pharmaceutical Co., Ltd.	Pharmaceuticals	62,511	**58,906**
Novartis Pharma AG	Pharmaceuticals	53,755	**57,708**
Alfresa Corporation	Pharmaceuticals	50,137	**54,114**
MEDICEO CORPORATION	Pharmaceuticals	44,462	**44,068**

6. Business Combinations

(Acquisition of NeuroDerm Ltd.)
The Company acquired all the outstanding shares (including shares underlying options) of NeuroDerm Ltd. (hereinafter “NeuroDerm”) and made it a wholly-owned subsidiary on October 18, 2017 (IDT: Israel Daylight Time).

(1) Overview of the acquisition

i) Name and business description of the acquired company
Company name: NeuroDerm Ltd.
Business description: Development of treatments for CNS disorders including Parkinson’s disease

ii) Date of the acquisition
October 18, 2017 (IDT: Israel Daylight Time)

iii) Ratio of equity interest of the voting shares acquired
100%

iv) Method of the acquisition
The share acquisition in exchange for cash

6. Business Combinations (continued)

v) Main reasons for the acquisition

NeuroDerm is a clinical-stage pharmaceutical company that develops novel formulation technology and drug-device combinations for Parkinson’s disease. Currently, NeuroDerm is focusing on its lead product candidate, ND0612, which is expected to launch in fiscal 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 has launched RADICAVA, an FDA approved treatment of ALS in the U.S. market in August 2017. Additionally, the acquisition of ND0612 through this acquisition is intended to enable the Company to achieve its U.S. sales target of ¥80 billion by fiscal 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) Consideration for the acquisition, fair value of assets acquired and liabilities assumed, and goodwill

（Millions of yen）

	Provisional fair value	Adjustments	Provisional fair value (as adjusted)
Consideration for the acquisition	124,410	—	124,410
Assets acquired and liabilities assumed（Note）			
Non-current assets	217	136,178	136,395
Intangible assets associated with products	—	136,178	136,178
Other non-current assets	217	—	217
Current assets	13,694	—	13,694
Other financial assets	8,705	—	8,705
Other current assets	303	—	303
Cash and cash equivalents	4,686	—	4,686
Non-current liabilities	—	(32,692)	(32,692)
Deferred tax liabilities	—	(32,692)	(32,692)
Current liabilities	(3,697)	—	(3,697)
Goodwill (Note)	114,196	(103,486)	10,710

(Note) The Company measured the fair values of assets acquired and liabilities assumed as of the acquisition date in this business combination in the fiscal year ended March 31, 2018. As a result, provisional fair values are adjusted as above. However, the initial accounting for the business combination is incomplete as of March 31, 2018 because the Company is still in the process of finalizing the fair value measurement of current liabilities and goodwill.
Goodwill consists primarily of synergies with existing businesses and future economic benefits expected to be generated through the acquisition. Furthermore, goodwill is not deductible for tax purposes.

6. Business Combinations (continued)

(3) Acquisition-related costs

Cash payment as a consideration for the acquisition and acquisition-related costs of ¥1,051 million associated with the business combination were recognized in selling, general and administrative expenses in the consolidated statement of income.

(4) Cash flow information

（Millions of yen）

	Amount
Cash consideration paid	124,410
Cash and cash equivalents held by the acquiree	(4,686)
Acquisition cost of subsidiary, net of cash	119,724

(5) Impact on the financial results of the Company

The impact generated from the revenue and profit (loss) for the fiscal year ended March 31, 2018 from the acquisition date, and the pro forma information assuming that the business combination was completed on April 1, 2017, the beginning of the fiscal year, was immaterial, hence such information is not disclosed.

7. Revenue

The breakdown of revenue is provided in “5. Operating segments (2) Information about products and services.”

8. Other Income

The breakdown of other income is as follows:

(Millions of yen)

	2017	**2018**
Gain on sale of investment in subsidiary	－	**3,565**
Gain on sales of property, plant and equipment	188	**2,287**
Rental income from property, plant and equipment	240	**190**
Others	546	**619**
Total other income	974	**6,661**

9. Other Expenses

The breakdown of other expenses is as follows:

(Millions of yen)

	2017	**2018**
Restructuring loss (Note 1)	484	**2,144**
Provision of reserve for HCV litigation (Note 2)	–	**1,170**
Impairment losses of property, plant and equipment	185	**642**
Impairment losses of intangible assets	–	**3,149**
Loss on sales and disposal of property, plant and equipment	462	**257**
Others	751	**553**
Total other expenses	1,882	**7,915**

(Note 1) The breakdown of major items of restructuring loss is as follows:
As of March 31, 2017: Extra payments for transferring employees associated with the operational and structural reforms.
As of March 31, 2018: Additional retirement payments and re-employment supporting expenses due to the termination of Bipha Corporation, the manufacturing subsidiary, and extra payments for transferring employees associated with the transfer of shares of Tanabe Seiyaku Hanbai Co., Ltd, a subsidiary involved in the generic drug business.

(Note 2) Provision of reserve for HCV litigation as of March 31, 2018 represents the estimated amount to be paid by the Company due to the 5-year extension of the period for filing an action under “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” by partial revision of such Law in December 2017.

10. Employee Benefit Expenses

The breakdown of employee benefit expenses is as follows:

(Millions of yen)

	2017	**2018**
Remuneration and salaries	47,944	**48,213**
Employees’ bonuses	9,396	**9,860**
Retirement benefit expenses	8,171	**7,666**
Other employee benefit expenses	7,212	**7,045**
Total	72,723	**72,784**

(Note 1) Employee benefit expenses have been recorded in “cost of sales,” “selling, general and administrative expenses,” “research and development expenses” and “other expenses.”

(Note 2) Employee benefit expenses as of March 31, 2018 do not include “additional retirement payments and re-employment supporting expenses due to the termination of Bipha Corporation, the manufacturing subsidiary” and “extra payments for transferring employees associated with the transfer of shares of Tanabe Seiyaku Hanbai Co., Ltd, a subsidiary involved in the generic drug business” stated in “9. Other Expenses.”

11. Financial Income

The breakdown of financial income is as follows:

(Millions of yen)

	2017	**2018**
Interest income		
Financial assets measured at fair value through profit or loss	63	**25**
Financial assets measured at amortized cost	1,078	**451**
Dividend income		
Financial assets measured at fair value through other comprehensive income	722	**762**
Foreign exchange gain (net)	203	**39**
Others	146	**604**
Total	2,212	**1,881**

12. Financial Expenses

The breakdown of financial expenses is as follows:

(Millions of yen)

	2017	**2018**
Interest expenses		
Financial liabilities measured at amortized cost	181	**174**
Loss on valuation of securities		
Financial assets measured at fair value through profit or loss	53	**225**
Others	2	**3**
Total	236	**402**

13. Income Tax Expenses

(1) Deferred tax assets and deferred tax liabilities

The breakdown and changes in deferred tax assets and deferred tax liabilities by major cause is as follows:

Fiscal year ended March 31, 2017

(Millions of yen)

	Balance as of April 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	Balance as of March 31, 2017
Prepaid research expenses	6,430	(1,656)	–	–	4,774
Property, plant and equipment	(4,107)	(130)	–	(2)	(4,239)
Intangible assets	(3,379)	(3,671)	–	171	(6,879)
Inventories	1,930	274	–	–	2,204
Net defined benefit assets and liabilities	4,192	255	(1,640)	(139)	2,668
Provisions	2,261	(333)	–	(1)	1,927
Accrued expenses	1,847	(581)	–	(2)	1,264
Securities and other investments	(9,128)	175	988	412	(7,553)
Others	5,710	(709)	–	(37)	4,964
Total	5,756	(6,376)	(652)	402	(870)

(Note) Others include exchange differences on translation of foreign operations and deferred tax assets classified in assets held for sale.

Fiscal year ended March 31, 2018

(Millions of yen)

	Balance as of April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	Balance as of March 31, 2018
Prepaid research expenses	4,774	(456)	–	–	4,318
Property, plant and equipment	(4,239)	(1,267)	–	4	(5,502)
Intangible assets	(6,879)	(203)	–	(30,669)	(37,751)
Inventories	2,204	3,166	–	–	5,370
Net defined benefit assets and liabilities	2,668	(259)	(2,550)	(8)	(149)
Provisions	1,927	247	–	–	2,174
Accrued expenses	1,264	274	–	22	1,560
Securities and other investments	(7,553)	(321)	(2,206)	1,302	(8,778)
Others	4,964	411	5	259	5,639
Total	(870)	1,592	(4,751)	(29,090)	(33,119)

(Note) Others include exchange differences on translation of foreign operations and changes in business combination.

13. Income Tax Expenses (continued)

(2) Unrecognized deferred tax assets

The amounts of deductible temporary differences, unused tax losses and unused tax credits for which deferred tax assets have not been recognized are as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Deductible temporary differences	7,390	**7,630**
Unused tax losses	53,689	**74,952**
Unused tax credits	14,367	**16,307**
Total	75,446	**98,889**

Unused tax losses and unused tax credits for which deferred tax assets have not been recognized will expire as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Unused tax losses		
Not later than one year	–	**96**
Later than one year and not later than five years	1,182	**3,099**
Later than five years	52,507	**71,757**
Total	53,689	**74,952**
Unused tax credits		
Not later than one year	–	**–**
Later than one year and not later than five years	–	**–**
Later than five years	14,367	**16,307**
Total	14,367	**16,307**

(3) Unrecognized deferred tax liabilities

The total amounts of temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities have not been recognized were ¥24,472 million and ¥25,203 million as of March 31, 2017 and 2018, respectively.
For temporary differences, deferred tax liabilities have not been recognized when the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

13. Income Tax Expenses (continued)

(4) Income tax expenses

The breakdown of income taxes is as follows:

(Millions of yen)

	2017	**2018**
Current income taxes	20,761	**26,643**
Deferred income taxes		
Recognition and realization of temporary differences, adjustment and realization of deferred tax assets, and others	6,346	**(3,088)**
Changes in tax rates	30	**1,217**
Total	6,376	**(1,871)**
Total income taxes	27,137	**24,772**

(5) Reconciliation of effective tax rate

The Company is principally subject to income taxes, inhabitant taxes and business taxes, and the effective statutory tax rate based on these taxes in the fiscal years ended March 31, 2017 and 2018 was 30.8%, respectively. Overseas subsidiaries are subject to income taxes applicable in the countries in which they operate.
The breakdown of major items resulting in a difference between the effective statutory tax rate and the actual tax rate is as follows:

	2017	**2018**
Effective statutory tax rate	30.8%	**30.8%**
Permanently non-deductible items such as entertainment expenses	0.4%	**0.6%**
Permanent differences arising from non-taxable items such as dividend income	(0.2)%	**(0.1)%**
Tax credits for research and development expenses	(4.8)%	**(7.4)%**
Changes in unrecognized deferred tax assets	1.8%	**5.7%**
Adjustment of deferred tax assets at period-end due to a change in tax rates	0.0%	**1.5%**
Others	0.3%	**0.4%**
Actual tax rate	28.3%	**31.5%**

14. Earnings per Share

The basis of calculating basic earnings per share and diluted earnings per share is provided as follows:

	2017	**2018**
Basis of calculating basic earnings per share		
Profit attributable to owners of the Company (Millions of yen)	71,263	**57,963**
Profit not attributable to ordinary equity holders of the Company (Millions of yen)	—	**—**
Profit to be used in calculating basic earnings per share (Millions of yen)	71,263	**57,963**
Average number of ordinary shares outstanding during the year (Thousands of shares)	560,988	**560,857**
Basis of calculating diluted earnings per share		
Profit to be used in calculating basic earnings per share (Millions of yen)	—	**57,963**
Adjustment of profit during the year (Millions of yen)	—	**—**
Profit to be used in calculating diluted earnings per share (Millions of yen)	—	**57,963**
Average number of ordinary shares outstanding during the year (Thousands of shares)	—	**560,857**
Increase in the number of ordinary shares due to Performance Linked Stock Compensation Plan (Thousands of shares)	—	**3**
Average number of diluted shares outstanding during the year (Thousands of shares)	—	**560,860**
Earnings per share		
Basic earnings per share (Yen)	127.03	**103.35**
Diluted earnings per share (Yen)	—	**103.35**

(Note 1) For the fiscal year ended March 31, 2017, information on diluted earnings per share was omitted due to the absence of dilutive shares.

(Note 2) In the calculation of basic earnings per share and diluted earnings per share, since the Company's shares held by the executive compensation BIP trust are accounted for as treasury shares, the number of those shares is deducted in calculating the average number of ordinary shares outstanding during the year.

15. Other Comprehensive Income

Changes in each item of other comprehensive income during the period are as follows:

(Millions of yen)

	2017	**2018**
Net changes in financial assets measured at fair value through other comprehensive income		
Amount arising during the period	(3,215)	**6,288**
Before tax effects	(3,215)	**6,288**
Tax effects	986	**(1,746)**
Net of tax effects	(2,229)	**4,542**
Remeasurements of defined benefit plans		
Amount arising during the period	5,298	**8,373**
Before tax effects	5,298	**8,373**
Tax effects	(1,640)	**(2,550)**
Net of tax effects	3,658	**5,823**
Exchange differences on translation of foreign operations		
Amount arising during the period	(1,054)	**(8,798)**
Reclassification adjustments	34	—
Before tax effects	(1,020)	**(8,798)**
Tax effects	—	—
Net of tax effects	(1,020)	**(8,798)**
Effective portion of changes in fair value of cash flow hedges		
Amount arising during the period	58	**1,493**
Reclassification adjustments	(64)	—
Before tax effects	(6)	**1,493**
Tax effects	2	**(460)**
Net of tax effects	(4)	**1,033**
Share of other comprehensive income (loss) of associates and joint ventures accounted for using equity method		
Amount arising during the period	(18)	**28**
Reclassification adjustments	–	—
After reclassification adjustments	(18)	**28**
Total other comprehensive income (loss)	387	**2,628**

16. Property, Plant and Equipment

(1) Schedule of movements

Changes in cost, accumulated depreciation, accumulated impairment losses and carrying amount of property, plant and equipment are as follows:

Cost

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2016	101,318	78,659	33,668	31,790	5,429	250,864
Individual acquisition	8,878	4,906	2,255	–	(3,315)	12,724
Acquisition of leased assets	–	–	10	–	–	10
Sale and disposal	(789)	(1,612)	(1,605)	(1,869)	–	(5,875)
Transfer to assets held for sale	–	–	(31)	–	–	(31)
Exchange differences on translation of foreign operations	(107)	(105)	(9)	(8)	6	(223)
Other changes	–	(2)	1	–	(1,125)	(1,126)
Balance as of March 31, 2017	**109,300**	**81,846**	**34,289**	**29,913**	**995**	**256,343**
Individual acquisition	**859**	**1,950**	**1,557**	**–**	**173**	**4,539**
Business combinations	**79**	**88**	**15**	**–**	**–**	**182**
Sale and disposal	**(8,307)**	**(2,298)**	**(3,553)**	**(3,360)**	**–**	**(17,518)**
Exchange differences on translation of foreign operations	**(236)**	**(117)**	**(36)**	**(30)**	**(42)**	**(461)**
Other changes	**(142)**	**53**	**(7)**	**–**	**(22)**	**(118)**
Balance as of March 31, 2018	**101,553**	**81,522**	**32,265**	**26,523**	**1,104**	**242,967**

16. Property, Plant and Equipment (continued)

(1) Schedule of movements (continued)

Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2016	(68,209)	(67,662)	(27,947)	(2,969)	–	(166,787)
Depreciation	(2,416)	(2,645)	(2,268)	–	–	(7,329)
Impairment losses	(113)	(51)	(21)	–	–	(185)
Sale and disposal	587	1,556	1,592	–	–	3,735
Transfer to assets held for sale	–	–	28	–	–	28
Exchange differences on translation of foreign operations	7	18	5	–	–	30
Other changes	–	1	–	–	–	1
Balance as of March 31, 2017	**(70,144)**	**(68,783)**	**(28,611)**	**(2,969)**	–	**(170,507)**
Depreciation	**(2,575)**	**(2,799)**	**(2,209)**	–	–	**(7,583)**
Impairment losses	**(488)**	**(46)**	–	**(108)**	–	**(642)**
Reversal of impairment losses	**2**	**4**	**83**	–	–	**89**
Sale and disposal	**8,026**	**2,223**	**3,451**	**2,279**	–	**15,979**
Exchange differences on translation of foreign operations	**117**	**78**	**30**	–	–	**225**
Other changes	**(20)**	**(55)**	**4**	–	–	**(71)**
Balance as of March 31, 2018	**(65,082)**	**(69,378)**	**(27,252)**	**(798)**	–	**(162,510)**

Carrying amount

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2016	33,109	10,997	5,721	28,821	5,429	84,077
Balance as of March 31, 2017	39,156	13,063	5,678	26,944	995	85,836
Balance as of March 31, 2018	**36,471**	**12,144**	**5,013**	**25,725**	**1,104**	**80,457**

Reclassification from construction in progress is included in “individual acquisition” of cost.
Depreciation of property, plant and equipment is included in “cost of sales,” “selling, general and administrative expenses,” “research and development expenses” and “other expenses” in the consolidated statement of income.
Government grants directly deducted from the carrying amount of property, plant and equipment as of March 31, 2017 and 2018 were ¥552 million and ¥481 million, respectively.

16. Property, Plant and Equipment (continued)

(2) Impairment losses

Property, plant and equipment are grouped based on the smallest cash-generating unit that produces largely independent cash inflows. When there is an indication of impairment, an impairment test is performed.
The Group recorded impairment losses of ¥185 million and ¥642 million during the years ended March 31, 2017 and 2018, respectively, which are included in “other expenses” in the consolidated statement of income.

(3) Leased assets

The carrying amounts of leased assets under finance lease transactions included in property, plant and equipment are as follows:

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of March 31, 2017	1,349	7	8	1,364
Balance as of March 31, 2018	**1,358**	**5**	**7**	**1,370**

(4) Commitments

Commitments related to acquisition of property, plant and equipment were ¥1,571 million and ¥2,062 million as of March 31, 2017 and 2018, respectively.

17. Goodwill

(1) Schedule of movements

Changes in cost and accumulated impairment losses of goodwill are as follows:

(Millions of yen)

	Cost	Accumulated impairment losses	Carrying amount
Balance as of April 1, 2016	80,511	–	80,511
Exchange differences on translation of foreign operations	(183)	–	(183)
Balance as of March 31, 2017	**80,328**	**–**	**80,328**
Acquisition through business combinations	**10,710**		**10,710**
Exchange differences on translation of foreign operations	**(725)**	**–**	**(725)**
Balance as of March 31, 2018	**90,313**	**–**	**90,313**

Note: The acquisition through business combination during the current fiscal year was due to the acquisition of NeuroDerm Ltd. This business combination is stated in “6. Business Combinations.”

(2) Significant goodwill

A major component of goodwill recorded in the consolidated statement of financial position arose from the merger of the Company with the former Mitsubishi Pharma Corporation on October 1, 2007, and the carrying amount of the corresponding goodwill as of March 31, 2017 and 2018 was ¥74,776 million, respectively.

(3) Impairment testing

With operating segments deemed as the smallest cash-generating unit that produces largely independent cash inflows, goodwill is tested for impairment annually, and whenever there is an indication of impairment.

In impairment testing, the recoverable amount of goodwill is measured at value in use.
In the calculation of value in use, the Group uses the estimated amount of future cash flows on the basis of the Medium-Term Management Plan ending fiscal year 2020 approved by the management and terminal value after the fiscal year 2020 based on past experience and external information.
With regard to the discount rate, a pre-tax weighted average cost of capital from 6.1% to 6.2% is used.
Since the value in use sufficiently exceeds the carrying amount of the cash-generating unit, the Group expects that the value in use will not likely be lower than the carrying amount even if key assumptions used in the calculation of the value in use change within a reasonable range.

18. Intangible Assets

(1) Schedule of movements

Changes in cost, accumulated amortization, accumulated impairment losses and carrying amount of intangible assets are as follows:

Cost

(Millions of yen)

	Intangible assets			
	Software	Intangible assets associated with products	Others	Total
Balance as of April 1, 2016	7,349	58,170	1,266	66,785
Individual acquisition	1,219	7,510	595	9,324
Sale and disposal	(165)	–	–	(165)
Exchange differences on translation of foreign operations	(7)	(861)	(24)	(892)
Other changes	(1,024)	–	(3)	(1,027)
Balance as of March 31, 2017	**7,372**	**64,819**	**1,834**	**74,025**
Individual acquisition	**900**	**17,442**	**798**	**19,140**
Business combinations	**–**	**136,178**	**–**	**136,178**
Sale and disposal	**(1,492)**	**(2,014)**	**(166)**	**(3,672)**
Exchange differences on translation of foreign operations	**(3)**	**(8,365)**	**(14)**	**(8,382)**
Other changes	**(1)**	**–**	**–**	**(1)**
Balance as of March 31, 2018	**6,776**	**208,060**	**2,452**	**217,288**

18. Intangible Assets (continued)

(1) Schedule of movements (continued)

Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Intangible assets			
	Software	Intangible assets associated with products	Others	Total
Balance as of April 1, 2016	(3,669)	(7,031)	(161)	(10,861)
Amortization	(1,550)	(1,528)	(47)	(3,125)
Impairment losses	–	–	–	–
Sale and disposal	160	–	–	160
Exchange differences on translation of foreign operations	7	–	4	11
Other changes	997	–	2	999
Balance as of March 31, 2017	**(4,055)**	**(8,559)**	**(202)**	**(12,816)**
Amortization	**(1,434)**	**(2,451)**	**(61)**	**(3,946)**
Impairment losses	**–**	**(3,149)**	**–**	**(3,149)**
Sale and disposal	**1,478**	**2,014**	**58**	**3,550**
Exchange differences on translation of foreign operations	**4**	**–**	**6**	**10**
Other changes	**3**	**–**	**–**	**3**
Balance as of March 31, 2018	**(4,004)**	**(12,145)**	**(199)**	**(16,348)**

Carrying amount

(Millions of yen)

	Intangible assets			
	Software	Intangible assets associated with products	Others	Total
Balance as of April 1, 2016	3,680	51,139	1,105	55,924
Balance as of March 31, 2017	3,317	56,260	1,632	61,209
Balance as of March 31, 2018	**2,772**	**195,915**	**2,253**	**200,940**

Of “intangible assets associated with products,” those in the research and development phase which have not been approved for sale by the regulatory authorities are not yet available for use. Therefore, the Group has determined that the period during which future economic benefits will flow to the Group is not foreseeable for these intangible assets, and classifies them as intangible assets with indefinite useful lives. The carrying amounts of intangible assets with indefinite useful lives were ¥48,285 million and ¥183,790 million as of March 31, 2017 and 2018, respectively. Among them, major intangible assets with indefinite useful lives are in-process research and development expenses recognized in line with the acquisitions of Medicago Inc. in September 2013 and of NeuroDerm in October 2017.

18. Intangible Assets (continued)

(1) Schedule of movements (continued)

Amortization of intangible assets is included in "cost of sales," "selling, general and administrative expenses," "research and development expenses" and "amortization of intangible assets associated with products" in the consolidated statement of income.

There were no significant internally generated intangible assets as of each closing date.

(2) Significant intangible assets

For the year ended March 31, 2017, major intangible assets recorded in the consolidated statement of financial position are in-process research and development expenses recognized in line with the acquisition of Medicago Inc. in September 2013, and the carrying amount was ¥26,410 million as of March 31, 2017.
For the year ended March 31, 2018, major intangible assets recorded in the consolidated statement of financial position are in-process research and development expenses recognized in line with the acquisitions of Medicago Inc. in September 2013 and of NeuroDerm in October 2017, and the carrying amounts were ¥25,885 million and ¥128,338 million, respectively, as of March 31, 2018. These assets are in the research and development phase, have not been approved for sale by regulatory authorities, and are not yet available for use. Therefore, the Group has determined that the period during which future economic benefits will flow to it is not foreseeable for these intangible assets, and classifies them as intangible assets with indefinite useful lives.

(3) Impairment losses

Intangible assets are tested for impairment principally for each individual asset that belongs to the pharmaceuticals business when there is an indication of impairment.
Intangible assets with indefinite useful lives are tested for impairment at a certain point of time annually, regardless of whether or not there is an indication of impairment.

In impairment testing, the recoverable amount of intangible assets is measured at value in use.
In calculation of value in use, the Group uses the estimated amount of cash flows based on the business plan approved by the management. The business plan is based on past experience and external information, and in principle, for up to five years, except where there are rational reasons.
With regard to the discount rate, it is calculated based on the weighted average cost of capital, and the pre-tax discount rate used in the calculation of value in use is from 6.1% to 10.5%.

The Group recognized impairment losses of ¥3,149 million as of March 31, 2018, which is included in "other expenses" in the consolidated statement of income.
Of impairment losses recognized as of March 31, 2018, a major component was due to the decision to cease development of certain products under development or lower-than-expected profitability. The impairment losses were recorded to the extent of the recoverable amount. The recoverable amount is based on value in use, and its value was deemed as zero.

(4) Commitments

Commitments (undiscounted) related to acquisition of intangible assets were ¥123,297 million as of March 31, 2017 and ¥84,112 million as of March 31, 2018.
These commitments, which principally relate to pipelines under development or launched products, are development milestones up to launching for the pipelines under development and the maximum payment of milestones for achieving sales targets for launched products. Since uncertainty in achievement of payment terms of milestones for achieving sales targets is high for the pipelines under development, they are not included in the commitments amount above.

19. Investments in Associates and Joint Ventures Accounted for Using Equity Method

The carrying amount of investments in associates that are not individually material is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Carrying amount of investments in associates	-	**16,149**

With regard to the joint venture accounted for using the equity method, the information is omitted because its carrying amount is immaterial.

20. Other Financial Assets

(1) Breakdown

The breakdown of other financial assets is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Financial assets measured at amortized cost		
Debt securities	7,140	**31,700**
Bank deposits (Note 1)	168,886	**102,052**
Deposits	173,280	**103,402**
Others	16,914	**16,958**
Financial assets measured at fair value through profit or loss		
Derivative assets (Note 2)	1	–
Structured bonds	1,014	–
Shares	1,909	**1,078**
Others	419	**264**
Financial assets measured at fair value through other comprehensive income		
Shares	36,314	**37,386**
Others	3	**3**
Allowance for credit losses	(1)	**(1)**
Total	405,879	**292,842**
Non-current assets	51,623	**46,109**
Current assets	354,255	**246,733**
Total	405,878	**292,842**

(Note 1) Bank deposits include time deposits and negotiable certificates of deposits. As deposits for opening letters of credit, certain of the bank deposits have been pledged as collateral (as of March 31, 2017: ¥1 million, and as of March 31, 2018: ¥1 million).

(Note 2) In the consolidated statement of financial position, derivative assets as of March 31, 2017 are reported on a net basis after offsetting of assets and liabilities. On the other hand, in the above table, derivative assets are reported on a gross basis. Therefore, there is difference of ¥1 million between the total amount of other financial assets on current and non-current items in the consolidated statement of financial position and the total amount in the above table.

20. Other Financial Assets (continued)

(2) Financial assets measured at fair value through other comprehensive income

Shares held for the purpose of maintenance, strengthening, etc. of transactional or business relationships are designated as financial assets measured at fair value through other comprehensive income. The breakdown of major shareholdings is as follows:

As of March 31, 2017

(Millions of yen)

Issue	Amount
TOHO HOLDINGS CO., LTD.	8,326
SUZUKEN CO., LTD.	5,650
Alfresa Holdings Corporation	4,293
MEDIPAL HOLDINGS CORPORATION	3,711
VITAL KSK HOLDINGS, INC.	1,501

As of March 31, 2018

(Millions of yen)

Issue	Amount
TOHO HOLDINGS CO., LTD.	**8,955**
SUZUKEN CO., LTD.	**6,804**
Alfresa Holdings Corporation	**5,270**
MEDIPAL HOLDINGS CORPORATION	**4,634**
VITAL KSK HOLDINGS, INC.	**1,523**

(3) Derecognition of financial assets measured at fair value through other comprehensive income
Due to review of business strategies and other reasons, the Group disposes of certain financial assets measured at fair value through other comprehensive income by sale or other means, and derecognizes them.
Fair value at the time of disposal and cumulative gain or loss recognized in other comprehensive income are as follows. Cumulative gain or loss recognized in other comprehensive income is transferred to retained earnings at the time of disposal.

(Millions of yen)

	2017	**2018**
Fair value	1,790	**5,218**
Cumulative gain or loss recognized in other comprehensive income	728	**2,523**

20. Other Financial Assets (continued)

(4) Others

Dividend income on financial assets measured at fair value through other comprehensive income is as follows:

(Millions of yen)

	2017	**2018**
Derecognized financial assets	135	**88**
Financial assets held as of the end of the fiscal year	587	**466**

21. Other Assets

The breakdown of other assets is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Long-term prepaid expenses	482	**379**
Prepaid expenses (Note)	3,990	**4,297**
Advance payments	385	**302**
Others	4,808	**1,628**
Total	9,665	**6,606**
Non-current assets	482	**379**
Current assets	9,183	**6,227**
Total	9,665	**6,606**

(Note) Regarding the prepaid expenses, outsourced research and development expenses account for the largest proportion.

22. Inventories

(1) Breakdown

The breakdown of inventories is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Raw materials and supplies	20,642	**16,424**
Work in process	8,522	**8,896**
Merchandise and products	50,004	**56,678**
Total	79,168	**81,998**

22. Inventories (continued)

(2) Write-downs

The write-downs of inventories recognized as expense in the current period are as follows:

(Millions of yen)

	2017	**2018**
Write-downs	622	**522**

23. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Notes and accounts receivable - trade	116,896	**123,606**
Allowance for doubtful accounts	(40)	**(69)**
Total	116,856	**123,537**

24. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Cash and bank deposits	24,153	**68,887**
Short-term investments	89,062	**58,143**
Cash and cash equivalents in the consolidated statement of financial position	113,215	**127,030**
Cash and cash equivalents in the consolidated statement of cash flows	113,215	**127,030**

25. Assets Held for Sale and Liabilities Directly Related to Assets Held for Sale

The breakdown of assets held for sale and directly related liabilities is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Assets held for sale		
Property, plant and equipment	3	–
Inventories	4,330	–
Trade and other receivables	6,405	–
Others	344	–
Total	11,082	–
Liabilities directly related to assets held for sale		
Net defined benefit liabilities	516	–
Trade and other payables	1,861	–
Other financial liabilities	468	–
Others	300	–
Total	3,145	–

(Note) Assets held for sale and liabilities directly related to assets held for sale as of March 31, 2017 resulted from the conclusion of the share transfer agreement accompanying the loss of control of the Company's subsidiary, Tanabe Seiyaku Hanbai Co., Ltd. Since the fair value (after deducting sale-related expenses) of the relevant assets and liabilities exceeded the carrying amount, the Company recorded a ¥3,565 million gain on sale of investments in subsidiary, which was recorded in "Other income." See note 37. Subsidiaries for details regarding the transfer of the subsidiary.

26. Borrowings

The breakdown of borrowings is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**	**Average interest rate (%)**	**Repayment period**
Financial liabilities measured at amortized cost				
Current portion of non-current borrowings	127	**122**	**5.49**	
Non-current borrowings	581	**420**	**5.49**	**From 2019 to 2024**
Total	708	**542**	–	–
Non-current liabilities	581	**420**	–	–
Current liabilities	127	**122**	–	–
Total	708	**542**	–	–

(Note) "Average interest rate" shows the weighted-average interest rate on the balance as of March 31, 2018.
"Repayment period" is applicable to the balance as of March 31, 2018.

27. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Financial liabilities measured at amortized cost		
Finance lease obligations (Note 1)	1,645	**1,473**
Accounts payable - other	19,545	**16,522**
Accrued expenses	4,351	**4,046**
Others	999	**895**
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities (Note 2)	1	**—**
Total	26,541	**22,936**
Non-current liabilities	2,405	**2,199**
Current liabilities	24,135	**20,737**
Total	26,540	**22,936**

(Note 1) With regard to lease obligations as of March 31, 2018, the average interest rate was 8.64% with repayment period from 2018 through 2026.

(Note 2) In the consolidated statement of financial position, derivative liabilities as of March 31, 2017 are reported on a net basis after offsetting assets and liabilities. On the other hand, in the above table, derivative liabilities are reported on a gross basis. Therefore, there is a difference of ¥1 million between the total amount of other financial liabilities on current and non-current items in the consolidated statement of financial position and the total amount in the above table.

28. Lease Transactions

The Group leases certain real estate, vehicles and others. A renewal option has been attached to certain lease contracts. There is no significant restriction imposed by lease contracts.

(1) Finance leases

The future minimum lease payments based on finance lease contracts and their present values are as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Minimum lease payments		
Not later than one year	233	**228**
Later than one year and not later than five years	995	**971**
Later than five years	1,210	**896**
Total	2,438	**2,095**
Deduction: Finance costs	(793)	**(623)**
Total	1,645	**1,473**

(2) Operating leases

The future minimum lease payments under non-cancellable operating lease contracts are as follows:
Lease payments recorded as expenses were ¥7,270 million and ¥7,144 million for the years ended March 31, 2017 and 2018, respectively.

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Not later than one year	3,090	**2,758**
Later than one year and not later than five years	3,733	**2,339**
Later than five years	158	**159**
Total	6,981	**5,256**

29. Retirement Benefits

The Group principally offers a choice between a defined contribution pension plan and a prepaid plan; a choice between a cash balance plan and a prepaid plan; a contract-type defined-benefit corporate pension plan; and a system of lump-sum payments at retirement. Upon retirement of employees or other occasions, the Group may pay extra retirement benefits that are not subject to actuarial calculation.

(1) Defined benefit plans

The Company and consolidated subsidiaries excluding certain entities have adopted cash balance pension plans, contract-type defined benefit corporate pension plans and lump-sum retirement benefit plans, as defined benefit plans. Of these defined benefit plans, major plans are cash balance pension plans.

The amount of benefits under cash balance pension plans is determined based on base salary, which is calculated on the basis of accumulated number of base points received up to the retirement, reevaluation rate on the basis of yields of 10-year government bonds and others. In cases where an employee has been enrolled in such plans for a certain period of time or longer, the employee can choose to receive benefits as pensions.

Under cash balance pension plans, the employer pays the amount calculated based on the funded status of plan assets, actuarial calculation and others as normal contributions. Normal contributions are recalculated at least every five years so that balanced finance can be maintained now and in the future. In the closing of accounts of the corporate pension fund for each fiscal year, additional contributions are made if the amount of reserved funds is lower than liability reserve.

Cash balance pension plans are managed by the Mitsubishi Tanabe Pharma Corporate Pension Fund. Directors of this fund execute their duties faithfully for the fund, and jointly and severally accept liability if they fail to perform their tasks for the fund concerning management and investment of reserved funds.

Defined benefit plans are exposed to actuarial risks.

The amounts related to defined benefit plans in the consolidated statement of financial position are as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Present value of defined benefit obligation	150,128	**142,632**
Fair value of plan assets	163,289	**164,475**
Net defined benefit assets (liabilities)	13,161	**21,843**
Amounts in the consolidated statement of financial position		
Defined benefit assets	14,769	**22,711**
Defined benefit liabilities	1,092	**868**
Liabilities directly related to assets held for sale	516	—

29. Retirement Benefits (continued)

(1) Defined benefit plans (continued)

Changes in the present value of the defined benefit obligation are as follows:

(Millions of yen)

	2017	**2018**
Beginning of the fiscal year	157,991	**150,128**
Current service cost	3,043	**2,695**
Interest expenses	476	**582**
Remeasurement		
Actuarial gains and losses arising from changes in financial assumptions	1,255	**(1,315)**
Others	(1,501)	**(413)**
Benefits paid	(11,167)	**(9,017)**
Exchange differences on translation of foreign operations	31	**(28)**
End of the fiscal year	150,128	**142,632**

Changes in the fair value of plan assets are as follows:

(Millions of yen)

	2017	**2018**
Beginning of the fiscal year	164,807	**163,289**
Interest income	539	**648**
Remeasurement		
Return on plan assets	5,069	**6,657**
Employer contributions	3,869	**2,785**
Benefits paid	(11,026)	**(8,897)**
Exchange differences on translation of foreign operations	31	**(7)**
End of the fiscal year	163,289	**164,475**

(Note) The Group is scheduled to contribute ¥2,395 million to plan assets in the period from April 1, 2018 to March 31, 2019.

29. Retirement Benefits (continued)

(1) Defined benefit plans (continued)

The fair value of plan assets as of March 31, 2017 is as follows:

(Millions of yen)

	Assets with quoted market prices in active markets	Assets with no quoted market prices in active markets	Total
Cash and cash equivalents	17,184	–	17,184
Equity instruments	11,116	29,054	40,170
Domestic shares	11,116	–	11,116
Pooled funds	–	29,054	29,054
Debt instruments	4,000	53,520	57,520
Domestic debt securities	4,000	–	4,000
Pooled funds	–	53,520	53,520
Life insurance company general accounts	–	28,112	28,112
Others	–	20,303	20,303
Total	32,300	130,989	163,289

The fair value of plan assets as of March 31, 2018 is as follows:

(Millions of yen)

	Assets with quoted market prices in active markets	Assets with no quoted market prices in active markets	Total
Cash and cash equivalents	**20,494**	**–**	**20,494**
Equity instruments	**1,960**	**28,205**	**30,165**
Domestic shares	**1,960**	**–**	**1,960**
Pooled funds	**–**	**28,205**	**28,205**
Debt instruments	**4,006**	**60,727**	**64,733**
Domestic debt securities	**4,006**	**–**	**4,006**
Pooled funds	**–**	**60,727**	**60,727**
Life insurance company general accounts	**–**	**28,504**	**28,504**
Others	**–**	**20,579**	**20,579**
Total	**26,460**	**138,015**	**164,475**

To ensure the payment of pension benefits in the future, the Group invests plan assets within the range of acceptable risk in order to secure necessary aggregate returns during the medium to long term.
Concerning the investment of plan assets, the Group sets a ratio which is the optimal combination of assets for the future, taking into account the potential risks and returns for each asset included in the investment portfolio, and works to manage the investment performance of assets by regularly monitoring the ratio.

29. Retirement Benefits (continued)

(1) Defined benefit plans (continued)

The significant actuarial assumptions used to determine the present value of the defined benefit obligation are as follows:

	As of March 31, 2017	**As of March 31, 2018**
Discount rate	Mainly 0.4%	**Mainly 0. 3%**

The increase or decrease in the defined benefit obligation when the discount rate, which is a significant actuarial assumption, changes is as follows.
This sensitivity analysis is based on the assumption that other actuarial assumptions are constant, and the same method is applied as the method for calculating the defined benefit obligation recognized in the consolidated statement of financial position.
However, in practice, changes in other assumptions may affect the sensitivity analysis.

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Discount rate		
Increase 0.5%	(7,725)	**(6,999)**
Decrease 0.5%	6,443	**4,394**

(Note) As the discount rate is determined with reference to the market yields on high-quality corporate bonds that have maturities approximating to the terms in which the benefits are expected, the sensitivity is analyzed within a range in which a minimum discount rate of 0% may be deemed reasonable.

The weighted average duration of the defined benefit obligation is as follows:

	As of March 31, 2017	**As of March 31, 2018**
Weighted average duration (years)	11.1	**10.7**

(2) Defined contribution plans

The amounts recognized as expenses for defined contribution plans are as follows:

(Millions of yen)

	2017	**2018**
Expenses for defined contribution plans	741	**774**
Expenses for government sponsored plans	4,450	**4,263**

30. Other Liabilities

The breakdown of other liabilities is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Consumption taxes payable	2,603	**3,648**
Bonuses payable	9,041	**8,605**
Accrued paid absences	5,968	**5,761**
Deposits received	452	**302**
Deferred income (Note)	4,944	**4,464**
Others	2,926	**3,578**
Total	25,934	**26,358**
Non-current liabilities	5,576	**5,505**
Current liabilities	20,358	**20,853**
Total	25,934	**26,358**

(Note) Deferred income represents upfront payments accompanying the licensing of products, etc., and is recognized as revenue over the period during which the performance obligations under the contracts are fulfilled.

31. Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	As of March 31, 2017	**As of March 31, 2018**
Accounts payable - trade	35,741	**35,631**
Total	35,741	**35,631**

32. Provisions

The breakdown and changes in provisions are as follows:

(Millions of yen)

	Reserve for health management allowances for HIV compensation	Reserve for health management allowances for SMON compensation	Reserve for HCV litigation	Reserve for allowances relating to sale	Total
Balance as of April 1, 2016	1,564	2,522	5,020	137	9,243
Increases during the period	30	269	–	86	385
Interest expenses	11	–	–	–	11
Provisions utilized	(67)	(397)	(1,062)	(137)	(1,663)
Balance as of March 31, 2017	**1,538**	**2,394**	**3,958**	**86**	**7,976**
Increases during the period	**107**	**124**	**1,170**	**2,010**	**3,411**
Interest expenses	**12**	**–**	**–**	**–**	**12**
Provisions utilized	**(72)**	**(363)**	**(297)**	**(86)**	**(818)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(76)**	**(76)**
Balance as of March 31, 2018	**1,585**	**2,155**	**4,831**	**1,934**	**10,505**

(Millions of yen)

Balance as of March 31, 2017	Reserve for health management allowances for HIV compensation	Reserve for health management allowances for SMON compensation	Reserve for HCV litigation	Reserve for allowances relating to sale	Total
Non-current liabilities	1,538	2,394	3,958	–	7,890
Current liabilities	–	–	–	86	86
Total	1,538	2,394	3,958	86	7,976

(Millions of yen)

Balance as of March 31, 2018	Reserve for health management allowances for HIV compensation	Reserve for health management allowances for SMON compensation	Reserve for HCV litigation	Reserve for allowances relating to sale	Total
Non-current liabilities	**1,585**	**2,155**	**4,831**	**–**	**8,571**
Current liabilities	**–**	**–**	**–**	**1,934**	**1,934**
Total	**1,585**	**2,155**	**4,831**	**1,934**	**10,505**

32. Provisions (continued)

(1) 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 March 31, 2018, and to future plaintiffs, calculated with reference to settlement outcomes up to March 31, 2018.

(2) 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.

(3) 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”, 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.

(4) Reserve for allowances relating to sale

For future rebates and sales returns of merchandise and products sold, and the rebates linked with the U.S. health care system, the Company recorded the estimated amount based on the terms of the contracts and past results.
These expenses are expected to be paid generally within one year.

33. Equity and Other Equity Items

(1) Number of shares authorized and number of shares issued

The number of shares authorized and number of shares issued are as follows:

(Thousands of shares)

	2017	**2018**
Number of shares authorized	2,000,000	**2,000,000**
Number of shares issued		
Beginning of the fiscal year	561,417	**561,417**
Changes during the fiscal year	–	**–**
End of the fiscal year	561,417	**561,417**

(Note) All shares issued by the Company are ordinary shares with no rights limitations and with no par value. Issued shares are fully paid up.

(2) Treasury shares

Changes in the number of treasury shares during the fiscal year are as follows:

(Thousands of shares)

	2017	**2018**
Beginning of the fiscal year	428	**429**
Increase	0	**212**
Decrease	(0)	**(0)**
End of the fiscal year	429	**642**

(Note1) The increase in treasury shares are associated with the response to shareholders' requests for share buybacks of shares of less than one unit and the shares obtained by executive compensation BIP Trust.

(Note2) The decrease in treasury shares are associated with the response to shareholders' requests for sales of shares of less than one unit.

(Note3) The number of treasury shares as of March 31, 2018 contains the shares held by executive compensation BIP Trust.

(3) Capital surplus and retained earnings

Capital surplus consists of the amount that is not included in share capital among amounts generated from capital transactions. Retained earnings consist of earned legal reserve and other surplus.
Japan's Companies Act provides that 50% or more of the amount paid in or contributed for the issuance of shares shall be credited to share capital, and the remaining amount shall be credited to capital reserve. Capital reserve can be credited to share capital by resolution of the general meeting of shareholders.
In addition, the Companies Act stipulates that 10% of the amount paid as dividends of surplus shall be accumulated as capital reserve or earned legal reserve until the total amount of capital reserve and earned legal reserve equals 25% of share capital. Accumulated earned legal reserve may be utilized to eliminate a deficit, and earned legal reserve may be reversed by resolution of the general meeting of shareholders.

33. Equity and Other Equity Items (continued)

(4) Other components of equity

The following contents provide the details on other components of equity:

(Exchange differences on translation of foreign operations)
This item is foreign exchange translation differences arising from translation of financial statements of foreign operations prepared in foreign currencies.

(Effective portion of changes in fair value of cash flow hedges)
This item is the cumulative effective portion of hedges among gain or loss arising from changes in fair value of hedging instruments on cash flow hedges.

(Net changes in financial assets measured at fair value through other comprehensive income)
This item is the valuation difference of financial assets measured at fair value through other comprehensive income.

(Remeasurements of defined benefit plans)
This item is the effect of the difference between actuarial assumptions at the beginning of the fiscal year and actual results, and the effect of changes in actuarial assumptions. It is recognized in other comprehensive income as incurred, and immediately transferred from other components of equity to retained earnings.

34. Dividends

Dividends paid are as follows:

Fiscal year ended March 31, 2017

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2016 Ordinary General Meeting of Shareholders	Ordinary shares	13,463	24	March 31, 2016	June 23, 2016
November 1, 2016 Board of Directors Meeting	Ordinary shares	13,463	24	September 30, 2016	December 1, 2016

(2) Dividends whose record date falls in the fiscal year ended March 31, 2017 and which have an effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2017 Ordinary General Meeting of Shareholders	Ordinary shares	15,707	28	March 31, 2017	June 22, 2017

34. Dividends (continued)

Fiscal year ended March 31, 2018

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2017 Ordinary General Meeting of Shareholders	Ordinary shares	**15,707**	**28**	March 31, 2017	June 22, 2017
November 1, 2017 Board of Directors Meeting	Ordinary shares	**21,317**	**38**	September 30, 2017	December 1, 2017

(Note 1) Total dividends approved on November 1, 2017 include ¥8 million dividends attributable to the shares held by executive compensation BIP Trust.

(Note 2) Dividends per share approved on November 1, 2017 include a ¥10.00 per share commemorative dividend.

(2) Dividends whose record date falls in the fiscal year ended March 31, 2018 and which have an effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2018 Ordinary General Meeting of Shareholders	Ordinary shares	**15,707**	**28**	March 31, 2018	June 25, 2018

(Note) Total dividends approved listed above include ¥5 million dividends attributable to the shares held by executive compensation BIP Trust.

35. Share-based Payment

(1) Summary of the Plan

In the fiscal year ended March 31, 2018, the Company has introduced a Performance-Linked Stock Compensation Plan (hereinafter referred to as the “Plan”) for the board directors and executive officers (excluding residents outside Japan and part-time directors; hereinafter referred to as the “Directors and Officers”) by utilizing a trust. The Plan is intended to link compensation for the Directors and Officers with the corporate performance and so that they share both risk and return from fluctuations in stock prices with the shareholders, and thereby aiming to enhance motivation and morale of the Directors and Officers for sustainable growth of the Group and expansion of corporate value over the medium and long term.

The Company has adopted a framework called “the Executive Compensation Board Incentive Plan Trust” (hereinafter referred to as the “Trust”).

35. Share-based Payment (continued)

(1) Summary of the Plan (continued)

Under the Plan, the Trust acquires the Company's shares by using funds contributed by the Company. In accordance with the "Share delivery rules" established by the Company, the Plan grants a specified number of points (1 point = 1 share) to the Directors and Officers each year depending on their executive positions and achievement level of performance targets on the condition for the determination of rights such as holding the office of the Directors and Officers on the last day of each fiscal year during the eligibility period after the commencement date of the Plan. The Directors and Officers may receive the grant of the Company's shares equivalent to the number of granted points following the completion of settlement procedures by the designated beneficiary at the time of their retirement, in principle.
The Plan is accounted for as an equity-settled share-based payment transaction.

(2) Number of points granted during the period and weighted average fair value of points

The number of points granted during the period and weighted average fair value of points are as follows:
As the fair value of the points on the date of grant approximates the share price on the date of grant, the fair value of the points represents the share price on the date of grant.

	2017	**2018**
Number of points granted during the period	–	**15,259**
Weighted average fair value of points (Yen)	–	**2,582**

(3) Expenses recognized in the consolidated statement of income

(Millions of yen)

	2017	**2018**
Total expenses recognized for the Plan	–	**41**

(Note) Stock compensation expenses are included in "selling, general and administrative expenses," and "research and development expenses."

36. Financial Instruments

(1) Capital management

The Group conducts capital management under the policy of making investments for growth, including strategic investments, research and development investments and capital investments, in order to achieve sustainable growth and enhance corporate value over the medium to long term, and also positioning return of profits to shareholders as a key management priority and implementing this return.
The Group is not subject to any material capital restrictions.

36. Financial Instruments (continued)

(2) Risk management for financial instruments

The Group is exposed to various financial risks in the process of conducting business activities, such as credit risk, liquidity risk, currency exchange risk, interest rate risk, and market price fluctuation risk. In order to avoid or mitigate these risks, the Group conducts risk management under certain policies.
In addition, the Group limits derivatives transactions to transactions with the aim of mitigating risks in transactions based on actual demand, and does not use derivatives for speculative purposes. For derivatives transactions, the Finance & Accounting Department executes and manages such transactions and regularly reports the outstanding contract amount, market value, etc. to the Board of Directors in accordance with internal regulations stipulating authority of transactions, limits and others.

(3) Credit risk

Notes and accounts receivable trade are subject to the credit risk of customers. As for the management of credit risk, the Group principally sets the credit limit and trading conditions and regularly monitors the status of major counterparties with regard to operating claims and manages maturity dates and outstanding amounts by transaction counterparty in accordance with its claims management regulations, while at the same time working to quickly identify and reduce concerns over repayment resulting from the weakening of a counterparty's financial position.
In addition, protective measures are taken as needed such as collateral and guarantees.
For bank deposits, debt securities and money entrusted, credit risk is insignificant because the transactions are conducted only with counterparties with high credit ratings.
When entering into derivatives transactions, the Group limits the transaction partners to financial institutions that have a high credit rating to mitigate the counterparty risks.

The Group, just like other pharmaceutical companies in Japan, sells products through a limited number of wholesale firms. Of wholesale firms with which the Group has transactions, total revenue attributable to the top four companies accounts for approximately 68.8% of revenue in Japan, and trade receivables from these top four companies as of March 31, 2017 and 2018 were ¥74,357 million and ¥71,672 million, respectively.

The maximum exposure to credit risk as of the fiscal year end that does not take into account collateral held and other credit enhancements is the carrying amount, after impairment, of financial assets presented in the consolidated statement of financial position.
The Group holds real estate, securities and others as collateral for receivables from wholesale firms.

As of the end of each fiscal year, the Group records as allowance for credit losses for expected credit losses at the uncollectible amount for individually significant financial assets and at the amount based on the historical rate, etc. for individually insignificant financial assets. Allowance for credit losses for these financial assets is included in "trade and other receivables" and "other financial assets" in the consolidated statement of financial position.

Changes in allowance for credit losses measured at the amount equal to lifetime expected credit losses are as follows:

(Millions of yen)

	2017	**2018**
Beginning of the fiscal year	40	**40**
Increase during the fiscal year	16	**51**
Decrease during the fiscal year (utilization)	(1)	**–**
Decrease during the fiscal year (reversal)	(15)	**(21)**
Other changes	–	**0**
End of the fiscal year	40	**70**

36. Financial Instruments (continued)

(4) Liquidity risk

The Group is exposed to liquidity risk whereby it may experience difficulties in fulfilling its payment obligations. However, liquidity risk is insignificant because the Group updates a plan in a timely manner based on monitoring of the cash flow plan and actual results and maintains liquidity in hand that enables it to also respond to certain strategic investment opportunities flexibly. The balances of principal financial liabilities (including derivative financial instruments) classified by maturity are as follows:

As of March 31, 2017

(Millions of yen)

	Carrying amount	Contractual cash flows	Not later than one year	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years
Trade and other payables	35,741	35,741	35,741	–	–	–	–	–
Borrowings	708	803	160	162	110	98	94	179
Other financial liabilities	26,541	27,334	24,109	239	246	253	258	2,229
Currency options	1	1	1	–	–	–	–	–

As of March 31, 2018

(Millions of yen)

	Carrying amount	Contractual cash flows	Not later than one year	Later than one year and not later than two years	Later than two years and not later than three years	Later than three years and not later than four years	Later than four years and not later than five years	Later than five years
Trade and other payables	**35,631**	**35,631**	**35,631**	**–**	**–**	**–**	**–**	**–**
Borrowings	**542**	**604**	**146**	**109**	**92**	**89**	**85**	**83**
Other financial liabilities	**22,936**	**23,559**	**20,860**	**234**	**238**	**246**	**253**	**1,728**
Currency options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

36. Financial Instruments (continued)

(5) Currency exchange risk

The Group is exposed to currency exchange risk in association with transactions denominated in foreign currencies occurring from global business activities. For trade and other receivables and payables, etc. denominated in foreign currencies, the Company hedges foreign exchange fluctuation risk by utilizing forward exchange contracts, etc. where necessary.

Foreign exchange sensitivity analysis
For financial instruments denominated in foreign currencies held by the Group as of the end of the fiscal year, in cases where the yen appreciates by 1% against the US dollar and euro on the final day of the fiscal year, the impact on profit before income tax in the consolidated statement of income is as follows.
In this analysis, figures have been calculated by multiplying each exposure to exchange risk by 1%, assuming that any fluctuation in each exchange rate has no impact on other variables (such as exchange rates of other currencies and interest rates).

(Millions of yen)

	2017	**2018**
US dollar (1% appreciation of the Japanese yen)	87	**(134)**
Euro (1% appreciation of the Japanese yen)	(5)	**(3)**

(6) Interest rate risk

Interest rate risk of the Group arises from interest-bearing liabilities after netting with cash equivalents and others. Of borrowings, those with variable interest rates are exposed to interest rate fluctuation risk.

Interest rate sensitivity analysis
For financial instruments held by the Group as of the end of the fiscal year, in cases where the interest rate increases by 1%, the impact on profit before income tax in the consolidated statement of income is as follows.
The analysis targets financial instruments exposed to interest rate fluctuation risk and is based on the assumption that other factors, including the impacts of foreign exchange fluctuation, are constant.

(Millions of yen)

	2017	**2018**
Profit before income tax	20	**5**

(7) Market price fluctuation risk

The Group has shares and debt securities, and is exposed to market price fluctuation risk. The Group assesses fair value, financial conditions of issuers (business partner companies) and others regularly. Shares are managed through ongoing review of the holding status.

36. Financial Instruments (continued)

(8) Fair value of financial instruments

The fair value hierarchy for financial instruments classifies Level 1 to Level 3 as follows:
Level 1: Fair value measured based on unadjusted quoted prices in active markets
Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price
Level 3: Fair value determined by valuation techniques including inputs that are not based on significant observable market data
Transfers between levels of the fair value hierarchy are recognized as if they occurred at the end of each quarter.
Financial assets and liabilities measured at fair value are as follows:

As of March 31, 2017

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	–	1	–	1
Structured bonds	–	–	1,014	1,014
Shares	925	–	984	1,909
Others	–	–	419	419
Financial assets measured at fair value through other comprehensive income				
Shares	31,301	–	5,013	36,314
Others	–	–	3	3
Total	32,226	1	7,433	39,660
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	–	1	–	1
Total	–	1	–	1

As of March 31, 2017, there were no transfers between Level 1, 2 and 3 of the fair value hierarchy.
The above financial assets and liabilities are included in “other financial assets” and “other financial liabilities” in the consolidated statement of financial position.

36. Financial Instruments (continued)

(8) Fair value of financial instruments (continued)

As of March 31, 2018

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss				
Derivative assets	–	–	–	–
Structured bonds	–	–	–	–
Shares	**403**	–	**675**	**1,078**
Others	―	–	**264**	**264**
Financial assets measured at fair value through other comprehensive income				
Shares	**31,822**	–	**5,564**	**37,386**
Others	–	–	**3**	**3**
Total	**32,225**	–	**6,506**	**38,731**
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	–	–	–	–
Total	–	–	–	–

As of March 31, 2018, there were no transfers between Level 1 and 2 of the fair value hierarchy.
The above financial assets and liabilities are included in “other financial assets” and “other financial liabilities” in the consolidated statement of financial position.

Financial instruments classified as Level 2 are derivative assets and liabilities from forward exchange contracts.
The fair value of derivative assets and liabilities has been calculated based on the price information from the financial institutions. In addition, hedge accounting is applied for derivative assets and liabilities categorized as financial assets and liabilities measured at fair value through other comprehensive income.
Financial instruments classified as Level 3 are principally structured bonds and unlisted shares.
The fair value of structured bonds has been calculated based on the price information from the financial institutions.
As to the fair value of unlisted shares, for significant issues, it is calculated by comparable company analysis method or other appropriate valuation method based on reasonably available inputs. Certain discount for lack of marketability is taken into account where necessary. For less significant issues, fair value is calculated based on book value per share method.
Significant unobservable inputs for measurement of structured bonds are based on certain information, including parameters on which counterparty financial institutions base the determination of prices, and changes in the information cause an increase or decrease in fair value of the structured bonds.
For assets classified as Level 3, a valuator determines the valuation method for each asset to be valued to measure its fair value, in accordance with the valuation policy and procedures approved by an appropriate authorized person, including valuation method for fair value measurement. The results of fair value measurement are reviewed and approved by an appropriate authorized person.

36. Financial Instruments (continued)

(8) Fair value of financial instruments (continued)

Changes in financial instruments classified as Level 3 are as follows:

(Millions of yen)

	2017	**2018**
Beginning of the fiscal year	9,162	**7,433**
Profit or loss (Note 1)	87	**354**
Other comprehensive income (Note 2)	149	**551**
Increase due to purchase, etc.	426	**100**
Decrease due to sale, redemption, settlement, etc.	(1,463)	**(1,881)**
Transfer to (from) Level 3 (Note 3)	(924)	**–**
Other changes	(4)	**(51)**
End of the fiscal year	7,433	**6,506**
Change in unrealized gains or losses for the fiscal year included in profit or loss for assets held at the end of the reporting period (Note 1)	(244)	**(27)**

(Note 1) Included in “financial income” and “financial expenses” in the consolidated statement of income.
(Note 2) Included in “net changes in financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.
(Note 3) Transfer from Level 3 is attributable to the fact that important inputs for fair value measurement became observable.

The carrying amount and fair value of financial assets and liabilities measured at amortized cost are as follows:

As of March 31, 2017

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	7,140	2,777	3,415	1,001	7,193
Financial liabilities					
Non-current borrowings	708	–	–	711	711

The above financial assets and liabilities are included in “other financial assets” and “borrowings” in the consolidated statement of financial position.

36. Financial Instruments (continued)

(8) Fair value of financial instruments (continued)

As of March 31, 2018

(Millions of yen)

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	**31,700**	–	**702**	**30,950**	**31,652**
Financial liabilities					
Non-current borrowings	**542**	–	–	**545**	**545**

The above financial assets and liabilities are included in “other financial assets” and “borrowings” in the consolidated statement of financial position.

With regard to financial assets and liabilities measured at amortized cost, information, except for debt securities and non-current borrowings, is omitted because the fair value approximates the carrying amount.
The fair value of debt securities classified as Level 2 is determined based on prices presented by counterparty financial institutions.
Debt securities classified as Level 3 are subordinated debt securities and others, and their fair value is determined by reference to prices provided by counterparty financial institutions.
The fair value of non-current borrowings with fixed interest rates is calculated based on the present value which is obtained by discounting the total of the principal and interest by the interest rate assumed in a case where the same loan is newly made. The current portion of non-current borrowings is included in non-current borrowings.
Non-current borrowings with floating rates reflect market interest rates within a short period of time and their fair values approximate the amounts recognized in the consolidated statement of financial position.

(9) Derivatives transactions

Since the Group is exposed to exchange risk related to trade and other receivables and payables etc. denominated in foreign currencies, it utilizes forward exchange contracts, etc. as derivatives transactions in accordance with the risk management policy to mitigate such risk.

i) Derivatives transactions to which hedge accounting is applied

The Group documents relationships between a hedging instrument and a hedged item at the hedge’s inception in accordance with the risk management strategy and risk management purpose. This documentation includes the specific hedging instrument and the hedged item or transaction as well as the nature of the risk being hedged and method for assessing the effectiveness of changes in the hedging instrument’s fair value in offsetting exposure to changes in fair value or cash flows of the hedged item attributable the hedged risk (including analysis of causes of the ineffective portion of the hedge and method for determining the hedge ratio).
The Group assesses whether the derivative used for the hedge transaction is effective in offsetting changes in fair value or cash flows of the hedged item over the period of designation of the hedge relationship. Specifically, the Group judges that the hedge is effective when the economic relationship between the hedged item and the hedging instrument gives rise to an offset.

36. Financial Instruments (continued)

(9) Derivatives transactions (continued)

i) Derivatives transactions to which hedge accounting is applied (continued)

There were no derivative transactions to which hedge accounting was applied as of March 31, 2017 and 2018. Therefore, the analysis of the contract amounts, etc. of hedging instruments by maturity, amounts related to hedging instruments, and amounts related to hedged items are not applicable.

The impact of the application of hedge accounting on the consolidated statement of income and the consolidated statement of comprehensive income is as follows:

Fiscal year ended March 31, 2017

(Millions of yen)

	Changes in fair value of the hedging instruments that are recognized in other comprehensive income	Ineffective portion of hedges recognized in profit or loss	Line items in the consolidated statement of income that include gains or losses on the ineffective portion of hedges	Reclassification adjustment from reserve of cash flow hedges to profit or loss	Line items in the consolidated statement of income that include gains or losses from reclassification adjustment
Cash flow hedges Exchange risk Forward exchange contracts	(4)	–	–	44	Financial income/expenses

Since forecast transactions were not executed by the time initially planned, cash flow hedges were terminated. Consequently, there were no cash flow hedges of which a reclassification adjustment was made from other components of equity to the consolidated statement of income.

36. Financial Instruments (continued)

(9) Derivatives transactions (continued)

i) Derivatives transactions to which hedge accounting is applied (continued)

Fiscal year ended March 31, 2018

(Millions of yen)

	Changes in fair value of the hedging instruments that are recognized in other comprehensive income	Ineffective portion of hedges recognized in profit or loss	Line items in the consolidated statement of income that include gains or losses on the ineffective portion of hedges	Reclassification adjustment from reserve of cash flow hedges to profit or loss	Line items in the consolidated statement of income that include gains or losses from reclassification adjustment
Cash flow hedges Exchange risk Forward exchange contracts	**1,033**	–	–	–	–

Since forecast transactions were not executed by the time initially planned, cash flow hedges were terminated. Consequently, there were no cash flow hedges of which a reclassification adjustment was made from other components of equity to the consolidated statement of income.

For forecast transaction involving the purchase of non-financial assets designated as a hedged item, the amount included in the cost of such non-financial assets that was excluded from other components of equity was ¥1,033 million (deduction) for the fiscal year ended March 31, 2018.

ii) Derivatives transactions to which hedge accounting is not applied
The breakdown of currency derivatives is as follows:

As of March 31, 2017

(Millions of yen)

	Contract amount, etc.	Of which: later than one year	Fair value
Currency options Buying	3,851	–	1
Currency options Selling	3,851	–	(1)

As of March 31, 2018

Not applicable.

37. Subsidiaries

Transfer of Subsidiary

During the fiscal year ended March 31, 2018, the Company transferred all its shares of Tanabe Seiyaku Hanbai Co., Ltd. (currently Nipro ES Pharma Co., Ltd.) to Nipro Corporation.

(1) Consideration received, and assets and liabilities with the loss of control

(Millions of yen)

	Amount
Consideration received	10,868
Assets and liabilities with the loss of control (Note)	
Non-current assets	321
Current assets	15,284
Non-current liabilities	(162)
Current liabilities	(8,140)
Gain on sale of investment in subsidiary	3,565

(Note) The Company's assets and liabilities that Tanabe Seiyaku Hanbai Co., Ltd. succeeded by absorption-type company split are included.

(2) Proceeds from transfer of subsidiary

(Millions of yen)

	Amount
Cash consideration received	10,868
Cash and cash equivalents held by the subsidiary sold	(65)
Proceeds from sale of subsidiary	10,803

38. Related Parties

(1) Related party transactions

Of the related parties, Mitsubishi Chemical Holdings Corporation, which is listed on the Tokyo Stock Exchange, is the Group's ultimate parent company.

Transactions with major related parties are as follows:

(Millions of yen)

		2017		**2018**	
		Deposits of funds	Interest income	Redemption of funds	Interest income
Parent company	Mitsubishi Chemical Holdings Corporation	133	133	**39,872**	**128**
Total		133	133	**39,872**	**128**

(Note) The Company limits its deposits of funds with the parent company to times when the interest rate is more favorable than market interest rates. In the fiscal year ended March 31, 2017, certain deposits were convertible into cash at any time while some deposits required six months' notice for redemption. In the fiscal year ended March 31, 2018, certain deposits required three months' notice for redemption while some deposits required six months' notice for redemption. The transaction amount for redemption of funds was offset against deposits of funds for the fiscal year ended March 31, 2018.

Receivables from and payables to major related parties are as follows:

(Millions of yen)

		As of March 31, 2017		**As of March 31, 2018**	
		Receivables	Payables	Receivables	Payables
Parent company	Mitsubishi Chemical Holdings Corporation	193,319	6	**153,440**	**20**
Total		193,319	6	**153,440**	**20**

(Note) Receivables from the parent company are mainly deposits accompanying transactions involving deposits of funds.

(2) Remuneration for key management personnel

Key management personnel refers to all members serving on the Board of Directors including the Outside Board of Directors, at the Company, and their remuneration is as follows:

(Millions of yen)

	2017	**2018**
Remuneration	388	**380**
Share-based payment	–	**22**
Total	388	**402**

39. Contingent Liabilities

There are no significant contingent liabilities.

40. Subsequent Event

Not applicable.

41. Litigation (Unaudited)

Court action for compensation by patients infected with HCV (hepatitis C virus)
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" (promulgated on January 16, 2008), the Company incurs a portion of the expenses for relief payments to patients who may have contracted HCV (hepatitis C virus) infection following the use of a fibrinogen product or a blood coagulant factor IX product sold by the former Green Cross Corporation, one of the predecessors of the Company.