Financial Results for the Fiscal Year ended March 31, 2018
(IFRS, Consolidated)

May 9, 2018

Company name: Mitsubishi Tanabe Pharma Corporation
Stock exchange listings: Tokyo
Securities code number: 4508
URL: https://www.mt-pharma.co.jp/
Representative: Name: Masayuki Mitsuka
Title: President and Representative Director
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Planned date of ordinary general meeting of shareholders: June 22, 2018
Planned date of start of dividend payments: June 25, 2018
Planned date of filing of annual securities report: June 22, 2018
Provision of supplementary explanatory materials for results: Yes
Results presentation: Yes (for institutional investors and securities analysts)

Notes; Amounts less than ¥1 million have been rounded.
Percentage changes in the list show change in comparison with the previous fiscal year.

1. Results for Fiscal Year 2017 (from April 1, 2017 to March 31, 2018)

(1) Consolidated Business Results

	Revenue		Core operating profit		Operating profit		Profit before income tax	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Fiscal Year 2017	433,855	2.3	78,549	(16.9)	77,285	(17.9)	78,764	(18.0)
Fiscal Year 2016	423,977	(0.4)	94,510	(11.7)	94,083	15.0	96,059	15.4

	Profit for the year		Profit attributable to owners of the Company	
	Millions of Yen	% change	Millions of Yen	% change
Fiscal Year 2017	53,992	(21.7)	57,963	(18.7)
Fiscal Year 2016	68,922	20.8	71,263	20.2

Total comprehensive income: ¥56,620 million, (18.3)% in fiscal year 2017 (¥69,309 million, 32.4% in fiscal year 2016)

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

	Basic earnings per share	Diluted earnings per share	Ratio of net profit to equity attributable to owners of the Company	Ratio of profit before income tax to total assets	Ratio of operating profit to revenue
	Yen	Yen	%	%	%
Fiscal Year 2017	103.35	103.35	6.6	7.8	17.8
Fiscal Year 2016	127.03	—	8.5	9.9	22.2

(Reference) Share of profit of affiliates accounted for using equity method: ¥23 million in fiscal year 2017 (¥24 million in fiscal year 2016)

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity attributable to owners of the Company per share
	Millions of Yen	Millions of Yen	Millions of Yen	%	Yen
As of March 31, 2018	1,047,621	894,827	882,808	84.3	1,574.26
As of March 31, 2017	984,537	871,430	860,505	87.4	1,533.91

(3) Consolidated Cash Flows

	Cash Flow from Operating activities	Cash Flow from Investing activities	Cash Flow from Financing activities	Cash and cash equivalents at the end of the year
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal Year 2017	66,943	(19,178)	(32,501)	127,030
Fiscal Year 2016	59,785	(10,566)	(24,408)	113,215

2. Dividends

	Dividends per share					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the Company (consolidated)
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
Fiscal Year 2016	—	24.00	—	28.00	52.00	29,171	40.9	3.5
Fiscal Year 2017	—	38.00	—	28.00	66.00	37,025	63.9	4.2
Fiscal Year 2018 (forecasts)	—	28.00	—	28.00	56.00		66.8	

(Note) Breakdown of dividend at the end of the 2nd quarter of the fiscal year ended March 31, 2018:
ordinary dividend ¥28.00, commemorative dividend ¥10.00

3. Forecasts for Fiscal Year 2018 (April 1, 2018 to March 31, 2019)

	Revenue		Core operating profit		Operating profit	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Interim	210,000	(1.6)	30,000	(24.5)	28,500	(22.7)
Full year	435,000	0.3	70,000	(10.9)	67,000	(13.3)

	Profit before income tax		Profit for the year		Profit attributable to owners of the Company	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Interim	29,000	(22.8)	18,500	(34.5)	19,500	(34.6)
Full year	67,500	(14.3)	44,500	(17.6)	47,000	(18.9)

Basic earnings per share: Interim 34.77 Full year 83.81

(Note) Percentage changes in the above list show change from the previous year for full-year data and change from the same period of the previous year for interim data.

※ Notes

(1) Significant change involving subsidiaries during the period: No
(Change in designated subsidiaries accompanying changes in the scope of consolidation)

(2) Changes in accounting policies and accounting estimates
1. Changes in accounting policies required by IFRS: No
2. Other changes: No
3. Change in accounting estimates: No

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

Fiscal Year 2017	561,417,916 shares	Fiscal Year 2016	561,417,916 shares

2. Number of treasury shares at the end of the period

Fiscal Year 2017	642,309 shares	Fiscal Year 2016	429,753 shares

3. Average number of shares during the period (cumulative total)

Fiscal Year 2017	560,857,644 shares	Fiscal Year 2016	560,988,710 shares

(Note) The Company introduces the executive compensation BIP Trust since the fiscal year ended March 31, 2018. Hence, the shares that the trust account holds are included in treasury shares (211,100 shares at the end of the fiscal year ended March 31, 2018).

(Reference) Overview of Non-consolidated Business Results

Notes; Amounts less than ¥1 million have been omitted in non-consolidated business results.
Percentage changes in the list show change in comparison with the previous fiscal year.

Results for Fiscal Year 2017 (April 1, 2017 to March 31, 2018)

(1) Non-consolidated Business Results

	Net sales		Operating income		Ordinary income		Net income	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Fiscal Year 2017	414,957	4.7	90,385	4.1	90,935	2.2	73,755	54.0
Fiscal Year 2016	396,319	(3.7)	86,786	(17.7)	89,007	(17.7)	47,908	(34.6)

	Basic net income per share	Diluted net income per share
	Yen	Yen
Fiscal Year 2017	131.50	131.50
Fiscal Year 2016	85.40	―

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of March 31, 2018	881,868	779,414	88.4	1,389.89
As of March 31, 2017	838,638	741,676	88.4	1,322.09

(Reference) Shareholders' equity: ¥779,414 million in fiscal year 2017 (¥741,676 million in fiscal year 2016)

*This financial results report is exempt from the audit procedures required by Certified Public Accountants and audit company.

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

(Note about forward-looking statements)

The earnings forecasts and other statements about the future are forward-looking statements are made based on the information currently available and certain assumptions which the Company regards as reasonable. Accordingly, the Company cannot assert to achieve such forecasts. Actual financial results may differ materially from these forecasts due to uncertainty and risk of the future circumstances. Please see "1. Overview of Business Results and Financial Position, (3) Future Forecasts" for information regarding the forecast of consolidated financial results.

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

・Supplementary materials are disclosed on TDnet and available on the Company's homepage on the same day.

・The Company plans to hold a results presentation for institutional investors and securities analysts on May 10, 2018 (Thursday). The content of the results presentation (documents and videos used in the presentation) will be released on the homepage of the Company immediately after the presentation.

Contents of supplement

1. Overview of Business Results and Financial Position

(1) Overview of Business Results

① Overview of operating results

The business environment of the domestic pharmaceutical industry remains challenging due to the implementation of the fundamental reform of NHI drug price system and the penetration of the promotion of generic drugs use.

Facing such a business environment, in the consolidated operating results of the fiscal year ended March 31, 2018, revenue increased due to growth in revenue of domestic high-priority products and the launch of RADICAVA, for the treatment of ALS (amyotrophic lateral sclerosis) in the U.S. that exceeded the decline in revenue of long-listed drugs and royalty. On the other hand, operating profit and all other profit items decreased due to the increase in R&D expenses based on progress in the late-stage development and the acquisition of NeuroDerm Ltd. (hereinafter "NeuroDerm").

(Millions of yen)

	Fiscal Year 2016	Fiscal Year 2017	Increase / Decrease	% change
Revenue	423,977	433,855	9,878	2.3
Core operating profit	94,510	78,549	(15,961)	(16.9)
Operating profit	94,083	77,285	(16,798)	(17.9)
Profit before income tax	96,059	78,764	(17,295)	(18.0)
Profit attributable to owners of the Company	71,263	57,963	(13,300)	(18.7)

【Revenue】

Revenue increased by 2.3%, or ¥9.8 billion, year-on-year, to ¥433.8 billion.

(Millions of yen)

	Fiscal Year 2016	Fiscal Year 2017	Increase / Decrease	% change
Pharmaceuticals	423,977	433,855	9,878	2.3
Domestic ethical drugs	314,221	309,372	(4,849)	(1.5)
Overseas ethical drugs	22,689	38,574	15,885	70.0
Royalty revenue, etc.	82,239	79,151	(3,088)	(3.8)
OTC products	3,413	3,732	319	9.3
Others	1,415	3,026	1,611	113.9

・Revenue of domestic ethical drugs decreased by 1.5%, year-on-year, to ¥309.3 billion due to the following reasons:

- Increase in revenue of SIMPONI, for the treatment agent of Rheumatoid arthritis (RA) and high-priority products such as TENELIA and CANAGLU, type 2 diabetes mellitus were offset by the decline in revenue of vaccines and long-listed drugs.
- The Company transferred generic drug business in October 2017.

・Revenue of overseas ethical drugs increased by 70.0%, year-on-year, to ¥38.5 billion largely owing to the launch of RADICAVA, for the treatment of ALS in the U.S. in August 2017.

・Royalty revenue, etc. decreased due to the following reasons:

- Increase in royalty revenue from GILENYA, for the treatment of multiple sclerosis, licensed to Novartis.
- Decrease in royalty revenue from INVOKANA and the fixed dose combination with metformin, for the treatment of type 2 diabetes mellitus, licensed to Janssen Pharmaceuticals.

【Core operating profit】

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

Core operating profit decreased by 16.9%, or ¥15.9 billion, year-on-year, to ¥78.5 billion because of the following reasons:

- Decrease in revenue of long-listed drugs and royalty in spite of the contributions from growth in revenue of domestic high-priority products and the launch of RADICAVA in the U.S.
- Large increase in R&D expense due to moving into the late-stage development and the acquisition of NeuroDerm.

【Operating profit】

Operating profit decreased by 17.9%, or ¥16.7 billion, year-on-year, to ¥77.2 billion.

In non-recurring items, the expenses such as impairment losses and restructuring loss exceeded the income such as gain associated with a business transfer and the gain on sale of fixed assets.

【Profit attributable to owners of the Company】

Profit attributable to owners of the Company decreased by 18.7%, or ¥13.3 billion, year-on-year, to ¥57.9 billion.

② The progress of the "Medium-Term Management Plan 16-20: Open Up the Future" during the current fiscal year

The Group engages business operations to grow sustainably under the "Medium-Term Management Plan16-20: Open Up the Future" formulated in 2015, which contains four strategic priorities, (ⅰ) Maximizing Pipeline Value, (ⅱ) Strengthening IKUYAKU (Drug Fostering and Evolution) and Marketing, (ⅲ) Accelerating U.S. Business Development, and (ⅳ) Reforming Operational Productivity.

The major progress achieved in the fiscal year ended March 31, 2018 is showed below.

(ⅰ) Maximizing Pipeline Value

As the initial step to enter into the U.S. market, the Company received an approval for ALS for MCI-186 (generic name: edaravone, U.S. product name: RADICAVA) in May 2017.

In July 2017, MT-2412 (Japanese product name: CANALIA), the fixed dose combination of TENELIA and CANAGLU, both for type 2 diabetes mellitus, was approved as the first fixed dose combination of DPP-4 inhibitor and SGLT2 inhibitor in Japan.

Furthermore, MT-5199 (VMAT2 inhibitor) for an indication of tardive dyskinesia, MT-2271 (plant-based Virus Like Particle (hereinafter "VLP") vaccine) for an indication of prophylaxis of seasonal influenza, MT-5547 (fully human anti-NGF monoclonal antibody) for an indication of osteoarthritis, and MT-6548 (hypoxia inducible factor prolyl hydroxylase inhibitor) for an indication of renal anemia started late-stage clinical trials.

In the current consolidated fiscal year, the Company invested in R&D expense to maximize pipeline value, resulting in an increase of ¥14.3 billion, year-on-year, to ¥79.0 billion, accounting for 18.2% of revenue.

The progress of major clinical development activities (application and acquisition of the approval for manufacturing and marketing) is as follows.

Acquisition of approval

- In May 2017, MCI-186 was approved for ALS in the U.S.
- In May 2017, REMICADE was approved for a partial change on administration / dosage (a shortened administration interval) for Crohn's diseases in Japan.
- In July 2017, MT-2412 was approved for type 2 diabetes mellitus in Japan.
- In December 2017, NOVASTAN was approved for acute cerebral thrombosis in China.

Application of approval

- In August 2017, an application was submitted in Indonesia for type 2 diabetes mellitus for TA-7284 (generic name: canagliflozin, Japanese product name: CANAGLU).
- In December 2017, an application was submitted in Korea and Taiwan for schizophrenia for MP-214 (dopamine D3/D2 receptor partial agonist).

・In December 2017, an application was submitted in Switzerland for ALS for MCI-186.
・In February 2018, an application was submitted for an additional pediatric indication for the prevention of cytomegalovirus disease in organ transplant patients for Valixa in Japan.

In addition, an application was submitted in Canada for ALS for MCI-186 in April 2018.

Start of clinical trials

・In August 2017, the Company started phase 2/3 clinical trials for an indication of tardive dyskinesia for MT-5199 in Japan.
・In August 2017, the Group started phase 3 clinical trials for an indication of prophylaxis of seasonal influenza for MT-2271 in the U.S., Europe, Canada, and others.
・In August 2017, the Company started phase 2 clinical trials for painful diabetic peripheral neuropathy for MT-8554 in Europe.
・In November 2017, the Company started phase 2/3 clinical trials for an indication of osteoarthritis for MT-5547 in Japan.
・In November 2017, the Company started phase 2 clinical trials for vasomotor symptoms associated with menopause for MT-8554 in the U.S.
・In November 2017, the Company started phase 3 clinical trials for an indication of renal anemia for MT-6548 in Japan.

Development status of licensing-out products

・Licensee Kyowa Hakko Kirin Co., Ltd. filed an NDA in Japan in April 2017, and received an approval in March 2018, for an indication of secondary hyperparathyroidism in patients on maintenance dialysis for MT-4580 (generic name: evocalcet, product name: ORKEDIA). In addition, Kyowa Hakko Kirin Co., Ltd. started phase 3 clinical trials in Japan in October 2017 for an indication of hypercalcemia in patients with parathyroid carcinoma or primary hyperparathyroidism for MT-4580.
・Licensee Janssen Pharmaceuticals, Inc. filed NDAs for risk reduction of death in type 2 diabetes with established, or risk for, cardiovascular disease (CANVAS/CANVAS-R) for TA-7284 in the U.S. in September 2017, and in Europe in October 2017.
・In November 2017, licensee Novartis filed NDAs for pediatric multiple sclerosis for FTY720 (generic name: fingolimod, product name: Gilenya) in the U.S. and Europe.
・In December 2017, licensee Minerva Neurosciences started phase 3 clinical trials for schizophrenia for MT-210 (5-HT2A/ Sigma 2 receptor antagonist) in the U.S. and Europe.

(ⅱ) Strengthening IKUYAKU and Marketing

Following the steady sales growth of TENELIA and CANAGLU, through sales alliance with Daiichi Sankyo Co., Ltd. in the field of diabetes mellitus, the Company and Daiichi Sankyo Co., Ltd. launched and co-promoted CANALIA, a type 2 diabetes mellitus treatment agent in September 2017, and it shows smooth start.
In November 2017, the Company and Teikoku Seiyaku Co., Ltd. launched and co-promoted Rupafin, anti-allergy agent, developed by Teikoku Seiyaku Co., Ltd.
In addition, BIKEN Corporation (hereinafter "BIKEN") began its operation in September 2017 as a vaccine manufacturing joint venture with The Research Foundation for Microbial Diseases of Osaka University (hereinafter "BIKEN Foundation") to combine the Company's pharmaceutical production systems, management methods and other strengths with the BIKEN Foundation's vaccine manufacturing technologies, thereby accelerating enhancement of BIKEN's manufacturing base. BIKEN strives to contribute an even more steady supply of vaccines and increase vaccine production.

(ⅲ) Accelerating U.S. Business Development

The Company received the approval of manufacture and marketing for RADICAVA for ALS in May 2017 and launched it in August 2017. By the end of the fiscal year ended March 31, 2018, the number of patients received treatment has reached 2,000, and revenue totaled ¥12.3 billion.
Besides, in order to expand the U.S. business, the Company acquired NeuroDerm in October 2017. As a result, ND0612, drug-device combinations for Parkinson's disease was added to the pipeline following RADICAVA. In addition, the Company acquired Stelic Institute & Co., Inc. in February 2018, and STNM01, nucleic acid pharmaceutical for intestinal disease was also added to the pipeline.
Furthermore, the Group aims to launch MT-2271 for an indication of prophylaxis of seasonal influenza in North America in 2020. Currently, Medicago Inc., the subsidiary with strengths in R&D for new vaccines using VLP technology, carries out phase 3 clinical trials for MT-2271.

(ⅳ) Reforming Operational Productivity

To reduce cost of sales and SG&A expense by ¥20.0 billion (in comparison with FY2015) under the Medium-Term Management Plan, the Group strived the reduction of labor cost by optimizing personnel, and of the supply cost of the pharmaceutical ingredients. As a result, the reduction of ¥14.0 billion was achieved by the end of the fiscal year ended March 31, 2018.

(2) Overview of Financial Position

【Statement of financial position】 (Millions of yen)

	End of Fiscal Year 2016 (As of March 31, 2017)	End of Fiscal Year 2017 (As of March 31, 2018)	Increase / Decrease
Non-current assets	300,778	462,096	161,318
Current assets	683,759	585,525	(98,234)
Total assets	984,537	1,047,621	63,084
Liabilities	113,107	152,794	39,687
Equity	871,430	894,827	23,397
Total liabilities and equity	984,537	1,047,621	63,084

Total assets at the end of the fiscal year ended March 31, 2018 were ¥1,047.6 billion, an increase of ¥63.0 billion from the end of the fiscal year ended March 31, 2017. Major factors causing changes in the consolidated statement of financial position in comparison with the previous year-end were as follows:

- Non-current assets were up ¥161.3 billion, to ¥462.0 billion, due to the increase in intangible assets associated with products and goodwill accompanying an acquisition of NeuroDerm, and an acquisition of shares of BIKEN, an affiliate accounted for by equity method.
- Current assets were down ¥98.2 billion, to ¥585.5 billion due to the decrease in other financial assets by promoting the above strategic investment.
- Liabilities were up ¥39.6 billion, to ¥152.7 billion due to the increase in deferred tax liabilities and income taxes payable.
- Equity was up ¥23.3 billion, to ¥894.8 billion, as a result of posting net profit and dividends payment.

【Cash flows】 (Millions of yen)

	Fiscal Year 2016	Fiscal Year 2017	Increase / Decrease
Operating activities	59,785	66,943	7,158
Investing activities	(10,566)	(19,178)	(8,612)
Financing activities	(24,408)	(32,501)	(8,093)
Change in cash and cash equivalents	24,304	13,807	(10,497)
At the beginning of the year	88,919	113,215	24,296
At the end of the year	113,215	127,030	13,815

Net increase in cash and cash equivalents was ¥13.8 billion, and the balance of cash and cash equivalents at the end of the fiscal year ended March 31, 2018 was ¥127.0 billion.

- Net cash provided by operating activities was ¥66.9 billion because cash inflows including profit before income tax of ¥78.7 billion exceeded cash outflows including income taxes paid of ¥13.8 billion.
- Net cash used in investing activities was ¥19.1 billion mainly because of the acquisition of NeuroDerm and intangible assets.
- Net cash used in financing activities was ¥32.5 billion mainly due to dividends paid.

(Reference) Cash flow indicators

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Ratio of equity attributable to owners of the Company to total assets (%)	85.1	87.4	84.3
Ratio of equity attributable to owners of the Company to total assets (market price) (%)	114.5	132.1	111.3
Ratio of interest-bearing debt to cash flow (years)	0.0	0.0	0.0
Interest coverage ratio	250.3	335.9	418.4

・Ratio of equity attributable to owners of the Company to total assets: equity attributable to owners of the Company / total assets
・Ratio of equity attributable to owners of the Company to total assets (market price): total market capitalization / total assets
・Ratio of interest-bearing debt to cash flow: interest-bearing debt / cash flow from operating activities
・Interest coverage ratio: cash flow from operating activities / interest payments

Notes: 1. Each indicator is calculated on a consolidated basis.
2. Total market capitalization is calculated based on the number of shares outstanding at the end of the fiscal year, excluding treasury shares. Those treasury shares to be deducted include the Company's shares held by the executive compensation BIP trust.
3. Interest-bearing debt includes all liabilities, reported on the consolidated statements of financial position that are subject to interest payments.
4. According to the adoption of IFRS from the fiscal year ended March 31, 2016, the comparative three fiscal years are described.

(3) Future Forecasts

In the fiscal year ending March 31, 2019, the Company will be under an even more challenging environment with the revision of NHI drug price, and the promotion of using generic drugs and bio-similar products. However, revenue is expected to increase from the previous fiscal year by strengthening marketing of domestic high-priority products and expanding RADICAVA in the U.S.

In terms of profit, core operating profit is expected to decrease in comparison with the previous fiscal year because of the increase in R&D expense with targeting on the global development and late-stage development to achieve progressive improvement after the fiscal year ending March 31, 2021.

In addition, the Company expects to decrease in both operating profit and major profit items in comparison with the fiscal year ended March 31, 2018.

(Millions of yen)

	Fiscal Year 2017	Fiscal Year 2018	Increase / Decrease	% change
Revenue	433,855	435,000	1,145	0.3
Core operating profit	78,549	70,000	(8,549)	(10.9)
Operating profit	77,285	67,000	(10,285)	(13.3)
Profit before income tax	78,764	67,500	(11,264)	(14.3)
Profit for the year	53,992	44,500	(9,492)	(17.6)
Profit attributable to owners of the Company	57,963	47,000	(10,963)	(18.9)

(4) Basic Policy regarding the Distribution of Profits and Dividends in the Fiscal Year ended March 31, 2018 and ending March 31, 2019

The Company aims to maximize corporate value through aggressively carrying out strategic investment and R&D investment targeting sustainable growth and provide a stable and continuous return to shareholders.

Under "Medium-Term Management Plan 16-20", the Company strives to distribute the profit to shareholders to achieve consolidated payout ratio of 50% with the adoption of IFRS.

The Company recorded the decrease in core operating profit and all other profit items in the fiscal year ended March 31, 2018 due to the following reasons;

- Positive impact of the growth in revenue of domestic high-priority products and the launch of RADICAVA in the U.S. was offset by the decline in revenue of long-listed drugs and royalty.
- Significant increase in R&D expense by progress in the late-stage development and the acquisition of NeuroDerm.

Despite of such a situation, the Company plans to pay a year-end dividend of ¥28 per share for the fiscal year ended March 31, 2018. Accordingly, the annual dividend for the fiscal year ended March 31, 2018 will be ¥66 per share (including the ¥10 per share commemorative dividend).

The Company plans to pay an annual dividend of ¥56 per share, including an interim dividend of ¥28 per share, for the fiscal year ending March 31, 2019.

2. Basic Stance of the Selection for Accounting Standards

The Group has adopted IFRS from the first quarter of the fiscal year ended March 31, 2017, for the purpose of improving the international comparability of financial information in the capital market and unifying accounting standards across the Group.

3. Consolidated Financial Statements and Main Notes

(1) Consolidated Statements of Income

(Millions of yen)

	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 2018
Revenue	423,977	433,855
Cost of sales	164,397	169,750
Gross profit	259,580	264,105
Selling, general and administrative expense	98,302	104,055
Research and development expense	64,783	79,083
Amortization of intangible assets associated with products	1,528	2,451
Other income	974	6,661
Other expense	1,882	7,915
Share of profit of affiliates accounted for using equity method	24	23
Operating profit	94,083	77,285
Financial income	2,212	1,881
Financial expense	236	402
Profit before income tax	96,059	78,764
Income taxes	27,137	24,772
Profit for the year	68,922	53,992
Profit attributable to:		
Owners of the Company	71,263	57,963
Non-controlling interests	(2,341)	(3,971)
Profit for the year	68,922	53,992
Earnings per share		
Basic earnings per share (Yen)	127.03	103.35
Diluted earnings per share (Yen)	―	103.35

(2) Consolidated Statements of Comprehensive Income

(Millions of yen)

	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 2018
Profit for the year	68,922	53,992
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	(2,229)	4,542
Remeasurements of defined benefit plans	3,658	5,823
Subtotal	1,429	10,365
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(1,020)	(8,798)
Effective portion of changes in fair value of cash flow hedges	(4)	1,033
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(18)	28
Subtotal	(1,042)	(7,737)
Other comprehensive income (loss), net of tax	387	2,628
Comprehensive income	69,309	56,620
Comprehensive income (loss) attributable to:		
Owners of the Company	71,915	60,861
Non-controlling interests	(2,606)	(4,241)
Comprehensive income	69,309	56,620

(3) Consolidated Statements of Financial Position

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Non-current assets		
Property, plant and equipment	85,836	80,457
Goodwill	80,328	90,313
Intangible assets	61,209	200,940
Investments in associates and joint ventures accounted for using equity method	245	16,445
Other financial assets	51,623	46,109
Net defined benefit assets	14,769	22,711
Other non-current assets	482	379
Deferred tax assets	6,286	4,742
Total non-current assets	300,778	462,096
Current assets		
Inventories	79,168	81,998
Trade and other receivables	116,856	123,537
Other financial assets	354,255	246,733
Other current assets	9,183	6,227
Cash and cash equivalents	113,215	127,030
Subtotal	672,677	585,525
Assets held for sale	11,082	―
Total current assets	683,759	585,525
Total assets	984,537	1,047,621

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities and equity		
Liabilities		
Non-current liabilities		
Borrowings	581	420
Other financial liabilities	2,405	2,199
Net defined benefit liabilities	1,092	868
Provisions	7,890	8,571
Other non-current liabilities	5,576	5,505
Deferred tax liabilities	7,156	37,861
Total non-current liabilities	24,700	55,424
Current liabilities		
Borrowings	127	122
Trade and other payables	35,741	35,631
Other financial liabilities	24,135	20,737
Income taxes payable	4,815	18,093
Provisions	86	1,934
Other current liabilities	20,358	20,853
Subtotal	85,262	97,370
Liabilities directly related to assets held for sale	3,145	－
Total current liabilities	88,407	97,370
Total liabilities	113,107	152,794
Equity		
Share capital	50,000	50,000
Capital surplus	451,187	451,228
Treasury shares	(496)	(1,045)
Retained earnings	353,427	382,122
Other components of equity	6,387	503
Total equity attributable to owners of the Company	860,505	882,808
Non-controlling interests	10,925	12,019
Total equity	871,430	894,827
Total liabilities and equity	984,537	1,047,621

(4) Consolidated Statements of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the Company						
					Other components of equity		
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Cash flow hedges	Fair value changes of financial assets measured through other comprehen-sive income
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	—	—	(2)	—	—	—	—
Disposal of treasury shares	—	1	0	—	—	—	—
Dividends	—	—	—	(26,927)	—	—	—
Share-based payments	—	—	—	—	—	—	—
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)
As of March 31, 2017	50,000	451,187	(496)	353,427	(4,666)	—	11,101
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	—	—	(549)	—	—	—	—
Disposal of treasury shares	—	0	0	—	—	—	—
Dividends	—	—	—	(37,017)	—	—	—
Share-based payments	—	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)
As of March 31, 2018	50,000	451,228	(1,045)	382,122	(13,194)	—	13,717

(Millions of yen)

	Equity attributable to owners of the Company					
	Other components of equity					
	Remeasure-ments of defined benefit plans	Share of other comprehensive income of affiliates accounted for using equity method	Total	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
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	—	—	—	(2)	—	(2)
Disposal of treasury shares	—	—	—	1	—	1
Dividends	—	—	—	(26,927)	(80)	(27,007)
Share-based payments	—	—	—	—	—	—
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)
As of March 31, 2017	—	(48)	6,387	860,505	10,925	871,430
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	—	—	—	(549)	—	(549)
Disposal of treasury shares	—	—	—	0	—	0
Dividends	—	—	—	(37,017)	(138)	(37,155)
Share-based payments	—	—	—	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)
As of March 31, 2018	—	(20)	503	882,808	12,019	894,827

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 2018
Cash flows from operating activities:		
Profit before income tax	96,059	78,764
Depreciation and amortization	10,454	11,535
Impairment losses	185	3,791
Interest and dividends income	(1,864)	(1,238)
Share of profits of associates and joint ventures accounted for using equity method	(24)	(23)
Loss (gain) on sales of property, plant and equipment	(67)	(2,287)
Loss (gain) on sales of investments in subsidiaries	—	(3,565)
Restructuring loss	484	2,144
Decrease (increase) in trade and other receivables	(2,030)	(6,111)
Decrease (increase) in inventories	(7,842)	(2,683)
Increase (decrease) in trade and other payables	4,997	56
Increase (decrease) in provisions	(1,267)	2,529
Decrease (increase) in net defined benefit assets	(863)	1,153
Increase (decrease) in net defined benefit liabilities	(185)	(948)
Increase (decrease) in deferred revenue	(7,265)	(480)
Other	(331)	(2,965)
Subtotal	90,441	79,672
Interest received	1,211	522
Dividends received	737	772
Interest paid	(178)	(160)
Income taxes paid	(32,426)	(13,863)
Net cash provided by operating activities	59,785	66,943
Cash flows from investing activities:		
Payments into time deposits	(684)	(3,742)
Proceeds from withdrawal of time deposits	118,468	8,407
Purchase of property, plant and equipment	(14,271)	(6,416)
Proceeds from sales of property, plant and equipment	2,325	3,703
Purchase of intangible assets	(6,658)	(22,034)
Purchase of investments	(309,930)	(391,749)
Proceeds from sales and redemption of investments	197,454	428,741
Proceeds from withdrawal of deposits	—	70,000
Proceeds from sales of subsidiaries	—	10,803
Purchase of subsidiaries	—	(119,724)
Proceeds from transfer of business	3,056	3,000
Other	(326)	(167)
Net cash used in investing activities	(10,566)	(19,178)
Cash flows from financing activities:		
Purchase of treasury shares	(2)	(549)
Proceeds from share issuance to non-controlling shareholders	2,813	5,409
Dividends paid	(26,927)	(37,017)
Other	(292)	(344)
Net cash used in financing activities	(24,408)	(32,501)
Effect of exchange rate changes on cash and cash equivalents	(507)	(1,457)
Net increase in cash and cash equivalents	24,304	13,807
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	(8)	8
Cash and cash equivalents at the beginning of the year	88,919	113,215
Cash and cash equivalents at the end of the year	113,215	127,030

(6) Notes to Consolidated Financial Statements

(Note regarding Going Concern Assumption)

Not applicable.

(Reporting Entity)

The Company is a corporation domiciled in Japan, and is listed on the First Section of the Tokyo Stock Exchange. The address of the Company's registered head office is available on the Company's website (https://www.mt-pharma.co.jp/).

The Company's consolidated financial statements as of and for the fiscal year ended March 31, 2018 comprise the Company, its subsidiaries and its affiliates (collectively, "the Group",) and the Group's interests in joint arrangements.

The Group is principally engaged in the pharmaceuticals business.

In addition, the Company's parent company is Mitsubishi Chemical Holdings Corporation.

(Basis of Preparation)

(1) Compliance with IFRS

Since the requirements for "Specific company of Designated International Financial Reporting Standards" set forth in Article 1-2 of the "Preparation Methods of Consolidated Financial Statements" are satisfied, the consolidated financial statements of the Group have been prepared in accordance with IFRS pursuant to Article 93 of the ordinance.

(2) Authorization of financial statements

The Group's consolidated financial statements were approved on May 9, 2018 by President and Representative Director Masayuki Mitsuka.

(3) Basis of measurement

The Group's Consolidated Financial Statements have been prepared on an acquisition cost basis, except for specific financial instruments described in "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.

(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").

(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 acquisition date of a subsidiary is the date on which the Group gained control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

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 implements its financial statements based on the 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 on consolidation.

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 owner of the Group.

When the Group results in loss of control, any retained interests 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 interests or the amount received by disposal is recognized in profit or loss.

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

2) Affiliates

Affiliates 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 affiliates 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. A type of joint arrangements that the Group has 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 investments in joint ventures using the equity method.

4) Business combinations

Business combinations are accounted for by applying the acquisition method.

The acquiree's identifiable assets and liabilities are measured at their acquisition-date fair values, except certain assets and liabilities based on the requirements of 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 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 calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer 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 has set 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 exchange rate that approximates the spot rate.

At the end of the reporting period, foreign currency monetary items 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 as profit or loss.

However, translation differences arising from financial assets measured through other comprehensive income and 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 in each financial statement presenting profit or loss and other comprehensive income are translated into Japanese yen using the average exchange rate 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 loss of control or joint arrangement, the cumulative amount of other comprehensive income is reclassified to part of profit or loss on disposal.

(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 incidental to 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
(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 allowance, rebate, and consumption taxes.

2) Rendering of services

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

3) Royalty income, etc.

Some of the Group's revenues are generated from the 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 income as earned over the period of duties based on the agreements.

Milestone payment is recognized upon achievement of the milestones defined in the respective agreements.

For running royalty, revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement.

4) Interest revenue

Interest revenue 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.

(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 tax loss carryforwards. 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 affiliates, 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 affiliates, 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 carryforwards, 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 after recognition 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 fiscal year, and changed, as necessary.

(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.

In 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 apportioned between the financial costs and the reduction 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 stated in "(1) Basis of consolidation, 4) Business combinations."

Impairment of goodwill is stated 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, distribution 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 at the initial recognition. Cost of intangible assets acquired through business combinations is measured at fair value at the acquisition date.

Internally incurred expenditure in the research stage is recognized as expenses when incurred. Expenditure in the development stage is recognized as intangible assets when 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 expenditure incurred for ongoing development projects does not meet requirements for capitalization unless marketing approval is obtained from the regulatory authorities in a major market, and recognizes such expenditure as expenses 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 intangible assets acquired through business combinations and 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 period in which the effect of intangible assets is expected more appropriately, with the purpose of the expenditure and economic substance of the transaction taken into account, this period is deemed as the estimated useful life.

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 license and distribution 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 statements of income.

The amortization methods, residual values and useful lives of intangible assets are reviewed at the end of 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 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.

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

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 matters 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 the depreciation. A reversal of an impairment loss is recognized as profit or loss.

Any impairment loss recognized for goodwill is not reversed.

(11) Financial instruments

1) Financial assets (excluding derivatives)

(i) Initial recognition and measurement

Purchase or sale of financial instruments is recognized or derecognized based on trade date accounting (contract date basis).

Financial assets are classified as "financial assets measured at amortized cost," "financial assets measured at fair value through other comprehensive income" or "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 collect by 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 in case where they are held for trading, are designated by financial asset to be classified 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 with addition of transaction costs that are directly attributable to the financial assets, except for the case of being classified in the category of "financial assets measured at fair value through profit or loss."

(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 decreased 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 of financial assets based on its evaluation at the end of each reporting period whether there is a significant increase in credit risk of 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 account 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 account for credit losses.

Whether credit risk is significantly increased or not is determined based on the changes in default risk. To determine if there is a change in default risk, factors such as delinquencies or 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 simply 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 incidental to 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 assets and related liabilities that might be payable.

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.

Financial liabilities are measured at fair value at initial recognition. Financial liabilities measured at amortized cost are measured 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 hedges the risks arising mainly from their exposure to fluctuations in foreign exchange rates and interest rates by using derivative financial instruments such as forward exchange contracts and currency options.

Derivatives are initially recognized at fair value of the date when the contracts are entered into and are subsequently measured at their fair values 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:

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.

(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 that has been 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 associated amount recognized in other comprehensive income is accounted for as 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 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, readily available deposits, and short-term, highly liquid investments having maturities of three months or less of the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(13) Inventories

Inventories are measured at the lower of cost and net realizable value.

Cost of inventories is principally determined using the weighted average method and includes cost of purchase, cost of conversion and all incidental 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.

(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.

For non-current assets (or disposal groups), depreciation or amortization is ceased. 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 employed an equity-settled share-based payment plan for the Group's directors (excluding outside directors) and executive officers.

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 in which they were incurred.

Past service cost is recognized as profit or loss in the fiscal year in which it was incurred.

(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 be occurred 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 measurement of provisions, the present value of the expenditures expected to be required to settle the obligations are used.

In calculating the present value, the Group principally calculates using the 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.

(Segment Information)

(1) Overview of reportable segments

The Group is engaged in the single pharmaceuticals business and does not have multiple operating segments. In 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)

	April 1, 2016 - March 31, 2017		April 1, 2017 - March 31, 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)

	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 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.

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 other financial assets, defined benefit assets and deferred tax assets.

(4) Information about major customers

External customers that account for 10% or more of the revenue on the consolidated statement of income are as follows:

(Millions of yen)

Customer name	Related segment name	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 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
Total		275,461	278,456

(Business Combinations)

（Acquisition of NeuroDerm Ltd.）

The Company acquired all of 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) Procedure of the acquisition

The share acquisition in exchange for cash

v) Main reasons of the acquisition

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

In its "Medium-Term Management Plan 16-20: Open Up the Future," the Company stated that it will strive, through in-house sales, to rapidly build a foundation for sustained growth in the U.S., the world's largest pharmaceutical market. As a first step toward advancing its franchise in the U.S., the Company has launched RADICAVA, an FDA approved treatment of ALS in the U.S. market in August 2017. Additionally, the acquisition of ND0612 through this transaction is intended to enable the Company to achieve its U.S. sales target of ¥80 billion by Fiscal year 2020, which is part of its Medium-Term Management Plan. The Company will expand its product pipeline in the central nervous system disease area and advance its goal of providing patients with innovative drugs to address unmet medical needs.

(2) 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 measures 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 process of finalizing the fair value measurement.
The goodwill consists primarily of synergies with existing businesses and future economic benefits expected to create through the acquisition. And, the goodwill is not deductible for tax purposes.

(3) Acquisition-related costs

Cash payment as a consideration for the acquisition and the expense of ¥1,051 million associated with the business combination were accounted in selling, general and administrative expense in consolidated statements of income.

(4) Cash flow information

(Millions of yen)

	Amount
Consideration paid by cash	124,410
Cash and cash equivalents held by the acquiree	(4,686)
Acquisition 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 year of the acquiree after the acquisition date, and the pro forma information assuming that the business combination was completed on April 1, 2017, at the beginning of the fiscal year, was immaterial, so that such information is not disclosed.

(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 loss of control

(Millions of Yen)

	Amount
Consideration received	10,868
Assets and liabilities with loss of control (Note)	
Non-current assets	321
Current assets	15,284
Non-current liabilities	(162)
Current liabilities	(8,140)
Gain on sales of investments in subsidiaries	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
Consideration received in cash	10,868
Cash and cash equivalents in the subsidiary sold	(65)
Proceeds from sales of subsidiaries	10,803

(Other Income)

The breakdown of other income is as follows:

(Millions of yen)

	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 2018
Gain on sales of investments in subsidiaries	―	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

(Other Expense)

The breakdown of other expense is as follows:

(Millions of yen)

	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 2018
Restructuring loss (Note 1)	484	2,144
Provision of reserve for HCV litigation (Note 2)	―	1,170
Impairment loss of property, plant and equipment	185	642
Impairment loss of intangible assets	―	3,149
Loss on sale 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 retirement payments accompanying operational and structural reforms

As of March 31, 2018 : Extra retirement payments and expenses for re-employment support associated with the business termination of Bipha Corporation, the manufacturing subsidiary, and extra retirement payments associated with the transfer of shares of Tanabe Seiyaku Hanbai Co., Ltd., the subsidiary of generic drug business

(Note 2) Provision of reserve for HCV litigation 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.

(Earnings per Share)

Basis of calculating basic earnings per share and diluted earnings per share are showed as follows:

	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 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) 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 as treasury shares, the number of those shares is deducted in calculating the number of ordinary shares outstanding at the end of the year and average number of ordinary shares outstanding during the year.

(Subsequent Event)

Not applicable.

(7) Other

The situation in major court action of the Group was as follows:

【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 the patients allegedly suffered through HCV (hepatitis C virus) infection following 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.