Summary of Consolidated Financial Results for the Year Ended March 31, 2018 [IFRS]

May 11, 2018

Company Name: SUMITOMO DAINIPPON PHARMA CO., LTD.
Stock Exchange Listings: Tokyo
Security Code Number: 4506 (URL http://www.ds-pharma.com)
Representative: Hiroshi Nomura, Representative Director, President and Chief Executive Officer
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Filing Date of Financial Report: June 19, 2018
Date of Annual Shareholder's Meeting: June 19, 2018
Starting Date of Dividend Payments: June 20, 2018
Preparation of Supplementary Financial Data for Financial Results: Yes
Information Meeting for Financial Results to be held: Yes (for institutional investors and analysts)

(Note: All amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(1) Results of Operations

(% represents changes from the previous year)

	Revenue		Core operating profit		Operating profit		Net profit		Net profit attributable to owners of the parent		Total comprehensive income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31, 2018	466,838	14.3	90,604	40.8	88,173	118.9	53,448	70.7	53,448	70.7	48,402	62.3
Year ended March 31, 2017	408,357	—	64,372	—	40,286	—	31,316	—	31,316	—	29,829	—

Note: Profit before taxes Year ended March 31, 2018: ¥84,866 million
Year ended March 31, 2017: ¥42,781 million
"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors that the Group designates (hereinafter referred to as "Non-recurring Items").

	Basic earnings per share	Earnings per share (diluted)	Net profit / Equity attributable to owners of the parent	Profit before taxes / Total assets	Core operating profit / Revenue
Year ended March 31, 2018	¥134.53	—	12.4%	10.7%	19.4%
Year ended March 31, 2017	¥78.82	—	7.8%	5.8%	15.8%

Reference: Share of profit(loss) of associates accounted for using the equity method.
Year ended March 31, 2018 : (¥10 million)
Year ended March 31, 2017 : ¥47 million

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity attributable to owners of the parent per share (yen)
As of March 31, 2018	809,684	452,723	452,723	55.9%	¥1,139.50
As of March 31, 2017	779,072	412,268	412,268	52.9%	¥1,037.68

(3) Cash Flows

(Millions of yen)

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at the end of period
Year ended March 31, 2018	93,420	(16,523)	(29,610)	147,775
Year ended March 31, 2017	19,143	(56,129)	8,764	105,603

2. Dividends

	Dividends per share					Dividends paid for the year (million)	Payout ratio	Dividends to net assets ratio
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual			
Year ended March 31, 2017	—	¥9.00	—	¥11.00	¥20.00	¥7,946	25.4%	2.0%
Year ended March 31, 2018	—	¥9.00	—	¥19.00	¥28.00	¥11,124	20.8%	2.6%
Year ending March 31, 2019 (Forecasts)	—	¥9.00	—	¥11.00	¥20.00		22.7%	

3. Consolidated Financial Forecasts for the Year Ending March 31, 2019
（April 1, 2018 to March 31, 2019）

(% represents changes from the corresponding period of the previous year)

	Net sales		Core operating profit		Operating profit		Net profit		Net profit attributable to owners of parent		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Six months ending September 30, 2018	230,000	—	41,000	—	32,000	—	22,000	—	22,000	—	¥55.37
Year ending March 31, 2019	467,000	0.0	77,000	(15.0)	53,000	(39.9)	35,000	(34.5)	35,000	(34.5)	¥88.10

Note: Profit before taxes Six months ending September 30, 2018: ¥33,000 million
Year ending March 31, 2019 : ¥55,000 million

Notes:

(1) Shift of significant subsidiaries during the period (shift of specified subsidiaries accompanied by changes in scope of consolidation): None

(2) Changes in accounting policies, accounting estimates, and retrospective restatements

① Changes in accounting standards required by IFRS: None

② Changes due to changes in accounting standards other than (2),①: None

③ Changes in accounting estimates: None

(3) Number of shares outstanding (Common stock)

① Number of shares outstanding (Including treasury stock) at the end of period

March 31, 2018: 397,900,154 shares

March 31, 2017: 397,900,154 shares

② Number of treasury stock at the end of period

March 31, 2018: 601,983 shares

March 31, 2017: 600,484 shares

③ Average number of shares during the period

March 31, 2018: 397,299,021 shares

March 31, 2017: 397,300,479 shares

(Reference) Outline of Non-consolidated Financial Results (Japanese GAAP)

Non-consolidated Financial Results for the year ended March 31, 2018 (April 1, 2017 to March 31, 2018)

(1) Results of Operations

(% represents changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31,2018	251,101	(2.1)	74,568	(16.9)	71,320	(22.6)	42,364	(33.7)
Year ended March 31,2017	256,532	(3.4)	89,768	(5.6)	92,099	(2.6)	63,902	(4.1)

	Earnings per share	Earnings per share (diluted)
Year ended March 31,2018	¥106.63	—
Year ended March 31,2017	¥160.84	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2018	680,400	561,109	82.5%	¥1,412.31
As of March 31, 2017	642,112	515,585	80.3%	¥1,297.72

Reference: Shareholders' Equity As of March 31, 2018 : ¥561,109 million
As of March 31, 2017 : ¥515,585 million

This summary of financial results is exempt from audit procedures.

Explanation for Appropriate Use of Forecasts and Other Notes:

Starting from the fiscal year ended March 31, 2018 (FY2017), the Group has adopted the International Financial Reporting Standards (IFRS) for preparing its consolidated financial statements with a view toward improving the international comparability of its financial statements in the capital markets and improving business management within the Group by standardizing accounting treatment. Financial data for the previous fiscal year (FY2016) are also represented under the IFRS. Please refer to page 14, (5) Notes to Consolidated Financial Statements for the difference between the financial figures under IFRS and Japanese GAAP.

This material contains forecasts, projections, goals, plans, and other forward-looking statements regarding the Group's financial results and other data. Such forward-looking statements are based on the Company's assumptions, estimates, outlook, and other judgments made in light of information available at the time of preparation of such statements and involve both known and unknown risks and uncertainties. Accordingly, forecasts, plans, and other statements may not be realized as described, and actual financial results, success/failure or progress of development, and other projections may differ materially from those presented herein. Please refer to page 6, (4) Forecasts for the Year Ending March 31, 2019 with regard to the assumptions and other related matters for forecasts.

Supplementary financial data and the presentation materials for the earnings presentation are disclosed together with the summary of financial results.

The Company holds an earnings presentation for institutional investors and analysts on Monday, May 14, 2018. The documents distributed at the presentation are scheduled to be posted on our website.

【Attachment Documents】

1. Operating Results and Financial Condition

(1) Analysis of Operating Results

Adoption of the International Financial Reporting Standards (IFRS)

Starting from the fiscal year ended March 31, 2018 (FY2017), the Group has adopted the International Financial Reporting Standards (IFRS) for preparing its consolidated financial statements with a view toward improving the international comparability of its financial statements in the capital markets and improving business management within the Group by standardizing accounting treatment.

Financial data for the previous fiscal year (FY2016) are also represented under the IFRS.

Please refer to page 14, (5) Notes to Consolidated Financial Statements for the difference between the financial figures under IFRS and Japanese GAAP.

(i) Overview of overall operating results

During the fiscal year ended March 31, 2018, the Japanese economy remained on a mild recovery track as consumer spending picked up, capital expenditures and production showed a gradual increase, and corporate earnings and business sentiments improved. Overseas, the U.S. economy steadily recovered, while the Chinese economy continued to rally. As employment and income environments continuously improve, the Japanese economy is expected that these mild recovery trends should be sustained, in part due to government economic packages. Nevertheless, uncertainties in overseas business situations and fluctuations in financial and capital markets still warrant attention.

In the pharmaceutical sector, the Japanese authorities are undertaking a drastic reform of the National Health Insurance (NHI) drug price scheme and authorities around the world are taking further steps to curb prices of brand-name drugs and promote use of generics in a bid to put the brakes on ever-expanding social security benefit expenditures. Amid these circumstances, the increasing difficulty of developing new drugs, rising R&D expenses, and other factors serve to lower businesses' visibility and add to business risks.

Against this backdrop, in an attempt to bolster sales of TRERIEF® (therapeutic agent for Parkinson's disease), LONASEN® (atypical antipsychotic), Trulicity® (therapeutic agent for Type 2 diabetes), and other drugs in Japan, the Group has focused its management resources to provide scientific information on these key offerings.

In North America, the Company's U.S. subsidiary Sunovion Pharmaceuticals Inc. (hereinafter referred to as "Sunovion") continued to pour its resources into expanding the sales of global strategic product LATUDA® (atypical antipsychotic agent) and other mainstay products. The Company possesses multiple patents for LATUDA®, which is one of the primary sources of revenue of the Group. As counter-measures against application submissions for generic products, the Company and Sunovion filed patent infringement lawsuits in the U.S. against those submissions in January 2015 based on the compound patent, and further filed patent infringement lawsuits against those submissions in February 2018 based on the method of use patent issued in November 2017.

In the Oncology area, Boston Biomedical Inc. (hereinafter referred to as "Boston Biomedical"), which is another U.S. subsidiary of the Company, expedited the clinical development of napabucasin (product code: BBI608) by placing top priority on an early launch of the drug. Meanwhile, Tolero Pharmaceuticals, Inc. (hereinafter referred to as "Tolero"), which the Company acquired in FY 2016, mainly focused on the clinical development of alvocidib (product code: DSP-2033).

In China, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. pursued business opportunities in a bid to expand sales of MEROPEN® (carbapenem antibiotic) and other products in the Chinese market.

In Europe, the Company signed a partnership agreement with Angelini S.p.A. (hereinafter referred to as "Angelini") with the aim of expanding sales of LATUDA®.

Adoption of "core operating profit" as a new performance indicator

To coincide with the adoption of the IFRS, the Group has set an original performance indicator for the Company's recurring profitability in the form of "core operating profit."

"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors that the Group designates. Among the main Non-recurring Items are impairment losses, business structure improvement expenses, litigation related expenses, and changes in fair value of contingent consideration related to company acquisitions.

Highlights of the Group's consolidated financial results for the fiscal year under review are as follows:

(Billions of yen)

	FY2016	FY2017	Change	Change %
Revenue	408.4	466.8	58.5	14.3
Core operating profit	64.4	90.6	26.2	40.8
Operating profit	40.3	88.2	47.9	118.9
Profit before taxes	42.8	84.9	42.1	98.4
Net profit attributable to owners of the parent	31.3	53.4	22.1	70.7

Revenue increased by 14.3% year-on-year to reach 466.8 billion yen.

This increase is attributable to sales growth of Trulicity® in the Japan segment and MEROPEN® and other products in the China segment, as well as a substantial sales expansion of LATUDA® in the North America segment.

Core operating profit increased by 40.8% year-on-year to reach 90.6 billion yen.

Despite the increase in selling, general, and administrative expenses in the North America segment and R&D expense, core operating profit rose as gross profit grew in tandem with the increase in revenue.

Operating profit increased by 118.9% year-on-year to reach 88.2 billion yen.

This substantial increase is attributable to a reversal of expenses resulting from a decline in the fair value of contingent consideration following the Company's decision, in June 2017, of unblinding of Phase 3 global study of napabucasin, which is under development by Boston Biomedical, for gastric and gastro-esophageal junction cancer patients, in addition to a decline in business structure improvement expenses.

Net profit attributable to owners of the parent increased by 70.7% year-on-year to reach 53.4 billion yen.

The ratio of net profit attributable to owners of the parent to revenue was 11.4%.

(ii) Status of each business segment

Adoption of "core segment profit" as a performance indicator for each segment

To coincide with the adoption of the IFRS, for segment performance, the Group has set an original performance indicator for each segment's recurring profitability in the form of "core segment profit."

"Core segment profit" is each segment profit calculated by deducting from "core operating profit" any items such as R&D expenses and gains and losses on business transfers, which are managed globally and thus cannot be allocated to individual segments.

[Japan segment]

Revenue increased by 1.8% year-on-year to reach 143.3 billion yen.

Sales increases of AIMIX® (therapeutic agent for hypertension), TRERIEF®, and REPLAGAL® (Anderson-Fabry disease drug), as well as the substantial growth of Trulicity® sales, together advanced sales by more than offsetting the declining sales of long-listed drugs.

Core segment profit increased by 6.2% year-on-year to reach 40.3 billion yen.

This increase is attributable to the decrease in selling, general, and administrative expenses owing primarily to lower labor costs for a smaller headcount and reduction of selling expenses.

[North America segment]

Revenue increased by 23.7% year-on-year to reach 240.8 billion yen.

This increase is attributable to the fact that sales of mainstay LATUDA® continued to expand substantially and sales of APTIOM® (antiepileptic agent) and other products advanced.

Core segment profit increased by 18.3% year-on-year to reach 109.5 billion yen.

Despite the increase in selling, general, and administrative expenses resulting from a rise in selling expenses related to new launches, core segment profit grew as gross profit increased in tandem with the increase in revenue.

[China segment]

Revenue increased by 33.0% year-on-year to reach 23.4 billion yen.

This increase is attributable to the strong sales performance of mainstay MEROPEN® and other product lines.

Core segment profit increased by 59.3% year-on-year to reach 10.7 billion yen.

Core segment profit grew as gross profit increased in tandem with the increase in revenue.

[Other Regions segment]

Revenue increased by 42.7% year-on-year to reach 16.5 billion yen.

This increase is attributable to brisk exports of MEROPEN® and other products.

Core segment profit increased by 81.1% year-on-year to reach 5.1 billion yen.

Core segment profit grew as gross profit increased in tandem with the increase in revenue.

In addition to the above reportable segments, the Group is also engaged in sales of food ingredients, food additives, materials for chemical products, veterinary drugs, diagnostics, and other product lines, which together generated revenue of 42.8 billion yen (down by 2.0% year-on-year) and core segment profit of 2.7 billion yen (up by 11.5% year-on-year).

(iii) Status of research and development activities

The Group remains committed to research and development by taking every available opportunity to assimilate cutting-edge technologies through combinations of a wide variety of avenues, including in-house research, technology in-licensing, and joint research with venture businesses and academia, with the aim of continually discovering excellent pharmaceutical products with Psychiatry & Neurology, Oncology, and Regenerative Medicine and Cell Therapy as its focus therapeutic areas.

The progress statuses of key development projects during the fiscal year under review are as follows:

〔Psychiatry and Neurology〕

In order to enhance its attractive development pipeline with greater efficiency, the Company revamped its research structure and consequently renamed its Drug Research Division in October 2017. As a part of this organizational realignment, the Company applied a new "Project-based Research Management System" by appointing Project Leaders and Project Directors in the Drug Research Division.

In the early stages of research, the Company is working to apply cutting-edge scientific technologies including high-performance computer-based in-silico drug discovery technology and utilization of iPS cells to drug discovery.

The progress statuses of key development projects during the fiscal year under review are as follows:

(a) Dasotraline (product code: SEP-225289)

A New Drug Application (NDA) for use in patients with adult and pediatric attention-deficit hyperactivity disorder (ADHD) was submitted in the U.S. in August 2017.

(b) TRERIEF® (generic name: zonisamide)

In August 2017, an application for partial change of approved indications to add Parkinsonism in dementia with Lewy bodies (DLB) was submitted in Japan.

(c) Apomorphine hydrochloride (product code: APL-130277)

In the U.S., an NDA was filed for management of OFF episodes associated with Parkinson's disease in March 2018.

(d) LONASEN® (generic name: blonanserin)

In February 2018, the Phase 3 study in Japan, which is currently under joint development with Nitto Denko Corporation evaluating a transdermal patch formulation of blonanserin, met the primary endpoint and blonanserin was well-tolerated by study participants.

〔Oncology〕

The Company's basic strategy in this therapeutic area is to conduct research and development with a focus on cancer stemness inhibitors, cancer peptide vaccines, and kinase inhibitors and deliver unique, previously unavailable products through alliances with Boston Biomedical and Tolero.

During the fiscal year under review, the Company continued with a Phase 3 global clinical study of napabucasin for colorectal cancer and pancreatic cancer (combination therapy). Meanwhile, in June 2017, the Company decided to unblind the Phase 3 global clinical study of napabucasin in patients with gastric and gastro-esophageal junction cancer, based on a recommendation by the study's independent Data and Safety Monitoring Board (DSMB) saying that the study was unlikely to reach its primary endpoint following an interim analysis.

〔Regenerative medicine/cell therapy〕

The Company is engaged in multiple research and development projects aimed at early commercialization of regenerative medicine and cell therapy products.

In order to resolve one of the greatest bottlenecks to the commercialization of such products, namely, development of their production system, the Company completed in March 2018 the Sumitomo Dainippon Manufacturing Plant for Regenerative Medicine & Cell Therapy (SMaRT), which is the world's first commercial manufacturing facility for regenerative medicine and cell therapy products derived from allogenetic iPS cells.

The Company will remain committed to promoting the regenerative medicine and cell therapy business using allogenetic iPS cells for age-related macular degeneration, Parkinson's disease, retinitis pigmentosa, and spinal cord injury.

〔Other therapeutic areas〕

LONHALA MAGNAIR® (generic name: glycopyrrolate)

In December 2017, an indication for long-term maintenance treatment of airflow obstruction in chronic obstructive pulmonary disease (COPD) patients was approved in the U.S.

〔Acquisitions and alliances〕

The Group proactively seeks opportunities for acquisitions and alliances in an effort to enhance its development pipeline.

During the fiscal year under review, the Company obtained from Poxel SA of France the development and marketing rights to imeglimin (product code: PXL008) in Japan, China, South Korea, Taiwan, and nine Southeast Asian countries in October 2017. Then, in December 2017, the Company initiated a Phase 3 study for type 2 diabetes in Japan together with this French partner.

In October 2017, the Company and the Kitasato Institute signed a joint research agreement on drug discovery for infections caused by bacteria with antimicrobial resistance (AMR). This joint research has been selected by the Japan Agency for Medical Research and Development (AMED) for its first-ever Cyclic Innovation for Clinical Empowerment (CiCLE) grant program.

As a result of the abovementioned activities, R&D expenses for the fiscal year under review amounted to 86.9 billion yen (up by 6.8% year-on-year). Please note that the Group manages its R&D expenses globally and, as such, does not allocate such expenses to individual segments.

(2) Analysis of Financial Condition

Non-current assets decreased by 10.4 billion yen over the previous fiscal year-end. This is because deferred tax assets dropped significantly due to the U.S. tax reform and goodwill and intangible assets decreased owing primarily to the impact of foreign currency translations, while other financial assets increased with investment securities being marked to market.

For current assets, income taxes receivable decreased, but cash and cash equivalents and other financial assets increased, resulting in an increase of 41.0 billion yen over the previous fiscal year-end.

As a result, total assets increased by 30.6 billion yen from the previous fiscal year-end to 809.7 billion yen.

Total liabilities decreased by 9.8 billion yen from the previous fiscal year-end to 357.0 billion yen. This was due primarily to decreases in bonds and borrowings despite increases in trade and other payables, including accounts payable-other.

Equity amounted to 452.7 billion yen, due primarily to an increase in retained earnings.

Ratio of equity attributable to owners of the parent to total assets as of the end of the fiscal year under review was 55.9%.

(3) Analysis of Cash Flows

Cash flows provided by operating activities increased by 74.3 billion yen from the previous fiscal year to 93.4 billion yen, owing primarily to a major increase in profit before taxes, as well as a major decrease in income taxes paid.

Despite the acquisition of intangible assets following in-licensing and investment securities, cash flows used in investing activities decreased by 39.6 billion yen from the previous fiscal year to 16.5 billion yen due to the absence of the high expenditures for acquisition control over subsidiaries that were recorded in the previous fiscal year.

Cash flows used in financial activities amounted to 29.6 billion yen, due primarily to redemption of bonds and repayment of loans, while net cash was generated overall during the corresponding period of the previous fiscal year due to fundraising.

After factoring in the impact of foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of March 31, 2018 amounted to 147.8 billion yen, which represents an increase of 42.2 billion yen from the end of the previous fiscal year.

(4) Forecasts for the Year Ending March 31, 2019

(Billions of yen)

	Fiscal 2017 Results	Fiscal 2018 Forecasts	Change	Change %
Revenue	466.8	467.0	0.2	0.0
Core operating profit	90.6	77.0	(13.6)	(15.0)
Operating profit	88.2	53.0	(35.2)	(39.9)
Net profit attributable to owners of the parent	53.4	35.0	(18.4)	(34.5)

< Revenue >

In Japan, revenue is expected to decrease due to the difficulty of offsetting the impacts of AIMIX® generic entries, NHI drug price revisions, and declines in sales of long-listed products, despite the continued focus on expanding sales of TRERIEF® and Trulicity® . In North America, meanwhile, revenue is expected to grow due to sales expansion of LATUDA® and APTIOM® and the launch of LONHALA MAGNAIR® (therapeutic agent for COPD), despite the impact of the strong yen. Consolidated revenue is expected to reach 467.0 billion yen (up by 0.2 billion yen year-on-year).

< Profit >

Core operating profit is expected to be 77.0 billion yen, which represents a decrease of 13.6 billion yen from the previous year, after taking into account the impact of the strong yen on selling, general, and administrative expenses and an increase in selling expenses in North America, where a new launch is scheduled. In fiscal 2017, the Company reported a reversal of expenses resulting from changes in fair value of contingent consideration related to an acquisition but expects to incur expenses in fiscal 2018. As a result, the Company expects operating profit of 53.0 billion yen (down by 35.2 billion yen year-on-year) and net profit attributable to owners of the parent of 35.0 billion yen (down by 18.4 billion yen year-on-year).

< Prior condition >

Foreign currency exchange rates used for the forecasts are: 1 USD = 105 JPY (JPY110.9 in the fiscal year under review), 1 RMB = 16.5 JPY (JPY16.7 in the fiscal year under review)

(5) Fundamental Profit and Dividend Distribution Policy for the Current Term and the Next Term

The customary appropriate allocation of a portion of the Company's profits to its shareholders is one of the Company's most important management policies.

The Company's basic policy is to make dividend payments from retained earnings twice each year, which includes an interim dividend determined by the Company's Board of Directors and a year-end dividend determined by the general meeting of shareholders.

In addition to placing high importance on distribution of surplus in a manner reflecting the Company's performance, the Company seeks to make decisions on dividends from a comprehensive perspective while actively investing in its future growth, ensuring a solid management base, and enhancing its financial status in order to further increase its corporate value. The Company believes that it is important to consistently allocate profits to its shareholders.

In FY2017 (the year ended March 31, 2018), the Company achieved a record-high operating income, exceeding the FY2017 target remarkably that was laid out in the 3rd Mid-Term Business Plan (MTBP).

Given the aforementioned basic policy on profit distribution to shareholders and earnings results of the fiscal year under review, the Company plans to pay a year-end dividend of 19 yen per share, which comprises an ordinary dividend of 9 yen and a special dividend of 10 yen, thus making the annual dividend for the fiscal year under review 28 yen per share.

As business performance is expected to remain strong into FY2018, the Company plans to pay an ordinary dividend of 9 yen for the interim dividend and a year-end dividend of 11 yen, comprising an ordinary dividend of 9 yen and a special dividend of 2 yen, resulting in an annual dividend of 20 yen per share.

2. Basic policy for application of accounting standard

Starting from the fiscal year ended March 31, 2018 (FY2017), the Group has adopted IFRS for preparing its consolidated financial statements with a view toward improving the international comparability of its financial statements in the capital markets and improving business management within the Group by standardizing accounting treatment.

3. Consolidated Financial Statements

(1) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated Statement of Profit or Loss

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Revenue	408,357	466,838
Cost of sales	94,625	112,345
Gross profit	313,732	354,493
Selling, general and administrative expenses	181,668	183,651
Research and development expenses	81,373	86,928
Other income	3,554	9,417
Other expenses	13,959	5,158
Operating profit	40,286	88,173
Finance income	3,182	2,430
Finance costs	687	5,737
Profit before taxes	42,781	84,866
Income tax expenses	11,465	31,418
Net profit	31,316	53,448
Net profit attributable to:		
Owners of the parent	31,316	53,448
Net profit total	31,316	53,448
Earnings per share (yen)		
Basic earnings per share	78.82	134.53

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net profit	31,316	53,448
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(2,886)	8,527
Remeasurements of defined benefit liability (asset)	3,277	(2,824)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(1,871)	(10,748)
Cash flow hedges	(7)	(1)
Total other comprehensive income	(1,487)	(5,046)
Total comprehensive income	29,829	48,402
Total comprehensive income attributable to:		
Owners of the parent	29,829	48,402
Total comprehensive income	29,829	48,402

(2) Consolidated Statement of Financial Position

(Millions of yen)

	Transition Date (As of April 1, 2016)	As of March 31, 2017	As of March 31, 2018
Assets			
Non-current assets			
Property, plant and equipment	63,665	61,121	58,204
Goodwill	76,950	100,194	95,097
Intangible assets	78,821	197,114	189,681
Other financial assets	65,232	52,681	70,993
Income taxes receivable	—	—	2,453
Other non-current assets	3,862	3,313	3,067
Deferred tax assets	73,580	57,089	41,608
Total non-current assets	362,110	471,512	461,103
Current assets			
Inventories	44,511	60,286	60,169
Trade and other receivables	108,656	112,732	112,982
Other financial assets	49,377	17,494	22,066
Income taxes receivable	—	6,234	419
Other current assets	5,261	5,211	5,170
Cash and cash equivalents	135,572	105,603	147,775
Total current assets	343,377	307,560	348,581
Total assets	705,487	779,072	809,684

(Millions of yen)

	Transition Date (As of April 1, 2016)	As of March 31, 2017	As of March 31, 2018
Liabilities and equity			
Liabilities			
Non-current liabilities			
Bonds and borrowings	28,000	10,000	30,940
Trade and other payables	156	—	—
Other financial liabilities	69,874	100,873	88,427
Retirement benefit liabilities	21,909	16,374	20,700
Other non-current liabilities	6,174	7,352	6,551
Deferred tax liabilities	4,061	72	95
Total non-current liabilities	130,174	134,671	146,713
Current liabilities			
Bonds and borrowings	23,010	58,000	16,460
Trade and other payables	43,528	47,394	58,708
Other financial liabilities	6,648	13,917	6,278
Income taxes payable	28,456	10,001	14,368
Provisions	57,757	76,905	84,433
Other current liabilities	26,320	25,916	30,001
Total current liabilities	185,719	232,133	210,248
Total liabilities	315,893	366,804	356,961
Equity			
Share capital	22,400	22,400	22,400
Capital surplus	15,860	15,860	15,860
Treasury shares	(663)	(667)	(669)
Retained earnings	326,358	357,769	396,037
Other components of equity	25,639	16,906	19,095
Equity attributable to owners of the parent	389,594	412,268	452,723
Total equity	389,594	412,268	452,723
Total liabilities and equity	705,487	779,072	809,684

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit liability (asset)
Balance as of April 1, 2016	22,400	15,860	(663)	326,358	25,652	—
Net profit	—	—	—	31,316	—	—
Other comprehensive income	—	—	—	—	(2,886)	3,277
Total comprehensive income	—	—	—	31,316	(2,886)	3,277
Purchase of treasury shares	—	—	(4)	—	—	—
Disposal of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	(7,151)	—	—
Reclassification from other components of equity to retained earnings	—	—	—	7,246	(3,969)	(3,277)
Other increase (decrease)	—	—	—	—	—	—
Total transactions with owners	—	—	(4)	95	(3,969)	(3,277)
Balance as of March 31, 2017	22,400	15,860	(667)	357,769	18,797	—
Net profit	—	—	—	53,448	—	—
Other comprehensive income	—	—	—	—	8,527	(2,824)
Total comprehensive income	—	—	—	53,448	8,527	(2,824)
Purchase of treasury shares	—	—	(2)	—	—	—
Disposal of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	(7,945)	—	—
Reclassification from other components of equity to retained earnings	—	—	—	(7,235)	4,411	2,824
Other increase (decrease)	—	—	—	—	—	—
Total transactions with owners	—	—	(2)	(15,180)	4,411	2,824
Balance as of March 31, 2018	22,400	15,860	(669)	396,037	31,735	—

(Millions of yen)

	Equity attributable to owners of the parent				Total equity
	Other components of equity			Total	
	Exchange differences on translation of foreign operations	Cash flow hedges	Total		
Balance as of April 1, 2016	—	(13)	25,639	389,594	389,594
Net profit	—	—	—	31,316	31,316
Other comprehensive income	(1,871)	(7)	(1,487)	(1,487)	(1,487)
Total comprehensive income	(1,871)	(7)	(1,487)	29,829	29,829
Purchase of treasury shares	—	—	—	(4)	(4)
Disposal of treasury shares	—	—	—	—	—
Dividends	—	—	—	(7,151)	(7,151)
Reclassification from other components of equity to retained earnings	—	—	(7,246)	—	—
Other increase (decrease)	—	—	—	—	—
Total transactions with owners	—	—	(7,246)	(7,155)	(7,155)
Balance as of March 31, 2017	(1,871)	(20)	16,906	412,268	412,268
Net profit	—	—	—	53,448	53,448
Other comprehensive income	(10,748)	(1)	(5,046)	(5,046)	(5,046)
Total comprehensive income	(10,748)	(1)	(5,046)	48,402	48,402
Purchase of treasury shares	—	—	—	(2)	(2)
Disposal of treasury shares	—	—	—	—	—
Dividends	—	—	—	(7,945)	(7,945)
Reclassification from other components of equity to retained earnings	—	—	7,235	—	—
Other increase (decrease)	—	—	—	—	—
Total transactions with owners	—	—	7,235	(7,947)	(7,947)
Balance as of March 31, 2018	(12,619)	(21)	19,095	452,723	452,723

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Cash flows from operating activities		
Net profit	31,316	53,448
Depreciation and amortization	12,713	12,887
Impairment losses	2,254	2,147
Changes in fair value of contingent consideration	8,131	(8,608)
Interest and dividend income	(1,945)	(2,430)
Interest expenses	662	394
Income tax expenses	11,465	31,418
(Increase) decrease in trade and other receivables	(4,065)	(2,934)
(Increase) decrease in inventories	(15,295)	(4,382)
Increase (decrease) in trade and other payables	7,103	10,493
Increase (decrease) in retirement benefits liabilities	(829)	276
Increase (decrease) in provisions	18,713	12,067
Others, net	(7,201)	442
Subtotal	63,022	105,218
Interest received	801	1,058
Dividends received	1,198	1,246
Interest paid	(374)	(338)
Income taxes paid	(45,504)	(13,764)
Net cash provided by operating activities	19,143	93,420
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,131)	(5,129)
Proceeds from sales of property, plant and equipment	631	960
Purchase of intangible assets	(5,328)	(7,225)
Purchase of investments	(356)	(6,226)
Proceeds from sales and redemption of investments	8,935	31
Acquisitions of control over subsidiaries	(84,348)	—
Net decrease (increase) in short-term loan receivables	29,855	(5,468)
Proceeds from business transfer	—	9,423
Others, net	2,613	(2,889)
Net cash used in investing activities	(56,129)	(16,523)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	39,036	(36,500)
Proceeds from long-term borrowings	—	35,300
Repayments of long-term borrowings	(12,000)	(9,400)
Redemption of bonds	(10,000)	(10,000)
Repayments of finance lease obligations	(1,117)	(1,064)
Dividends paid	(7,151)	(7,944)
Others, net	(4)	(2)
Net cash provided by(used in) financing activities	8,764	(29,610)
Net increase (decrease) in cash and cash equivalents	(28,222)	47,287
Cash and cash equivalents at beginning of year	135,572	105,603
Effect of exchange rate changes on cash and cash equivalents	(1,747)	(5,115)
Cash and cash equivalents at end of year	105,603	147,775

(5) Notes to Consolidated Financial Statements

1. Notes on Premise of Going Concern

Not applicable.

2. Reporting Entity

Sumitomo Dainippon Pharma Co., Ltd (the "Company") is a company domiciled in Japan. The closing date of the Company's Consolidated Financial Statements is March 31, 2018. The Company's Consolidated Financial Statements comprise the Company and its subsidiaries (the "Group"), its interests in associates and joint ventures. The Group is primarily involved in pharmaceutical business. The details of the main business and activities are presented in Note 5 Operating Segments. The registered address of the Company's Head Office and its main places of business are presented on the Company's website (URL http://www.ds-pharma.co.com/).

3. Basis of Preparation

(1) Compliance with IFRS and matters concerning First-time Adoption

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the international Accounting Standards Board. The provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements applies, as the Company meets the requirements for a "Specified Company Applying Designated International Accounting Standards" prescribed in Article 1 (2) of said ordinance.

The consolidated financial statements for the fiscal year ended March 31, 2018 are the first IFRS consolidated financial statements the Company has prepared in accordance with IFRS. The date of transition to IFRS (the "transition date") was April 1, 2016. And the Company applies IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"). The effects of the transition to IFRS on the Group's financial position, results of operations, and cash flows are presented in Note 8 First-time Adoption of IFRS.

(2) Basis of Measurement

The Group's consolidated financial statements are prepared on the historical cost basis, except for certain financial instruments presented in Note 4 Significant Accounting Policies.

(3) Functional Currency and Presentation Currency

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

(4) Significant Accounting Estimates, Judgments and Assumptions

In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. However, due to the uncertainty of these estimates and assumptions, there are possibilities that material adjustments to the carrying amount of assets and liabilities are required in future periods.

Main estimates, judgments, and assumptions are summarized as follows:

- Significant assumptions used in calculating recoverable amounts when performing impairment test on goodwill and intangible assets
- Estimated useful lives of intangible assets
- Recoverability of deferred tax assets
- Measurement of defined benefit obligations
- Fair value of financial assets
- Accounting treatment on provisions and fair values
- Measurement of contingent consideration related to business combinations

(5) New Standards and Interpretations Issued but Not Yet Applied

The new and amended standards and interpretations issued by the date of approval of the consolidated financial statements but not yet early applied by the Group are as follows. The effect on the Group's consolidated financial statements from applying such standards and interpretations are being evaluated.

IFRS		Mandatory application (Hereafter, Starting Year)	Application by the Group	Overview of introduction or Revision
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 31, 2019	New revenue recognition standards, replacing IAS 18, IAS 11, and related interpretations
IFRS 16	Lease	January 1, 2019	Fiscal year ending March 31, 2020	Revised accounting standards for recognition of leases

(6) Early application of the new standard

The Group early applied IFRS 9 Financial Instruments (final version issued in July 2014) at the IFRS transition date (April 1, 2016).

4. Significant Accounting Policies

The significant accounting policies adopted by the Group are continuously applied to all the reporting periods presented in the consolidated financial statements (including the consolidated statement of financial position as of the Transition Date).

(1) Basis of consolidation

① Subsidiaries

Subsidiaries are entities controlled by the Group.

The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The Group consolidates the financial statements of subsidiaries from the date when the Group controls the investees, and excludes them from the scope of consolidation from the date when the Group loses control over the investees.

When the closing date of subsidiary is different from that of the Group, the financial statements of subsidiary, on which a provisional financial closing has been performed as of the Group's closing date, are used for consolidation purpose.

In preparing the consolidated financial statements, all intergroup balances and transactions, and unrealized gains and losses arising from intergroup transactions are eliminated.

② Associates

Associates are those entities in which the Group has significant influence over the financial and operating policies but does not have control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have control over those policies.

Investment in associate is accounted for by using the equity method.

The closing date of the associates accounted for using the equity method is same as that of the Group.

③ Business combinations

Business combinations are accounted for by using the acquisition method.

The identifiable assets and liabilities of the acquired company are measured at acquisition-date fair value.

The fair value of all the assets and liabilities arising from contingent consideration contact is included in the consideration transferred.

Goodwill is measured at the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests in the acquired company over the net of acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If it is a deficit, the deficit is recognized immediately in profit or loss.

Acquisition-related costs are recognized in the profit or loss when incurred.

The Group elects to adopt the exemption prescribed in IFRS 1 and does not apply retrospectively IFRS 3 Business Combinations ("IFRS3") to the business combinations that occurred before the date of transition.

(2) Foreign currency translations

① Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of transactions or at the foreign exchange rate that approximates the spot exchange rate at the date of the translation.
Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency using the exchange rate at the reporting date. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at the date when the fair value was measured.

Exchange differences arising from foreign currency translations and settlements are recognized in the profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and the effective portion of cash flow hedges are recognized in other comprehensive income.

② Foreign operations

The assets and liabilities (including any goodwill arising on the acquisition and fair value adjustments) of the Group's foreign operations are translated into Japanese yen at the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rate for the period except for the case that the exchange rate fluctuates significantly.

Exchange differences arising from translation of financial statements of the foreign operations are recognized in other comprehensive income. The cumulative amount of such exchange differences is recognized as other components of equity in the consolidated statements of financial position.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation is reclassified to profit or loss during the period in which the foreign operation is disposed.

The Group elects to apply the exemption prescribed in IFRS 1 and deems the cumulative translation differences for all foreign operations as zero and reclassifies the total amount to retained earnings at the date of transition.

(3) Revenue

① Sale of goods

Revenue is measured at the fair value of a consideration received or receivable after deducting the amount of trade discounts and volume rebates.

Revenue from sales of goods is recognized when Group has transferred the significant risks and rewards of the goods to the customer, the Group retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and associated cost can be measured reliably.

② Revenue arising from intellectual property rights

Revenue arising from Intellectual property is recognized on an accrual basis in accordance with the substance of the relevant agreement. Revenue associated with milestone agreements is recognized upon achievement of the milestone defined in the respective agreements.

(4) Income taxes

Income taxes are presented as the aggregate amount of current taxes and deferred taxes, and recognized in the profit or loss, except for those related to business combinations and items that are recognized directly in equity or in other comprehensive income.

Current taxes are measured by the statutory tax rate and tax laws that has been enacted or substantially enacted by the reporting date and the amount expected to be paid to or recovered from the taxation authorities.

Deferred tax assets and liabilities are recognized for temporary differences arising from the difference between the carrying amount of assets or liabilities in the consolidated statement of financial position at the reporting date and its tax base, tax loss carryforwards and tax credit carryforwards. However, the deferred tax assets and liabilities are not recognized for the following temporary differences:

・Temporary difference arising from initial recognition of goodwill;
・Temporary differences arising from the initial recognition of assets and liabilities in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
・Deductible temporary differences associated with investments in subsidiaries and associates when it is not probable that the temporary difference will reverse in the foreseeable future; or there will not be taxable profits will be available against which the deductible temporary differences can be utilized; and
・Taxable temporary differences associated with investments in subsidiaries and associates, when the Group is able to control the timing of 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 for deductible temporary differences, the carryforwards of unused tax losses and the carryforward of unused tax credits to the extent that it is probable that they will be utilized against future taxable income. In principle, deferred tax liabilities are recognized for all taxable temporary differences.

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 reporting date.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority and the same taxable entity.

(5) Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares held. Diluted earnings per share are not calculated because no dilutive shares are outstanding.

(6) Property, plant and equipment

Cost model is applied for measurement of property, plant and equipment after initial recognition.

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, removal and restoration, and borrowing costs eligible for capitalization requirements.

Property, plant and equipment other than land and construction in progress is depreciated by using straight-line method over each asset's useful life. Depreciation of such asset begins when it is available for use.

The estimated useful lives of major categories of property, plant and equipment are as follows:

・ Buildings and structures	3~60 years
・ Machinery, equipment and vehicle	2~17 years
・ Tools, furniture and fixtures	2~20 years

The depreciation method, the residual value and the estimated useful life are reviewed at each fiscal year-end and are subject to revise when necessary.

(7) Lease

The Group classifies a lease as a finance lease if it transfers substantially all the risks and rewards of ownership to the lessee. An operating lease is a lease other than a finance lease.

In finance lease transactions, leased assets and lease obligations are recognized 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. Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and lease term. Lease payments are apportioned between the finance cost and the reduction of the lease obligations. Interest on the lease liability in each period during the lease term is the amount that produces a constant rate of interest on the remaining balance of the lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(8) Goodwill

Initial measurement of goodwill is stated in (1) Basis of consolidation ③ Business Combinations.

Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is not amortized and is allocated to cash-generating units or group of cash-generating units. Goodwill is tested for impairment annually and whenever there is an indication that they may be impaired. Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

(9) Intangible assets

Intangible assets are non-monetary assets without physical substance, other than goodwill, including patents, technologies, marketing rights and in-process research and development acquired separately or acquired in a business combination.

Separately acquired intangible assets are measured initially at cost. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Cost model is applied for measurement of intangible assets after initial recognition. Intangible assets are carried at its cost less accumulated amortization and accumulated impairment losses.

Research expenditures of an internal project are recognized as expenses when they are incurred. Development expenditures of an internal project that satisfy all the recognition criteria are recognized as intangible assets. However, internally generated development expenditures incurred before acquisition of marketing approval, including clinical trial expenditures, etc. are recognized as expenses when they are incurred, because such expenditures are considered not meeting the criteria for recognition of intangible assets due to the uncertainties related to the length of period and the development.

Acquisition costs and development expenditures of software for internal use purpose are recognized as intangible assets if future economic benefits are expected to flow to the Group.

Intangible assets other than in-process research and development project are amortized using straight-line method over each asset's useful life. Amortization of such asset begins when it is available for use.

The estimated useful lives of major categories of intangible assets are as follows:

・ Intangible assets related to products 3~20 years
・ Software 3~5 years

The amortization method, the residual value and the estimated useful life are reviewed at each fiscal year-end and are subject to revise when necessary.

In-process research and development project recognized as intangible asset is not amortized because it is not available for use. Impairment test is performed annually and whenever there is an indication that the in-process research and development project may be impaired.

In-process research and development expenditures are reclassified to patents, marketing rights or other related accounts when marketing approval from regulatory authorities is obtained and are amortized when they are available for use.

(10) Impairment of non-financial assets

The Group assesses whether there is any indication that non-financial assets other than inventories, retirement benefit assets and deferred tax assets may be impaired.

If there is an indication of impairment or annual impairment test is required, the recoverable amount of each asset is measured. Goodwill, intangible assets with indefinite useful lives and an intangible asset not yet available for use are tested for impairment annually or whenever there is an indication of impairment.

Recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair value less disposal costs and its value in use. The value in use of an asset is measured at the present value of estimated future cash flows by applying the discount rate that is a pre-tax rate reflecting the time value of money and the risk specific to the asset. Only if the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, the carrying amount is reduced to its recoverable amount and the reduction is recognized in profit or loss.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of goodwill allocated to the unit, and subsequently to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Impairment losses on goodwill are not reversed.

The Group assesses at each reporting date whether there is any indication that reversal of impairment loss recognized in prior periods for an asset other than goodwill may exist. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

The reversal of an impairment loss does not exceed the carrying amount (net of amortization or depreciation) that would have been determined if no impairment loss had been recognized for the asset in prior periods.

(11) Financial instruments

The Group early applied IFRS 9 Financial Instruments (final version issued in July 2014) to account for its financial instruments.

1. Financial assets

(i) Initial recognition and measurement

The Group initially recognizes financial assets on transaction date and classifies as financial assets measured at amortized cost and financial assets measured at fair value at the initial recognition. Financial assets are classified as financial asset measured at amortized cost if the following conditions are met. Otherwise, financial assets are classified as financial assets measured at fair value.

・ The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

・ Contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principals and interests.

(ii) Subsequent measurement

After initial recognition, financial assets are measured as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured using the effective interest method to calculate amortized cost (net of impairment loss).

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

Financial assets measured at fair value through profit or loss are measured at fair value and subsequent changes in fair value are recognized in profit or loss.

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

Among the financial assets measured at fair value, an entity may make an irrevocable election at initial recognition for an investment in an equity instrument that is not held for trading purpose to present subsequent changes in the fair value in other comprehensive income. Therefore, the Group makes such election for each financial instrument.

Financial assets measured at fair value through other comprehensive income are measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income. The cumulative amount recognized in other comprehensive income is reclassified to retained earnings, but not profit or loss, when equity instruments are derecognized or when the fair value of equity instruments declines significantly. However, dividends are recognized in profit or loss.

(iii) Derecognition

A financial asset is derecognized when it meets one of the following conditions:

・ the contractual rights to the cash flows from the financial assets expire; or

・ the Group transfers the financial assets and substantially all the risks and rewards related to the ownership of the financial assets.

(iv) Impairment

Financial assets measured at amortized cost are presented at the carrying amount reduced by a loss allowance recognized for expected credit losses to be incurred in the future. The Group assesses whether a credit risk on a financial asset measured at amortized cost has increased significantly since initial recognition and considers all reasonable and supportable information in addition to delinquency information when assessing the credit risk.

The Group estimates expected credit losses for each individual financial asset measured at amortized cost at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If not, the Group estimates expected credit losses for that financial asset at an amount equal to expected credit losses for 12 months after the reporting date.

Among the financial assets measured at amortized cost, the Group estimates expected credit losses at an amount equal to lifetime expected credit losses for trade receivables, independently by each type of similar receivables.

② Financial liabilities

The Group initially recognizes debt securities as financial liabilities at the date of issuance. Other financial liabilities are all initially recognized at the date when the Group becomes party to the contractual provisions of the instrument.

A financial liability is derecognized only when the obligation specified in the contract is fulfilled, discharged, cancelled or expires.

The Group holds corporate bonds, borrowings, trade payables and other liabilities, as non-derivative financial liabilities.

The Group initially recognizes the above financial liabilities at fair value deducted by directly attributable transaction costs. After initial recognition, financial liabilities are subsequently measured at amortized cost by using the effective interest method.

③ Derivatives

The Group uses derivatives to hedge foreign currency risk exposures. Such derivatives used by the Group are foreign currency forward contracts. However, the Group does not use derivatives for speculative purpose. Derivatives are initially recognized at fair value and the related transaction costs are recognized as expenses when incurred. Derivatives not qualified for hedge accounting are measured at fair value after initial recognition and the change in fair value is recognized in profit or loss.

④ Hedge accounting

Certain derivatives are designated as hedging instruments in cash flow hedges and if they meet certain hedging criteria, the effective portion of fair value changes of derivatives is recognized in other comprehensive income and is cumulated in accumulated other comprehensive income.

At the inception of the designation of hedge, the Group has a formal documentation of the relationship between hedging instruments and hedged items, including risk management objective, strategy for undertaking the hedge and method for assessing whether the hedge effectiveness requirements are met. At the inception of the hedge and on an ongoing basis, the Group assesses whether the Group can forecast if the hedging instrument is effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

The other components of equity are reclassified to profit or loss, in the hedged item related account in the consolidated statement of profit or loss, during the same period in which the expected cash flows of hedged item affect profit or loss. If a hedged forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the cumulative amount previously recognized in other components of equity are reclassified to and included in the initial amount of the cost of the non-financial asset or the non-financial liability. In the changes in the fair value of derivatives, the portion of hedging ineffectiveness is immediately recognized in profit or loss.

Hedge accounting is discontinued when the Group revokes the designation of hedge, when the hedging instrument expires or is sold, terminated or executed or when the hedge no longer meets the criteria for hedge accounting.

(12) Inventories

Inventories mainly comprise merchandise and finished goods, work-in-process, raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. The cost of inventories is calculated by the average method and comprises purchase costs, processing costs and other related production costs. Finished goods and work-in-process include a proper allocation of production overheads that are based on the expected capacity of the production facilities. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(13) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash and are subjected to insignificant risks of changes in value, and whose maturities are three months or less from the date of acquisition.

(14) Employee benefits

① Post-retirement benefits

The Group has both defined benefit plans and defined contribution plans as employee post-retirement benefits.

(i) Defined benefit plan

The present value of the defined benefit obligations arising from a defined benefit plan and the related current service cost and past service cost are measured by using the projected unit credit method by each plan. The discount rates are determined by reference to market yields at the fiscal year-end on high quality corporate bonds for the corresponding periods in which the retirement benefits are to be paid. The amount of the net defined benefit liability (asset) is calculated by deducting the fair value of plan assets from the present value of the defined benefit obligation. Service cost and net interest on the net defined benefit liability (asset) are recognized as post-retirement benefit expense in profit or loss. Remeasurement of the net defined benefit liability (asset) are recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

(ii) Defined contribution plan

The expense related to post-retirement arising from a defined contribution plan is recognized as post-retirement benefit expense in profit or loss in the period which the employee renders service to the Group.

② Other long-term employee benefits

Long-term employee benefit obligations other than post-retirement benefit plan are measured at the present value of the future benefit payments by the Group in exchange for the services rendered by employees up to the reporting date.

③ Short-term employee benefits

Short-term employee benefits are recognized as an expense on an undiscounted basis at the time when the service is rendered by employee.

Bonuses are recognized as liabilities, when the Group has a present legal or constructive obligation to pay for service rendered as a result of the service rendered by employees in the past and when a reliable estimate of the obligation can be made.

(15) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is generally a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(16) Government grants

Government grants are measured at fair value when the grant will be received and there is reasonable assurance that the Group will comply with the conditions attached to grants, and are recognized by the following methods.

Government grants related to assets are being deducted from acquisition cost of the asset and are recognized in profit or loss over the useful life of the depreciable asset as a reduced depreciation expense. Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

(17) Capital

① Common stock

With regard to ordinary shares issued by the Company, the issuance value is recorded in share capital and capital surplus, and the costs directly attributable to the issue of ordinary shares (after tax effect) are recognized as a deduction from capital surplus.

② Treasury share

When treasury shares are acquired, they are recognized at cost and presented as a deduction from equity. In addition, directly attributable costs arising from the acquisition of treasury stocks are deducted from capital surplus.

When treasury shares are sold, the difference between carrying amount and consideration received is recognized in capital surplus.

5. Operating Segments

The Group sets core operating profit, which is an indicator showing the Company's profitability from ordinary income, as its own business performance management indicator.

Core operating profit is operating profit after deducting gains and losses arising from extraordinary items prescribed by the Group. The amount deducted as extraordinary items mainly represents impairment losses, business structure improvement expenses, litigation related expenses, the changes in fair values of contingent considerations arising from business combinations and etc.

(1) Reportable segments

The Group is mainly engaged in manufacture, purchase and sales of pharmaceuticals for medical treatment and manages the performance of pharmaceutical business by market in Japan, North America, China and etc. Therefore, the Group has four reportable segments: Japan, North America, China, and Other Regions.

The Group's reportable segments are the components of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resources to be allocated to the segments and assess their performances.

(2) Revenues and operating results of the reportable segments

Revenues, profit or loss and other items by each of the Group's reportable segments are shown below.

The accounting policies of reportable segments are identical to those set forth in the Note 4 Significant Accounting Policies.

The Group sets core segment profit, which is an indicator showing the segment's profitability from ordinary income, as its own indicator of segment business performance management.

Core segment profit is calculated by deducting research and development expenses, gains and losses on sales of operations and etc. which are not allocated to operating segments because such expenses are managed on a global basis from core operating profit, and presented as segment profit.

① Year ended March 31, 2017

(Millions of yen)

	Reportable segments					Other Business (Note)	Total
	Pharmaceutical business						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	140,849	194,652	17,625	11,543	364,669	43,688	408,357
Inter-segment revenues and transfers	50	—	—	—	50	75	125
Total	140,899	194,652	17,625	11,543	364,719	43,763	408,482
Segment profit (Core segment profit)	37,936	92,552	6,728	2,831	140,047	2,376	142,423
Other items							
Depreciation and amortization	4,404	3,690	327	440	8,861	99	8,960
Impairment losses	2,161	—	93	—	2,254	—	2,254

(Note) The "Other Business" category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, diagnostics and other products.

② Year ended March 31, 2018

(Millions of yen)

	Reportable segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	143,325	240,791	23,444	16,468	424,028	42,810	466,838
Inter-segment revenues and transfers	75	—	—	—	75	68	143
Total	143,400	240,791	23,444	16,468	424,103	42,878	466,981
Segment profit (Core segment profit)	40,271	109,527	10,715	5,127	165,640	2,650	168,290
Other items							
Depreciation and amortization	3,068	4,944	583	909	9,504	93	9,597
Impairment losses	2,147	—	—	—	2,147	—	2,147

(Note) The “Other Business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, diagnostics and other products.

(3) Reconciliations between the total amounts of reportable segments and the amounts in the consolidated financial statements (reconciliation items)

The details of reconciliation are as follows:

(Millions of yen)

Revenue	Year ended March 31, 2017	Year ended March 31, 2018
Total of reportable segments	364,719	424,103
Revenue of Other Business	43,763	42,878
Elimination of inter-segment revenue	(125)	(143)
Revenue on the consolidated financial statements	408,357	466,838

(Millions of yen)

Profit	Year ended March 31, 2017	Year ended March 31, 2018
Total of reportable segments	140,047	165,640
Segment profit of Other Business	2,376	2,650
Elimination of inter-segment profit	26	27
Research and development expenses (Note)	(81,373)	(86,881)
Gains on business transfers	3,249	9,178
Others	47	(10)
Core operating profit	64,372	90,604
Change in fair value of contingent consideration	(8,131)	6,371
Impairment losses	(2,254)	(2,147)
Litigation related expenses	—	(1,746)
Other income	258	249
Other expenses	(13,959)	(5,158)
Operating profit in the consolidated financial statements	40,286	88,173

(Note) The Group does not allocate research and development expenses to the operating segments because such expenses are managed on a global basis.

(Millions of yen)

Other items	Total of reportable segments		Other Business		Adjustments		Amount in the consolidated financial statements	
	FY2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
Depreciation and amortization	8,861	9,504	99	93	3,753	3,290	12,713	12,887

(4) Revenues

The details of revenues from external customers are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Sale of goods	404,745	461,271
Revenue arising from intellectual property rights	2,795	1,812
Other	817	3,755
Total	408,357	466,838

(5) Information by product and service

The details of sales from external customer by product and service are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Pharmaceuticals	364,669	424,028
Others	43,688	42,810
Total	408,357	466,838

(6) Geographic information

The Group's geographic revenues are classified by country and region, based on the location of customers.

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Japan	186,333	188,806
North America	194,481	239,615
U.S.A.in North America	190,471	235,207
Others	27,543	38,417
Total	408,357	466,838

The details of the breakdown of carrying amounts of the Group's non-current assets (except for financial assets, deferred tax assets and retirement benefit assets) by location are as follows:

(Millions of yen)

	Transition Date (As of April 1, 2016)	As of March 31, 2017	As of March 31, 2018
Japan	77,667	71,705	74,221
North America	143,870	288,537	272,882
U.S.A.in North America	143,615	287,016	271,575
Others	1,761	1,500	1,399
Total	223,298	361,742	348,502

(7) Information of major customers

Revenue from major customer which individually accounts for greater than 10% of the total Group's revenue are as follows:

(Millions of yen)

	Reportable segment	Year ended March 31, 2017	Year ended March 31, 2018
McKesson Corporation	North America	70,003	82,506
Cardinal Health Inc.	North America	49,594	64,301
AmerisourceBergen Corporation	North America	45,784	59,783

6. Per-share information

The basis for calculating basic earnings per share and earnings per share were as follows:

	Year ended March 31, 2017	Year ended March 31, 2018
The basis for calculating basic earnings per share		
Net profit attributable to owners of the Parent (millions of yen)	31,316	53,448
Amounts not attributable to ordinary shareholders of the parent (millions of yen)	—	—
Net profit used to calculate basic earnings per share (millions of yen)	31,316	53,448
Weighted average number of ordinary shares (1,000 shares)	397,300	397,299
Earnings per share (Yen)		
Basic earnings per share (Yen)	78.82	134.53

(Note) Dilutive earnings per share were not disclosed as there was no dilution.

7. Significant subsequent event

Not applicable.

8. First-time Adoption of IFRS

The Group presents consolidated financial statements that comply with IFRS from the year ended March 31, 2018. The most recent consolidated financial statements prepared in accordance with generally accepted accounting principles in Japan (hereinafter "Japanese GAAP") are for the year ended March 31, 2017, and the date of transition from Japanese GAAP to IFRS is April 1, 2016.

Accounting policies as stated in Note 4 Significant Accounting Policies in the Notes to consolidated financial statements are applied to the consolidated financial statements for the years ended March 31, 2018 and 2017 and the consolidated statement of financial position as of April 1, 2016 (Transition Date).

(1) Exemption rules of IFRS 1

In principle, IFRS 1 provides a company that presents its first IFRS financial statements ("First-time Adopter") shall comply with each IFRS retrospectively. However, IFRS 1 provides voluntary exemptions from the application of certain standards required by IFRS.

The exemptions that the Group applies in connection with the transition from Japanese GAAP to IFRS are as follows:

① Business combinations

IFRS 1 provides that a First-time Adopter may elect not to apply retrospectively IFRS 3 to past business combinations that occurred before the date of transition to IFRS. However, if a First-time Adopter restates any business combination to comply with IFRS 3, it shall restate all later business combinations to comply with IFRS 3.

The Group elects to use this exemption and not to apply retrospectively IFRS 3 for the business combinations that occurred before the date of transition to IFRS.

As a result, the amount of goodwill arising from the business combinations that occurred before the date of transition to IFRS is stated at the carrying amount of the goodwill in accordance with Japanese GAAP as of the date of transition to IFRS. However, impairment test on goodwill was performed as of the date of transition of IFRS regardless of whether there was an indication of impairment.

② Deemed cost

IFRS 1 provides that a First-time Adopter may elect to use the fair value of an intangible asset, etc. at the date of transition to IFRS as deemed cost at the date of transition to IFRS. The Company elects to use this exemption for certain intangible assets and uses the fair value at the date of transition to IFRS as deemed cost.

③ Exchange differences on translation of foreign operations

IFRS 1 provides that a First-time Adopter need not comply with certain requirements in IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative translation differences that existed at the date of transition to IFRS. If the exemption is used, the cumulative translation differences of all foreign operations are deemed to be zero at the date of transition to IFRS.

The Group elects to use this exemption, deems the cumulative translation differences of foreign operations as zero and reclassifies all to retained earnings at the date of transition to IFRS.

(2) Reconciliations from Japanese GAAP to IFRS

The reconciliations that are required for disclosures on the first-time adoption of IFRS are shown below.

The column of "Reclassification" in the reconciliation tables represents those items that do not affect retained earnings and comprehensive income. The column of "Recognition and measurement differences" in the reconciliation tables represent those items that affect retained earnings and comprehensive income.

① Reconciliation of net profit and comprehensive income

(i) Year ended March 31, 2017

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Retrospective adjustment on purchase price allocation in business combination (l)	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Net sales	411,645	—	—	(3,288)	408,357	(a)	Revenue
Cost of sales	100,078	114	—	(5,567)	94,625	(b)	Cost of sales
Gross profit	311,567	(114)	—	2,279	313,732		Gross profit
Selling, general and administrative expenses	258,807	(80,618)	259	3,220	181,668	(c)	Selling, general and administrative expenses
	—	80,820	—	553	81,373	(d)	Research and development expenses
	—	305	—	3,249	3,554	(e)	Other income
	—	13,973	—	(14)	13,959	(f)	Other expenses
Operating profit	52,760	(13,984)	(259)	1,769	40,286		Operating profit
Non-operating income	3,521	(3,521)	—	—	—		
Non-operating expense	1,939	(1,939)	—	—	—		
Extraordinary income	5,754	(5,754)	—	—	—		
Extraordinary loss	12,878	(12,878)	—	—	—		
	—	8,989	—	(5,807)	3,182	(g)	Finance income
	—	667	—	20	687	(h)	Finance costs
Profit before income taxes	47,218	(120)	(259)	(4,058)	42,781		Profit before taxes
Income tax expenses	18,225	(120)	—	(6,640)	11,465	(i)	Income tax expenses
Net profit	28,993	—	(259)	2,582	31,316		Net profit
Consolidated statement of comprehensive income Other comprehensive income							Other comprehensive income Items that will not be reclassified to profit or loss:
Change in unrealized gain (loss) on securities	(6,661)	—	—	3,775	(2,886)	(j)	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	1,119	—	—	2,158	3,277	(k)	Remeasurements of defined benefit liability (asset)
							Items that are or may be reclassified subsequently to profit or loss:
Foreign currency translation adjustment	(2,296)	—	(9)	434	(1,871)		Exchange differences on translation of foreign operations
Deferred losses on hedges	(7)	—	—	—	(7)		Cash flow hedges
Total other comprehensive income	(7,845)	—	(9)	6,367	(1,487)		Total other comprehensive income
Comprehensive income	21,148	—	(268)	8,949	29,829		Total comprehensive income

(a) Revenue

(Recognition and measurement difference)

Under Japanese GAAP, lump sum receipts on out-licensing of technologies, etc. based on license agreements and royalty income, were included in Net sales. However, under IFRS such revenues from contracts are included in Other income because such license transactions which transfer all the rights and obligations to the customers are determined as sales of intangible assets at the inception of the contract.

(b) Cost of sales

(Recognition and measurement difference)

Under Japanese GAAP, certain subsidiaries used the First-in, first-out cost formula to measure cost of inventories. Under IFRS, cost of sales decreased because the cost formula of all consolidated subsidiaries has been unified to the average method.

(c) Selling, general and administrative expenses

(Reclassification)

Under Japanese GAAP, research and development expenses are included in Selling, general and administrative expenses. However, under IFRS, research and development expenses are separately presented.

(Differences in recognition and measurement)

Under Japanese GAAP, goodwill was amortized on a straight-line basis over the period during which the effect of such goodwill last for but not exceed 20 years after recognition. However, under IFRS, goodwill is not amortized. As a result, Selling, general and administrative expenses decreased.

Under Japanese GAAP, contingent consideration arising from a transaction, which is accounted for as a business combination under Japanese GAAP at the acquisition date, was not recognized as a liability until the timing of delivery or transfer is reliable after the business combination. However, under IFRS, contingent consideration in a business combination is measured at fair value and recognized as a financial liability. The change of fair value of such liabilities is recognized in Selling, general and administrative expense. As a result, the increase of fair value is recognized in Selling, general and administrative expenses.

Under Japanese GAAP, if any indication of impairment exists, the carrying amount of the asset and asset group and the total undiscounted estimated future cash flows were compared, and only if the total undiscounted estimated future cash flows fell below the carrying amount, impairment losses were recognized to the extent of the recoverable amount based on the total discounted estimated future cash flows. Under IFRS, if any indication of impairment exists, the carrying amount of the asset and asset group and the recoverable amount based on the total discounted estimated future cash flows are compared, and if the recoverable amount falls below the carrying amount, impairment losses are recognized to the extent of the recoverable amount. As a result, under IFRS, impairment losses on marketing rights in Japan are recognized, as the relevant profitability is expected to be declining and the recoverable amount of discounted future cash flow falls below the carrying amount of such assets.

As a result of the above, Selling, general and administrative expenses increased.

(d) Research and development expenses

(Reclassification)

Under Japanese GAAP, research and development expenses were included in Selling, general and administrative expenses. Under IFRS, research and development expenses are separately presented.

(e) Other income

(Recognition and measurement difference)

Under Japanese GAAP, lump sum receipts on out-licensing of technologies, etc. based on license agreements and royalty income, were included in Net sales. However, under IFRS such revenues from contracts are included in Other income because such license transactions which transfer all the rights and obligations to the customers are determined as sales of intangible assets at the inception of the contract.

(f) Other expenses

(Reclassification)

Under Japanese GAAP, business structure improvement expenses and losses associated with termination of research and development projects were presented in Extraordinary loss. Under IFRS, such expenses are included in Other expenses.

Donations presented in non-operating expense and certain expenses presented in other of non-operating expense under Japanese GAAP, are presented in Other expenses under IFRS.

(g) Finance income

(Reclassification)

Under Japanese GAAP, interest income, dividend income, and foreign exchange gains were presented in non-operating expense. Under IFRS, interest income, they are presented in Finance income.

(Recognition and measurement difference)

Under Japanese GAAP, gains on sale of investment securities were recognized in extraordinary income. Under IFRS, they are recognized as Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income.

(h) Finance costs

(Reclassification)

Under Japanese GAAP, interest expense was presented in non-operating expense. Under IFRS, it is presented in Finance costs.

(i) Income tax expenses

(Recognition and measurement difference)

Under Japanese GAAP, deferred tax assets related to elimination of unrealized gains and losses of inventories were calculated using the seller's statutory effective income tax rate. Under IFRS, the buyer's statutory effective income tax rate is used for calculation deferred tax assets. In addition, income tax expenses decreased due to the origination of temporary differences arising from other IFRS adjustments.

(j) Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income

(Recognition and measurement difference)

Under Japanese GAAP, the gains on sales of investment securities recognized in extraordinary income and the related income tax expenses were adjusted to other comprehensive income (reclassification adjustment). Under IFRS, as such reclassification adjustments are not permitted, they are reversed.

Under Japanese GAAP, unlisted securities were measured at acquisition cost. Under IFRS, they are measured at fair value.

(k) Remeasurements of defined benefit liability (asset)

(Recognition and measurement difference)

Under Japanese GAAP, actuarial gains and losses arising from defined benefit plans and past service cost are recognized in other comprehensive income when incurred and amortized over a certain period of years within the average remaining service period of employees which was calculated when such gains and losses and past service cost occurred. Under IFRS, actuarial gains and losses are recognized in other comprehensive income, and past service cost is recognized in profit and loss when incurred. The actuarial gains and losses recognized in other comprehensive income are reclassified to retained earnings immediately.

As for the Company and domestic consolidated subsidiaries which have defined benefit plans, there exist differences on the actuarial assumptions, such as discount rates, between Japanese GAAP and IFRS.

(l) Retrospective adjustment on purchase price allocation in business combination

Provisional accounting treatment had been applied to the purchase price allocation in the business combination with Tolero Pharmaceuticals, Inc. in the year ended March 31, 2017, and was finalized in the year ended March 31, 2018 and therefore retrospective adjustment was made.

As a result, Selling, general and administrative expenses increased by ¥259 million, and Other comprehensive income decreased by ¥9 million.

② Reconciliations of equity

(ⅰ) IFRS Transition Date (as of April 1, 2016)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Assets						Assets
Non-current assets						Non-current assets
Property, plant and equipment	61,824	—	1,841	63,665	(a)	Property, plant and equipment
Goodwill	76,950	—	—	76,950	(b)	Goodwill
In-process research and development	60,145	19,486	(810)	78,821	(c)	Intangible assets
Intangible assets (others)	19,486	(19,486)	—	—		
Investment securities	60,433	1,052	3,747	65,232	(d)	Other financial assets
Retirement benefit assets	67	—	(67)	—	(n)	
Other	4,954	(1,092)	—	3,862		Other non-current assets
Deferred tax assets	2,313	63,991	7,276	73,580	(e)	Deferred tax assets
Allowance for doubtful debts	(41)	41	—	—		
Total non-current assets	286,131	63,992	11,987	362,110		Total non-current assets
Current assets						Current assets
Merchandise and finished goods	48,101	11,487	(15,077)	44,511	(f)	Inventories
Work-in-process	3,206	(3,206)	—	—		
Raw materials and supplies	8,281	(8,281)	—	—		
Notes and accounts receivable	107,166	1,697	(207)	108,656	(g)	Trade and other receivables
Investment securities	81,039	(31,662)	—	49,377	(h)	Other financial assets
Loans receivables	48,427	(48,427)	—	—		
Deferred tax assets	63,991	(63,991)	—	—	(e)	
	—	—	—	—		Income taxes receivable
Other	6,455	(2,263)	1,069	5,261	(j)	Other current assets
Cash and time deposits	54,922	80,650	—	135,572	(k)	Cash and cash equivalents
Allowance for doubtful debts	(4)	4	—	—		
Total current assets	421,584	(63,992)	(14,215)	343,377		Total current assets
Total assets	707,715	—	(2,228)	705,487		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Liabilities and net assets						Liabilities and equity
Liabilities						Liabilities
Long-term liabilities						Non-current liabilities
Bonds	20,000	8,000	—	28,000		Bonds and borrowings
Long-term debt	8,000	(8,000)	—	—		
	—	156	—	156	(l)	Trade and other payables
	—	11,500	58,374	69,874	(m)	Other financial liabilities
Retirement benefit liabilities	16,159	—	5,750	21,909	(n)	Retirement benefit liabilities
Fair value of contingent consideration	8,968	(8,968)	—	—		
Other	12,184	(6,514)	504	6,174	(o)	Other non-current liabilities
Deferred tax liabilities	16,209	—	(12,148)	4,061	(e)	Deferred tax liabilities
Total long-term liabilities	81,520	(3,826)	52,480	130,174		Non-current liabilities
Current liabilities						Current liabilities
Short-term debt	1,010	22,000	—	23,010		Bonds and borrowings
Corporate bonds due within one year	10,000	(10,000)	—	—		
Long-term debts due within one year	12,000	(12,000)	—	—		
Trade notes and accounts payable	12,153	31,709	(334)	43,528	(p)	Trade and other payables
	—	5,944	704	6,648	(q)	Other financial liabilities
Income taxes payable	26,358	2,098	—	28,456	(r)	Income taxes payable
Reserve for bonuses	10,809	46,980	(32)	57,757	(s)	Provisions
Reserve for sales return	9,086	(9,086)	—	—		
Reserve for sales rebates	49,224	(49,224)	—	—		
Other payables	34,213	(34,213)	—	—		
Other	14,869	9,618	1,833	26,320	(t)	Other current liabilities
Total current liabilities	179,722	3,826	2,171	185,719		Current liabilities
Total liabilities	261,242	—	54,651	315,893		Total liabilities
Net assets						Equity
Common stock	22,400	—	—	22,400		Share capital
Capital surplus	15,860	—	—	15,860		Capital surplus
Retained earnings	341,402	—	(15,044)	326,358	(u)	Retained earnings
Treasury share	(663)	—	—	(663)		Treasury shares
Total accumulated other comprehensive income	67,474	—	(41,835)	25,639	(v)	Other components of equity
Total net assets	446,473	—	(56,879)	389,594		Total equity
Total liabilities and net assets	707,715	—	(2,228)	705,487		Total liabilities and equity

(ii) As of March 31, 2017

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Retrospective adjustment on purchase price allocation in business combination (w)	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Assets							Assets
Non-current assets							Non-current assets
Property, plant and equipment	59,253	—	—	1,868	61,121	(a)	Property, plant and equipment
Goodwill	90,565	—	3,825	5,804	100,194	(b)	Goodwill
In-process research and development	193,970	19,775	(14,135)	(2,496)	197,114	(c)	Intangible assets
Intangible assets (others)	19,775	(19,775)	—	—	—		
Investment securities	48,034	1,228	—	3,419	52,681	(d)	Other financial assets
Retirement benefit assets	647	—	—	(647)	—	(n)	
Other	4,568	(1,255)	—	—	3,313		Other non-current assets
Deferred tax assets	711	60,956	—	(4,578)	57,089	(e)	Deferred tax assets
Allowance for doubtful debts	(29)	29	—	—	—		
Total non-current assets	417,494	60,958	(10,310)	3,370	471,512		Total non-current assets
Current assets							Current assets
Merchandise and finished goods	54,973	13,833	—	(8,520)	60,286	(f)	Inventories
Work-in-process	3,356	(3,356)	—	—	—		
Raw materials and supplies	10,477	(10,477)	—	—	—		
Notes and accounts receivable	110,932	2,026	—	(226)	112,732	(g)	Trade and Other receivables
Investment securities	34,195	(16,701)	—	—	17,494	(h)	Other financial assets
Loan receivables	16,731	(16,731)	—	—	—		
Deferred tax assets	60,956	(60,956)	—	—	—	(e)	
	—	5,750	—	484	6,234	(i)	Income taxes receivable
Other	13,431	(8,545)	—	325	5,211	(j)	Other current assets
Cash and time deposits	71,408	34,195	—	—	105,603	(k)	Cash and cash equivalents
Allowance for doubtful debts	(4)	4	—	—	—		
Total current assets	376,455	(60,958)	—	(7,937)	307,560		Total current assets
Total assets	793,949	—	(10,310)	(4,567)	779,072		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Retrospective adjustment on purchase price allocation in business combination (w)	Recognition and measurement differences	IFRS	Note	Accounts under IFRS
Liabilities and net assets							Liabilities and equity
Liabilities							Liabilities
Long-term liabilities							Non-current liabilities
Bonds	10,000	—	—	—	10,000		Bonds and borrowings
Long-term debt	—	—	—	—	—		
	—	—	—	—	—		Trade and Other payables
	—	39,989	(4,813)	65,697	100,873	(m)	Other Financial liabilities
Retirement benefit liabilities	13,498	—	—	2,876	16,374	(n)	Retirement Benefit liabilities
Fair value of contingent consideration	39,909	(39,909)	—	—	—		
Other	8,855	(1,977)	—	474	7,352	(o)	Other non-current liabilities
Deferred tax liabilities	32,583	—	(5,229)	(27,282)	72	(e)	Deferred tax liabilities
Total long-term liabilities	104,845	(1,897)	(10,042)	41,765	134,671		Non-current liabilities
Current liabilities							Current liabilities
Short-term debt	40,000	18,000	—	—	58,000		Bonds and borrowings
Corporate bonds due within one year	10,000	(10,000)	—	—	—		
Long-term debts due within one year	8,000	(8,000)	—	—	—		
Notes and accounts payable	14,514	33,440	—	(560)	47,394	(p)	Trade and Other payables
	—	13,193	—	724	13,917	(q)	Other Financial liabilities
Income taxes payable	8,818	1,183	—	—	10,001	(r)	Income taxes payable
Reserve for bonuses	10,986	65,942	—	(23)	76,905	(s)	Provisions
Reserve for sales return	11,315	(11,315)	—	—	—		
Reserve for sales rebates	65,653	(65,653)	—	—	—		
Other payables	36,988	(36,988)	—	—	—		
Other	22,173	2,095	—	1,648	25,916	(t)	Other current liabilities
Total current liabilities	228,447	1,897	—	1,789	232,133		Current liabilities
Total liabilities	333,292	—	(10,042)	43,554	366,804		Total liabilities
Net assets							Equity
Common stock	22,400	—	—	—	22,400		Share capital
Capital surplus	15,860	—	—	—	15,860		Capital surplus
Retained earnings	363,629	—	(259)	(5,601)	357,769	(u)	Retained earnings
Treasury share	(667)	—	—	—	(667)		Treasury shares
Total accumulated other comprehensive income	59,435	—	(9)	(42,520)	16,906	(v)	Other components of equity
Total net assets	460,657	—	(268)	(48,121)	412,268		Total equity

Total liabilities and net assets	793,949	—	(10,310)	(4,567)	779,072		Total liabilities and equity

(a) Property, plant and equipment

(Recognition and measurement difference)

Under Japanese GAAP, the usage fees based on certain power supply contracts that are not in the form of lease agreements, were recognized as expenses upon payment. However, under IFRS, regardless of whether such contacts are lease agreements in a legal form or not, the transactions based on the contracts, from which the right of use of the specific underlying assets have been substantially transferred can be judged, are accounted for lease transaction according to lease accounting standards. As a result, Property, plant and equipment increased due to the recognition of the leased assets arising from certain contracts.

(b) Goodwill

(Recognition and measurement difference)

Under Japanese GAAP, goodwill was amortized on a straight-line basis over the period during which the effect of such goodwill last for but not exceed 20 years after recognition. However, under IFRS, goodwill is no longer amortized from the date of transition to IFRS, which causes Goodwill increased.

(c) Intangible assets

(Recognition and measurement difference)

Under Japanese GAAP, all of the research and development expenditures were recognized as expense when incurred. Under IFRS, such expenditures which meet certain requirements are recognized as intangible assets. The fair value at the date of transition to IFRS of part of the intangible assets are used as deemed cost. At the date of transition to IFRS, the carrying amounts under Japanese GAAP of the intangible assets to which deemed cost was applied, are ¥10,248 million, and their fair value are ¥1,802 million.

Under Japanese GAAP, if any indication of impairment exists, the carrying amount of the asset and asset group, and the total undiscounted estimated future cash flows were compared, and only if the total undiscounted estimated future cash flows fell below the carrying amount, impairment losses were recognized to the extent of the recoverable amount based on the total discounted estimated future cash flows. Under IFRS, if any indication of impairment exists, the carrying amount of the asset and asset group, and the recoverable amount based on the total discounted estimated future cash flows are compared, and if the recoverable amount falls below the carrying amount, impairment losses are recognized to the extent of the recoverable amount. Impairment losses on marketing rights in Japan were recognized for the year ended March 31, 2017, as the relevant profitability is expected to be declining and the recoverable amount of discounted future cash flow falls below the carrying amount of such assets.

(d) Other financial assets (non-current)

(Reclassification)

Under Japanese GAAP, the deposits arising from property rental contacts were presented in other under investments and other assets. Under IFRS, they are presented in Other financial assets under Non-current assets.

(Recognition and measurement difference)

Under Japanese GAAP, unlisted securities were measured at the acquisition costs. Under IFRS, such instruments are measured at fair value, which causes Other financial assets increased.

(e) Deferred tax assets and deferred tax liabilities

(Reclassification)

Under Japanese GAAP, deferred tax assets and liabilities are presented separately in current assets, non-current assets, and non-current liabilities. Under IFRS, they are presented separately in non-current assets and non-current liabilities.

(Recognition and measurement difference)

Under Japanese GAAP, deferred tax assets related to elimination of unrealized gains and losses of inventories were calculated using the seller's statutory effective income tax rate. Under IFRS, the buyer's statutory effective income tax rate is used for calculation deferred tax assets. In addition, income taxes are recognized as a result of the origination of temporary differences arising from other IFRS adjustments and the review on the recoverability of deferred tax assets due to the transition to IFRS

Under Japanese GAAP, the Group offset the deferred tax assets and liabilities in current portion and non-current portion, respectively. Under IFRS, as all deferred tax assets and liabilities are classified as non-current items, which increased the offset amount, Deferred tax assets and Deferred tax liabilities decreased accordingly.

(f) Inventories

(Reclassification)

Under Japanese GAAP, inventories are presented in the separate accounts of merchandise and finished goods, work-in-process, and raw materials and supplies. Under IFRS, all the inventory accounts are presented aggregately in Inventories.

(Recognition and measurement difference)

Under Japanese GAAP, certain subsidiaries used the First-in, first-out cost formula to measure cost of inventories. Under IFRS, Inventories decreased because the cost formula of all consolidated subsidiaries has been unified to the average method.

(g) Trade and other receivables

(Reclassification)

Under Japanese GAAP, other receivables were presented in other under current assets. Under IFRS, they are presented in Trade and other receivables,

(Recognition and measurement difference)

Under Japanese GAAP, certain subsidiaries recognized revenue upon delivery. Under IFRS, revenue is recognized at the time when the significant risks and rewards of ownership of the goods are transferred to customers (i.e. upon arrival), which causes Trade and other receivables decreased.

(h) Other financial assets (current)

(Reclassification)

Under Japanese GAAP, the investment securities with the maturity of three months or less from the acquisition date are recognized in Current assets. Under IFRS, they are presented in Cash and cash equivalents.

In addition, under Japanese GAAP, loan receivables were separately presented. Under IFRS, they are included in Other financial assets under Current assets.

(i) Income taxes receivable

(Reclassification)

Under Japanese GAAP, income taxes receivable were included in other under Current assets. Under IFRS, they are separately presented as Income taxes receivable.

(j) Other current assets

(Reclassification)

Under Japanese GAAP, other receivables are included in other under Current assets. Under IFRS, they are included in Trade and other receivables.

(k) Cash and cash equivalents

(Reclassification)

Under Japanese GAAP, the investment securities with the maturity of three months or less the acquisition date were presented under Current assets. Under IFRS, they are included in Cash and cash equivalents.

(l) Trade and other payables (non-current)

(Reclassification)

Under Japanese GAAP, the long-term liabilities were presented in other under Long-term liabilities. Under IFRS, they are included in Trade and other payables under Non-current liabilities.

(m) Other financial liabilities (non-current)

(Reclassification)

Under Japanese GAAP, the fair value of the contingent consideration arising from the acquisition of a subsidiary located in the U.S.A. that complies with Generally Accepted Accounting Principles in United States of America (hereinafter referred to as "US GAAP"), is presented separately in fair value of contingent consideration under Non-current liabilities. Under IFRS, it is presented Other financial liabilities under Non-current liabilities.

(Recognition and measurement differences)

Under Japanese GAAP, contingent consideration arising from a transaction, which is accounted for as a business combination under Japanese GAAP at the acquisition date, was not recognized as a liability until the timing of delivery or transfer is reliable after the business combination. However, under IFRS, contingent consideration in a business combination is measured at fair value and recognized as in Other financial liability under non-current liabilities.

Under Japanese GAAP, the usage fees based on certain power supply contracts that are not in the form of lease agreements, were recognized as expenses upon payment. However, under IFRS, regardless of whether such contacts are lease agreements in a legal form or not, the transactions based on the contracts, from which the right of use of the specific underlying assets have been substantially transferred can be judged, are accounted for lease transaction according to lease accounting standards. As a result, Other financial liabilities under Non-current liabilities increased due to the recognition of the lease obligations arising from such contracts.

(n) Retirement benefit assets and liabilities

(Recognition and measurement difference)

Under Japanese GAAP, actuarial gains and losses arising from defined benefit plans and past service cost are recognized in other comprehensive income when incurred, and amortized over a certain period of years within the average remaining service period of employees which was calculated when such gains and losses and past service cost occurred. Under IFRS, actuarial gains and losses are recognized in other comprehensive income, and past service cost is recognized in profit and loss when incurred. The actuarial gains and losses recognized in other comprehensive income are reclassified to retained earnings immediately.

As for the Company and domestic consolidated subsidiaries which have defined benefit plans, there exist differences on the actuarial assumptions, such as discount rates, between Japanese GAAP and IFRS. As a result, retirement benefit liabilities increase due to the remeasurement of defined benefit plans.

(o) Other non-current liabilities

(Reclassification)

Under Japanese GAAP, the consolidated subsidiaries that comply with US GAAP recognized a liability according to U.S. Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes. Under Japanese GAAP, such liability was presented in other under Long-term liabilities. Under IFRS, it is presented in Income taxes payable" under Current liabilities.

(Recognition and measurement difference)

Under Japanese GAAP, unused paid absences and other long-term employee benefits are not required to be recognized as liabilities. However, under IFRS, such obligations shall be recognized as liabilities. As a result, Other non-current liabilities increase accordingly.

(p) Trade and other payables (current)

(Reclassification)

Under Japanese GAAP, other payables are separately presented under Current liabilities. Under IFRS, they are presented in “Trade and other payables” under Current liabilities.

(q) Other financial liabilities (current)

(Reclassification)

Under Japanese GAAP, the fair value of the contingent consideration arising from the acquisition of a subsidiary located in the U.S.A. that complies with US GAAP, which is expected to be paid within one year, was presented other under Current liabilities. Under IFRS, it is presented in Other financial liabilities under Current liabilities.

(Recognition and measurement difference)

Under Japanese GAAP, the usage fees based on certain power supply contracts that are not in the form of lease agreements, were recognized as expenses upon payment. However, under IFRS, regardless of whether such contacts are lease agreements in a legal form or not, the transactions based on the contracts, from which the right of use of the specific underlying assets have been substantially transferred can be judged, are accounted for lease transaction according to lease accounting standards. As a result, Other financial liabilities under Current liabilities increased due to the recognition of the lease obligations arising from such contracts.

(r) Income taxes payable

(Reclassification)

Under Japanese GAAP, the consolidated subsidiaries that comply with US GAAP recognized a liability according to U.S. Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes. Under Japanese GAAP, such liability was presented in other under Long-term liabilities. Under IFRS, it is presented in Income taxes payable” under Current liabilities.

(s) Provisions (current)

(Reclassification)

Under Japanese GAAP, reserve for sales return and reserve for sales rebates were separately presented under Current liabilities. Under IFRS, they are presented in Provisions under Current liabilities.

(t) Other current liabilities

(Reclassification)

Under Japanese GAAP, reserve for bonus was separately presented under Current liabilities. Under IFRS, it is presented in Other current liabilities under Current liabilities.

(Recognition and measurement difference)

Under Japanese GAAP, unused paid absences are not required to be recognized as liabilities. However, under IFRS, such obligations shall be recognized as liabilities. As a result, Other current liabilities increase accordingly.

(u) Retained earnings

(Millions of yen)

	Transition Date (as of April 1, 2016)	As of March 31, 2017
Reclassification of cumulative exchange difference on translation for foreign operations at the date of transition to IFRS	47,548	47,548
Adjustment to goodwill	—	5,804
Adjustment to other financial liabilities (non-current)	(59,078)	(66,421)
Adjustment to inventories	(15,077)	(8,520)
Adjustment to retirement benefit liabilities	(5,817)	(3,523)
Others	(2,044)	(3,193)
Sub-total	(34,468)	(28,305)
Adjustments for tax effects	19,424	22,704
Total	(15,044)	(5,601)

(v) Other components of equity

(Recognition and measurement difference)

Under Japanese GAAP, unlisted securities were measured at acquisition cost. Under IFRS, they are measured at fair value. The resulting difference is recognized in Other components of equity.

Under Japanese GAAP, actuarial gains and losses arising from defined benefit plans and past service cost are recognized in other comprehensive income when incurred and amortized over a certain period of years within the average remaining service period of employees which was calculated when such gains and losses and past service cost occurred. Under IFRS, actuarial gains and losses are recognized in other comprehensive income, and past service cost is recognized in profit and loss when incurred. The actuarial gains and losses recognized in other comprehensive income are reclassified to retained earnings immediately.

The Group uses the exemption provided by IFRS 1, deems the cumulative translation differences of foreign operations as zero and reclassifies all to retained earnings at the date of transition to IFRS.

(w) Retrospective adjustment on purchase price allocation in business combination

Provisional accounting treatment had been applied to the purchase price allocation in the business combination with Tolero Pharmaceuticals, Inc. in the year ended March 31, 2017, and was finalized in the year ended March 31, 2018 and therefore retrospective adjustment was made.

As a result, the following account balances as of March 31, 2017 changed accordingly: Goodwill increased by ¥3,825 million, and In-process research and development, Fair value of contingent consideration, Deferred tax liabilities, Retained earnings and Accumulated other comprehensive income decreased by ¥14,135 million, ¥4,813 million, ¥5,229 million, ¥259 million and ¥9 million, respectively.

③ Reconciliations to cash flows

For the year ended March 31, 2017

There is no material difference on the consolidated statement of cash flows prepared under Japanese GAAP and under IFRS.

4. Others

Change in the Members, Board of Directors (as of June 19, 2018)

(1) Change in the Members, Board of Directors (as of June 19, 2018)

(i) New Members of the Board of Directors

Saeko Arai (currently President, Acuray, Inc.)

Note: The new members of the Board of Directors who will take office as of June 19, 2018 subject to the approval at the general shareholders' meeting scheduled for the same date.
Saeko Arai is a candidate for Outside Director.

(ii) Retiring Members of the Board of Directors

Hiroshi Sato (currently Member, Board of Directors)

(2) Change in the Members of the Audit & Supervisory Board (as of June 19, 2018)

(i) New Members of the Audit & Supervisory Board

Takashi Kutsunai (currently Senior Director, Internal Auditing)
Yoshio Iteya (currently attorney at law)

Note: The new members of the Audit & Supervisory Board who will take office as of June 19, 2018 subject to the approval at the general shareholders' meeting scheduled for the same date.
Yoshio Iteya is a candidate for Outside Audit & Supervisory Board Member.

(ii) Retiring Members of the Audit & Supervisory Board

Nobuo Takeda (currently Member, Audit & Supervisory Board)
Harumichi Uchida (currently Outside Audit & Supervisory Board Member)