

Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 [IFRS]

February 14, 2018

Company name	: Otsuka Holdings Company Limited
Stock exchange listing	: Tokyo Stock Exchange
Code number	: 4578
URL	: https://www.otsuka.com/en/
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Scheduled date of annual general meeting of shareholders	: March 29, 2018
Scheduled date of dividend payment commencement	: March 30, 2018
Scheduled date of securities report submission	: March 30, 2018
Supplementary materials for financial results	: Yes
Earnings announcement for financial results	: Yes (for institutional investors, analysts and the press)

(Figures are rounded down to the nearest million yen unless otherwise stated)

1. Consolidated Financial Results of FY2017 (January 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results

	Net sales		Operating profit		Profit before taxes		Profit for the period		Profit attributable to owners of the Company		Total comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2017 ended December	1,239,952	3.7	104,181	3.0	103,712	(11.1)	114,387	22.6	112,492	21.5	137,835	113.3
FY2016 ended December	1,195,547	(16.2)	101,145	(32.1)	116,680	(22.4)	93,332	(6.1)	92,563	(9.2)	64,627	(28.1)

	Basic earnings per share	Diluted earnings per share	Return on equity attributable to owners of parent	Ratio of profit before tax to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
FY2017 ended December	207.60	206.99	6.4	4.2	8.4
FY2016 ended December	170.82	170.70	5.4	4.6	8.5

(Reference) Share of profit of associates accounted for using equity method

FY2017 ended December ¥19,307 million

FY2016 ended December ¥15,974 million

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity attributable to owners of the Company per share
	Million yen	Million yen	Million yen	%	Yen
As of December 31, 2017	2,480,256	1,821,950	1,793,278	72.3	3,309.55
As of December 31, 2016	2,478,290	1,738,441	1,710,531	69.0	3,156.83

(3) Consolidated Cash Flows

	Net cash flows from operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2017 ended December	102,832	(40,072)	(94,537)	336,613
FY2016 ended December	142,004	(135,100)	(93,094)	369,875

2. Dividends

	Annual dividend per share					Total dividends	Dividend pay-out ratio (consolidated)	Ratio of dividends to equity attributable to owners of the company (consolidated)
	First Quarter	Second Quarter	Third Quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2016 ended December	–	50.00	–	50.00	100.00	54,184	58.5	3.2
FY2017 ended December	–	50.00	–	50.00	100.00	54,184	48.2	3.1
FY2018 ending December (Projection)	–	50.00	–	50.00	100.00		51.6	

3. Forecasts of Consolidated Financial Results for FY2018 (January 1, 2018 to December 31, 2018)

(% change from the same period of the previous fiscal year)

	Net sales		Operating profit		Profit before taxes		Profit		Profit attributable to owners of the Company		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Q2 (YTD)	620,000	4.1	60,000	21.2	59,000	21.8	47,000	8.4	46,000	8.4	84.89
FY2018	1,300,000	4.8	140,000	34.4	137,000	32.1	107,000	(6.5)	105,000	(6.7)	193.78

4. Others

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: Yes
 - 2) Changes in accounting policies due to other reasons: None
 - 3) Changes in accounting estimates: None
- (3) Number of shares issued and outstanding (common stock)
 - 1) Number of shares issued and outstanding as of the end of the reporting period (including treasury shares):
 - December 31, 2017 557,835,617 shares
 - December 31, 2016 557,835,617 shares
 - 2) Number of shares of treasury shares as of the end of the reporting period:
 - December 31, 2017 15,986,878 shares
 - December 31, 2016 15,986,347 shares
 - 3) Average number of shares outstanding during the reporting period:
 - December 31, 2017 541,849,088 shares
 - December 31, 2016 541,849,521 shares

* The financial statements are not subject to audit.

* Note to ensure appropriate use of forecasts, and other comments in particular

Forecasts and other forward-looking statements included in this report are based on information currently available and certain assumptions that the Company deems reasonable. Actual performance and other results may differ significantly due to various factors. Please refer to “1. Overview of Operating Results and Financial Position (5) Projected Consolidated Financial Results for FY 2018” on page 9 for information regarding the forecast of consolidated financial results.

The Company plans to hold an earnings release conference call for institutional investors, analysts and the press on February 14, 2018. Presentation materials and the webcast of the meeting will be available on the Company’s website promptly after the meeting.

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1. Overview of Operating Results and Financial Position

(1) Operating Results for the Fiscal Year Ended December 31, 2017

The current fiscal year, amid ongoing global monetary easing, turned out to be a year of significant increases in stock prices due to large amounts of capital flowing into the stock market following an economic shift toward a trend of recovery led by the U.S.

Global expectations are focused on new business models that primarily make use of the internet and corporations engaged in developing and implementing new technologies such as artificial intelligence. These innovations are gradually changing our lifestyles.

In the healthcare business, effort is being put into new technology and the Otsuka group of companies (hereinafter the “Group”) succeeded in commercializing the world’s first digital medicine, *ABILIFY MYCITE*®.

During the fiscal year ended December 31, 2017, the Group recorded consolidated net sales of ¥1,239,952 million (up 3.7% from the previous fiscal year), with operating profit of ¥104,181 million (up 3.0%), profit for the year of ¥114,387 million (up 22.6%) and profit attributable to owners of the Company of ¥112,492 million (up 21.5%).

Results by business segment are as follows:

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	774,762	326,221	35,595	151,133	(47,759)	1,239,952
Operating profit	82,694	39,169	11,115	9,743	(38,541)	104,181

1) Pharmaceuticals

Under the Second Medium-Term Management Plan, which runs until the end of FY 2018, the Group is targeting sustainable growth over the medium and long term by positioning the antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI*, and the vasopressin V₂ receptor antagonist *Samsca/JINARC* as its three global products and positioning the anti-cancer agent *LONSURF* as one of the next-generation products.

Japan

In the area of the central nervous system and neurology, sales of antipsychotic agent *ABILIFY* declined compared with the previous fiscal year due to repricing measures for market expansion based on the April 2016 NHI price revisions and due to the impact of a launch of generics after June 2017. Sales of intramuscular depot formulation *ABILIFY prolonged release aqueous suspension for intramuscular injection* (once-monthly injection) increased significantly, supported by growth in prescriptions. Antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered steady growth in prescriptions, reflecting strong support from medical specialists due to the drug’s efficacy, safety and usability. *Neupro Patch*, a treatment for Parkinson’s disease and restless legs syndrome, also registered growth in sales, after the launch of an 18mg patch in June 2016 contributed to a growth in prescriptions.

In the area of oncology, sales of anti-cancer agent *Abraxane* increased compared with the previous fiscal year due to growth in dosage and administration for the treatment of gastric cancer. Sales of anti-cancer agent *LONSURF* increased compared with the previous fiscal year as it has come to hold a position as one of the standard therapies for unresectable advanced or recurrent colorectal cancer. Sales of antiemetic agent *Aloxi* increased compared with the previous fiscal year.

In the area of the cardiovascular and renal system, sales of *Samsca* increased significantly compared with the previous fiscal year due to promotional activities targeting medical specialists to highlight its value as an oral aquaretic agent. As the only drug for autosomal dominant polycystic kidney disease (“ADPKD”), *Samsca* is also contributing to the treatment of intractable kidney disease through increasing numbers of patient users and high continuity rates.

In the area of the digestive system, prescriptions increased significantly for *TAKECAB*, a treatment for acid-related diseases, co-promoted with Takeda Pharmaceutical Company Limited.

In the area of ophthalmology, efforts to promote the product concept of dry eye treatment *Mucosta ophthalmic suspension UD 2%* led to growth in sales. Also, *Mikeluna combination ophthalmic solution*, a treatment for glaucoma and ocular hypertension was launched in January 2017, and the prescription has increased.

In the area of diagnostics, sales of diagnostics declined overall, mainly due to a drop in sales of influenza diagnostic agents and *Helicobacter pylori*-related products. However, sales volumes have been increasing with the launch of the *Quick NaviTM-Mycoplasma* in July 2017 and *Quick NaviTM-Flu2* in September of the same year.

In the area of clinical nutrition, sales of clinical nutrition products increased overall, supported mainly by growth in sales volume for high-calorie total parenteral nutrition (“TPN”) solution *ELNEOPA-NF Injection*, a new prescription launched in January 2017.

North America

Sales of *ABILIFY MAINTENA* (once-monthly injection) increased compared with the previous fiscal year, spurred by growing awareness of the drug’s ease of use and by its approval for the additional indication of bipolar disorder in July 2017. Sales of *REXULTI* have grown significantly since the drug was launched in the U.S. in 2015, supported by growth in prescriptions for schizophrenia and as an adjunctive therapy in major depressive disorder. The drug was also launched in Canada in April 2017, and the prescription has increased. Sales of *NUEDEXTA* increased. *NUEDEXTA* was developed by U.S. company Avanir Pharmaceuticals, Inc., which has strengths in drug development in the area of neurological disorders. Sales growth was supported by the drug’s growing status as the world’s first and only treatment for the neurologic disease pseudobulbar affect (“PBA”). Sales of *LONSURF* declined compared with the previous fiscal year. Sales of *Samsca*, which is sold as an oral aquaretic agent, increased due to stepped up efforts to promote the product’s benefits. Prescriptions of *JINARC*, the same compound as *Samsca* but sold under a different brand name as a treatment for ADPKD, have grown steadily since its launch in Canada in 2015.

Others

Prescriptions for *ABILIFY MAINTENA* increased in Europe, driving a large increase in sales compared with the previous fiscal year. Under a license agreement with Servier, *LONSURF* has been launched in a growing number of countries since manufacturing and marketing approval was granted in April 2016. *Samsca* is gaining ground in the market as an oral aquaretic agent and has also been granted approval in more countries as a treatment for ADPKD, under the brand name *JINARC*. *Samsca/JINARC* is now sold in 26 markets worldwide, including Japan and North America.

As a result, net sales in the pharmaceutical segment for the fiscal year ended December 31, 2017 totaled ¥774,762 million (up 2.9% from the previous fiscal year), with operating profit of ¥82,694 million (down 10.1%).

2) Nutraceuticals

In the nutraceutical segment, the Group operates a global business focused on functional beverages and foods that support the maintenance and improvement of day-to-day well-being.

Japan

Sales volume for the *POCARI SWEAT* electrolyte supplement drink declined amid a weak market^{*1} associated with seasonal factors, however, the product's market share is growing^{*2} on the back of efforts to communicate with customers, focusing on promoting the drink as a source of hydration during dry weather and its ability to prevent heat stroke. Despite a weak market for non-medicinal nutritional drinks^{*3}, sales volume for carbonated nutritional drink *ORONAMIN C* was steady compared with the previous fiscal year due to continued active efforts to communicate with customers. Sales volume for the *Calorie Mate* range declined sharply in April compared with the previous fiscal year, mainly due to the drop following the previous year's temporary increase in demand that occurred after the 2016 Kumamoto Earthquake. However, full-year sales volume increased year on year, and the brand retained the leading share in the nutritionally balanced foods market^{*4}. Sales in the *Calorie Mate Jelly* range, which was expanded in May 2016, are growing steadily due to growing awareness of the product's value as a new type of balanced nutritional food. Sales volume for the *SOYJOY* range of baked soy bars declined compared with the previous fiscal year due to the drop following the launching of three products of *SOYJOY Crispy* in April 2016. However, *SOYJOY Crispy White Macadamia*, which was launched in February 2017, is gradually gaining ground in the market.

North America

Nature Made, supplied by subsidiary Pharmavite LLC of the U.S., is the number one retail vitamin and supplement brand in the U.S.^{*5} Sales increased compared with the previous fiscal year, partly due to growth in the U.S. market for supplements^{*6}. Sales of *EQUELLE*, a food product containing equol started in October 2017 through sales channel targeting medical personnel and healthcare professionals of FoodState Inc. of the U.S. In July 2017, Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") acquired Daiya Foods Inc., which develops, manufactures and sells plant-based foods in North America.

Others

At Nutrition & Santé SAS, one of the Group's subsidiaries that operates in more than 40 countries, mainly in Europe, sales growth continues to be driven by gluten-free nutrition and health food products including those sold under the *Gerblé* brand, France's leading health food brand^{*7}, meat-free products, and sugar-free products. In December 2017, the Group moved to strengthen this field by acquiring the French organic food product manufacturer BC BIO SAS. *POCARI SWEAT*, which is sold in 19 markets worldwide, mainly in Asia, registered an increase in sales volume in China on the back of growth in distribution channels and greater product recognition. However, total overseas sales volume declined compared with the previous fiscal year, reflecting unfavorable weather and a weaker economy in Indonesia, among other factors.

As a result, net sales in the nutraceutical segment for the fiscal year ended December 31, 2017 totaled ¥326,221 million (up 4.7% from the previous fiscal year), with operating profit of ¥39,169 million (up 20.5%).

*1: INTAGE SRI (01/2017 to 12/2017 -10.3%). All rights reserved, no reproduction without permission.

*2: INTAGE SRI (01/2017 to 12/2017 38.4%). All rights reserved, no reproduction without permission.

*3: INTAGE SRI (01/2017 to 12/2017 -6.8%). All rights reserved, no reproduction without permission.

*4: INTAGE SRI revenues, nutritionally balanced foods market (categories: cookies and biscuits, cereal, cakes) 01/2017 to 12/2017, 31.8%. All rights reserved, no reproduction without permission.

*5: © 2018, The Nielsen Company, Scantrack© service, US xAOC Channel 52-weeks ending 12/30/17. All rights reserved, no reproduction without permission.

*6: © 2018, The Nielsen Company, Scantrack© service, US xAOC Channel 52-weeks ending 12/30/17, the Total Vitamin Category grew 2.7%. All rights reserved, no reproduction without permission.

*7: 2017 Value Share of Market, Information Resources Inc. All rights reserved, no reproduction without permission.

3) Consumer products

Sales volume for *MATCH*, a carbonated electrolyte drink containing vitamins, was steady compared with the previous fiscal year, supported by an aggressive marketing strategy, sales promotion activities and other initiatives to reenergize the brand. Sales volume for mineral water products, centered on *CRYSTAL GEYSER*, declined compared with the previous fiscal year, mainly due to weaker sales in the direct sales channel, despite active marketing efforts to attract new customers.

As a result, net sales in the consumer products segment for the fiscal year ended December 31, 2017 totaled ¥35,595 million (up 0.4% from the previous fiscal year), with operating profit of ¥11,115 million (up 103.9%). In the consumer products segment, although operating margin is as high as 31.2% due to the recognition under IFRS of the share of profit of overseas business, the Group is continuing its efforts in existing businesses to improve efficiency and push ahead with reorganization.

4) Others

In the specialty chemical business, sales increased compared with the previous fiscal year, supported by growth in sales volume for hydrazine hydrate, foaming agents and other products. In the fine chemical business, sales increased compared with the previous fiscal year, mainly due to growth in sales volume of active pharmaceutical ingredients and intermediates.

In the warehousing and transportation business, sales rose compared with the previous fiscal year, supported by a steady level of handling volume. Sales in the direct sales support business and the insurance business increased compared with the previous fiscal year, largely due to growth in the volume of orders handled and an increase in the number of contracts.

As a result, net sales in the others segment for the fiscal year ended December 31, 2017 totaled ¥151,133 million (up 7.0% from the previous fiscal year), with operating profit of ¥9,743 million (up 25.2%)

<Research and Development Activities>

Research and development expenses for the fiscal year ended December 31, 2017 totaled ¥175,558 million.

The primary areas of research and development as well as the status of new product development by business segment were as follows:

Pharmaceuticals

The Group conducts research and development with a primary focus on the areas of the central nervous system and neurology and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular and renal system, etc.

Research and development expenses for the pharmaceutical business for the fiscal year ended December 31, 2017 were ¥165,457 million.

Research and development activities carried out during the fiscal year ended December 31, 2017 in the pharmaceutical business are summarized below.

Category	Brand Name, (Generic Name), Development Code	Status
Central nervous system and neurology	<i>REXULTI</i> (brexpiprazole) OPC-34712	<Japan> • An application for the indication of schizophrenia was filed in January 2017. <Europe> • An application for the indication of schizophrenia was filed in March 2017. <U.S.> • Phase I trial of long acting injectable for the indication of schizophrenia was initiated in February 2017. <U.S. and Europe> • Plans for a Phase III trial for the treatment of post-traumatic stress syndrome were reviewed and restarted as a Phase II trial. • Phase III trial for the treatment of bipolar disorder was initiated in October 2017.
	<i>ABILIFY</i> (aripiprazole) OPC-14597	<Japan> • Development for the treatment of agitation associated with Alzheimer-type dementia was halted in line with development strategy.
	<i>ABILIFY MAINTENA</i> (aripiprazole)	<Japan and Europe> • Development for the treatment of bipolar disorder was halted in line with development strategy. <U.S.> • Approval was granted in July 2017 for the additional indication of bipolar disorder.
	(aripiprazole/sertraline) ASC-01	<Japan> • An application for the indication of major depressive disorder was filed in July 2017.
	(idalopirdine) Lu AE58054	<U.S. and Europe> • Development for the treatment of Alzheimer-type dementia was halted based on a comprehensive review of the results of the Phase III trials.
	(centanafadine) EB-1020	• Drug under development that was acquired through the acquisition of Neurovance, Inc. in March 2017. Its development status is as follows: <U.S.> • Phase II trial for attention deficit hyperactivity disorder (ADHD) is currently underway.

Category	Brand Name, (Generic Name), Development Code	Status
	(deuterium-modified dextromethorphan, quinidine) AVP-786	<U.S.> • Phase II trial for the treatment of traumatic brain injury was initiated in November 2017.
	(fremanezumab) TEV-48125	<Japan> • Phase II/ III trial for the treatment of migraine was initiated in December 2017.
	OPC-64005	<U.S. and Europe> • Phase II trial for the treatment of attention deficit hyperactivity disorder (ADHD) was initiated in November 2017.
	(nalmefene) Lu AA36143	<Japan> • An application for the indication of alcohol dependence was filed in October 2017.
Oncology	(guadecitabine) SGI-110	<Japan, U.S., Europe and Asia> • Phase III trial for the treatment of myelodysplastic syndrome was initiated in February 2017. <U.S. and Europe> • Development for the treatment of hepatocellular carcinoma was halted based on a comprehensive review of the results of the Phase II trial.
	<i>LONSURF</i> (trifluridine, tipiracil) TAS-102	<Asia> • An application for the indication of colorectal cancer was filed in May 2017.
	(tegafur, gimeracil, oteracil, folinate) TAS-118	<Japan and Asia> • Development for the treatment of pancreatic cancer was halted based on a comprehensive review of the results of the Phase III trial.
	TAS-115	<Japan> • Phase II trial for the treatment of prostate cancer was initiated in January 2017.
	TAS-116	<U.S. and Europe> • Phase I trial for the treatment of solid cancer was initiated in July 2017.
	TAS4464	<Japan, U.S. and Europe> • Phase I trial for the treatment of solid cancer and hematological cancer was initiated in February 2017.
	<i>SATIVEX</i> (nabiximols)	<U.S.> • Development for the treatment of cancer pain was halted based on a comprehensive review of the results of the Phase III trial.
	(onalespib) AT13387	<U.S. and Europe> • Development for the treatment of non-small cell lung cancer was halted based on a comprehensive review of the results of Phase II trial.
	AT7519	<U.S.> • Development for the treatment of multiple myeloma was halted based on a comprehensive review of the results of Phase II trial.
	ASTX660	<U.S.> • Phase II trial for the treatment of solid tumors and lymphomas was initiated in September 2017.
	OPB-111001	<Europe> • Development for the treatment of solid cancer was halted based on a comprehensive review of the results of Phase I trial.

Category	Brand Name, (Generic Name), Development Code	Status
	HF10	<Japan> <ul style="list-style-type: none"> Phase II trial for the treatment of melanoma was initiated in May 2017. Phase I trial for the treatment of pancreatic cancer was initiated in September 2017.
	(rebamipide) OPC-12759	<Japan> <ul style="list-style-type: none"> Development for the treatment of oral mucositis associated with chemoradiation therapy for cancer was halted based on a comprehensive review of the results of Phase II trial.
Cardiovascular and renal system	<i>Samsca</i> (tolvaptan) OPC-41061	<U.S.> <ul style="list-style-type: none"> An application for the indication of autosomal dominant polycystic kidney disease (“ADPKD”) was filed in November 2017. <Japan> <ul style="list-style-type: none"> Phase III trial for the treatment of syndrome of inappropriate antidiuretic hormone secretion (SIADH) was initiated in June 2017. Development for the treatment of carcinomatous edema, volume overload in hemodialysis and volume overload in peritoneal dialysis was halted in line with drug development strategy. <Asia> <ul style="list-style-type: none"> Approval was granted in China in September 2017 for the additional indication of cardiac edema.
	OPC-61815	<Japan> <ul style="list-style-type: none"> Phase II trial for the treatment of cardiac edema was initiated in November 2017.
Other categories	ZOSYN (tazobactam, piperacillin) YP-18	<Japan> <ul style="list-style-type: none"> Approval was granted in May 2017 for the additional indication of complicated skin and soft tissue infections.
	TAC-302	<Japan> <ul style="list-style-type: none"> Phase II trial for the treatment of detrusor underactivity with overactive bladder was initiated in September 2017.
	<i>WT1 mRNA Assay Kit II</i> 'Otsuka' ODK-1003	<Japan> <ul style="list-style-type: none"> Approval was granted in April 2017 for the additional indication of in-vitro diagnostic agent for acute lymphoblastic leukemia.
	<i>Live Cell TSAb 'Otsuka'</i> ODK-1403	<Japan> <ul style="list-style-type: none"> An application was filed as an in-vitro diagnostic agent for Grave's disease in December 2017.

Nutraceuticals

In the nutraceutical business, the Group draws on its knowledge in the pharmaceutical business to constantly conduct research and development of world-class products centering on functional foods and beverages that support the maintenance and improvement of day-to-day well-being.

The *Amino-Value* brand has been developed based on research into the benefits of branched chain amino acids (BCAA) in the fields of clinical nutrition and sports nutrition. Two products in the range, *Amino-Value 4000* and *Amino-Value Powder 8000*, were relaunched in April 2017 as Japan's first Foods with Function Claim for alleviation of fatigue caused by physical activity, with BCAA as the functional component. Also in April 2017 the Group launched a new product developed from research on exercise and nutrition and research on the digestive tract and nutrition called *BODY MAINTÉ* Jelly, which is a conditioning nutritional food that perfectly conditions the body from the perspective of bodily recovery and maintenance through a nutritional formulation that combines lactic-acid bacteria B240 (a strain licensed to Otsuka Pharmaceutical), BCAA + Arginine, and whey protein. In addition, in May 2017, Otsuka Pharmaceutical launched *Kenja-no-Kaimin Sleep Rhythm Support* (The Wise Man's Sleep Solution)^{*1}, a new food product with a Function Claim of improving sleep-wake rhythms and the quality of sleep. *UL•OS Face Wash for Skin Care*, an extremely fine-textured foam face wash that prevents scrubbing, was launched from the *UL•OS* total skincare brand for middle-aged men in August 2017.

In a joint research project, Saga Nutraceuticals Research Institute of Otsuka Pharmaceutical and the Kindai University Research Institute of Traditional Asian Medicine showed a relationship between interference in female athletes' performance due to premenstrual syndrome (PMS) or premenstrual dysphoric disorder (PMDD) and the ability to produce equol (equol production status). The results of the research were published in the *Journal of Obstetrics and Gynaecology Research*^{*2} in December 2017. In the same month, Otsuka Pharmaceutical and Hirosaki University established a Joint Research Chair for Women's Health Promotion within Department of Obstetrics and Gynecology, the Hirosaki University Graduate School of Medicine. Through promotion of research focusing on equol, the chair aims to enhance healthy longevity and improve

quality of life for women, and to communicate the latest discoveries and solutions in Japan and around the world.

Research and development expenses for the nutraceutical business for the fiscal year ended December 31, 2017 were ¥5,486 million.

- *1: Asparagus-derived proline-containing 3-alkyl diketopiperazines (as cyclo (L-leucyl-L-prolyl), cyclo (L-phenylalanyl-L-prolyl), cyclo (L-tyrosyl-L-prolyl))
- *2: Premenstrual symptoms interference and equal production status in Japanese collegiate athletes: A cross-sectional study, J Obstet Gynaecol Res (2017)

Consumer products

In the consumer products business, the Group is engaged in the research and development of original and unique products in the field of food and beverage that are part of everyone's daily life.

Research and development expenses for the consumer products business for the fiscal year ended December 31, 2017 were ¥593 million.

Others

In the other businesses, the Group is primarily engaged in the research and development of specialty chemical products and fine chemicals.

Research and development expenses for the other businesses for the fiscal year ended December 31, 2017 were ¥4,021 million.

(3) Financial Position for the Fiscal Year Ended December 31, 2017

1) Assets

Total assets as of December 31, 2017 were ¥2,480,256 million, an increase of ¥1,966 million compared to ¥2,478,290 million at the end of the previous fiscal year. This increase was due to the ¥102,912 million decrease in current assets and ¥104,879 million increase in non-current assets.

(Current Assets)

Total current assets as of December 31, 2017 were ¥1,010,942 million, a decrease of ¥102,912 million compared to ¥1,113,855 million at the end of the previous fiscal year. This decrease was mainly due to decreases in cash and cash equivalents by ¥33,262 million and other financial assets by ¥92,906 million, while there were increases in trade and other receivables by ¥10,727 million and inventories by ¥10,779 million.

(Non-current Assets)

Total non-current assets as of December 31, 2017 were ¥1,469,313 million, an increase of ¥104,879 million compared to ¥1,364,434 million at the end of the previous fiscal year. This was mainly due to increases in property, plant and equipment by ¥23,699 million, goodwill by ¥17,623 million, investments in associates by ¥21,633 million, and other financial assets by ¥32,826 million.

2) Liabilities

(Current Liabilities)

Total current liabilities as of December 31, 2017 were ¥386,465 million, a decrease of ¥50,147 million compared to ¥436,613 million at the end of the previous fiscal year. This decrease was mainly due to decreases in bonds and borrowings by ¥14,791 million, income taxes payable by ¥13,446 million, and other current liabilities by ¥17,373 million.

(Non-current Liabilities)

Total non-current liabilities as of December 31, 2017 were ¥271,840 million, a decrease of ¥31,394 million compared to ¥303,235 million at the end of the previous fiscal year. This decrease was mainly due to a decrease in bonds and borrowings by ¥17,010 million and deferred tax liabilities by ¥25,578 million.

3) Net Assets

Total net assets as of December 31, 2017 were ¥1,821,950 million, an increase of ¥83,508 million compared to ¥1,738,441 million at the end of the previous fiscal year. This increase was mainly due to a ¥54,184 million payment of dividends, a ¥57,260 million increase in total shareholders' equity as a result of net income attributable to owners of the Company of ¥112,492 million, and a ¥23,847 million increase in other components of equity due to stock market and exchange rate fluctuations.

(4) Cash Flow for the Fiscal Year Ended December 31, 2017

Cash and cash equivalents as of December 31, 2017 decreased by ¥33,262 million to ¥336,613 million from the end of the previous fiscal year. Net cash provided by operating activities was ¥102,832 million, while net cash used in investing activities and financing activities were ¥40,072 million and ¥94,537 million respectively.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥102,832 million as of December 31, 2017. Contributing factors were ¥103,712 million in profit before taxes, ¥62,235 million in depreciation and amortization expenses, ¥28,847 million in impairment loss and reversal of impairment loss, ¥19,307 million in share of profit of associates, ¥(12,313) million in other cash flows from operating activities, and ¥(43,210) million in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥(40,072) million as of December 31, 2017. Main investing activities included ¥(54,153) million in payments for acquisition of property, plant and equipment, ¥74,409 million in proceeds from sales and redemption of investments, ¥(48,416) million in payments for acquisition of investments, ¥(47,100) million in payments for acquisition of subsidiaries, and ¥59,679 million in decrease (increase) in time deposits.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥(94,537) million as of December 31, 2017. Main financing activities included ¥(40,037) million in repayments of non-current borrowings, and ¥(54,861) million in dividends paid.

(5) Projected Consolidated Financial Results for FY 2018

The financial forecast for the year ending December 31, 2018 is as follows.

(Millions of yen)

	FY December, 2017 (Actual)	FY December, 2018 (Forecast)	Change	% Change
Net sales	1,239,952	1,300,000	60,047	4.8%
Operating profit	104,181	140,000	35,818	34.4%
Profit before tax	103,712	137,000	33,287	32.1%
Profit for the year	114,387	107,000	(7,387)	(6.5%)
Profit attributable to owners of the company	112,492	105,000	(7,492)	(6.7%)
Research and development expenses	175,558	190,000	14,441	8.2%

(Note) FY2018 projected exchange rate: 110yen/USD 130 yen/EUR

In our pharmaceutical business, we expect an increase in sales and earnings mainly driven by global products including REXULTI, Abilify Maintena, and Samsca/JINARC as well as new drugs in Japan, which will more than offset the negative impact of drug price revisions by the government. In our nutraceutical business, we expect higher revenues driven by global sales of *Pocari Sweat*, *Nutrition & Sante's* products and contribution of Daiya Foods Inc acquired in 2017.

We will continue to optimize the cost structure of sales and general administrative expenses, while actively investing in R&D for a sustainable growth.

We project that this will result in consolidated sales in FY2018 (January through December) of ¥1,300,000 million (increase of 4.8% compared to FY2017), operating profit of ¥140,000 million (increase of 34.4%), profit before tax of ¥137,000 million (increase of 32.1%), profit for the year of ¥107,000 million (decrease of 6.5%), and profit attributable to owners of the company of ¥105,000 million (decrease of 6.7%).

2. Basic Rationale for Selection of Accounting Standards

The Group adopted International Financial Reporting Standards (IFRS) to enhance the international comparability of its financial reporting.

3. Consolidated Financial Statements and Major Notes
(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2016	As of December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	369,875	336,613
Trade and other receivables	353,193	363,920
Inventories	133,758	144,538
Income taxes receivable	14,381	11,453
Other financial assets	209,289	116,383
Other current assets	33,031	37,542
Subtotal	1,113,529	1,010,451
Assets held for sale	325	490
Total current assets	1,113,855	1,010,942
Non-current assets		
Property, plant and equipment	358,762	382,462
Goodwill	231,839	249,463
Intangible assets	446,974	455,862
Investments in associates	166,600	188,234
Other financial assets	143,278	176,104
Deferred tax assets	6,939	6,980
Other non-current assets	10,038	10,206
Total non-current assets	1,364,434	1,469,313
Total assets	2,478,290	2,480,256

(Millions of yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	162,349	159,898
Bonds and borrowings	79,264	64,472
Other financial liabilities	3,872	2,325
Income taxes payable	21,482	8,036
Provisions	552	-
Other current liabilities	169,091	151,718
Subtotal	436,613	386,450
Liabilities directly related to assets held for sale	-	15
Total current liabilities	436,613	386,465
Non-current liabilities		
Bonds and borrowings	193,972	176,961
Other financial liabilities	11,942	18,981
Net defined benefit liabilities	15,331	14,678
Provisions	504	3,749
Deferred tax liabilities	70,264	44,685
Other non-current liabilities	11,219	12,784
Total non-current liabilities	303,235	271,840
Total liabilities	739,848	658,306
Equity		
Equity attributable to owners of the Company		
Share capital	81,690	81,690
Capital surplus	503,979	505,620
Treasury shares	(47,264)	(47,267)
Retained earnings	1,209,139	1,266,399
Other components of equity	(37,012)	(13,165)
Total equity attributable to owners of the Company	1,710,531	1,793,278
Non-controlling interests	27,910	28,671
Total equity	1,738,441	1,821,950
Total liabilities and equity	2,478,290	2,480,256

(2) Consolidated Statement of Income

(Millions of yen)

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
Net sales	1,195,547	1,239,952
Cost of sales	(406,331)	(422,473)
Gross profit	789,216	817,478
Selling, general and administrative expenses	(535,852)	(558,677)
Research and development expenses	(168,818)	(175,558)
Share of profit of associates	15,974	19,307
Other income	4,569	6,063
Other expenses	(3,943)	(4,432)
Operating profit	101,145	104,181
Finance income	3,814	4,268
Finance costs	(13,126)	(5,068)
Other non-operating income (expenses)	24,846	331
Profit before taxes	116,680	103,712
Income tax expenses	(23,347)	10,674
Profit for the period	93,332	114,387
Attributable to:		
Owners of the Company	92,563	112,492
Non-controlling interests	769	1,895
Earnings per share:		
Basic earnings per share (Yen)	170.82	207.60
Diluted earnings per share (Yen)	170.70	206.99

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
Profit for the period	93,332	114,387
Other comprehensive income		
Components that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	11,336	1,930
Financial assets measured at fair value through other comprehensive income	(860)	17,021
Share of other comprehensive income of associates	(255)	523
Subtotal	10,221	19,475
Components that may be reclassified to profit or loss		
Foreign currency translation reserve	(29,596)	(4,458)
Cash flow hedges	(123)	(14)
Share of other comprehensive income of associates	(9,205)	8,445
Subtotal	(38,926)	3,972
Total other comprehensive income	(28,705)	23,448
Comprehensive income	64,627	137,835
Attributable to:		
Owners of the Company	65,660	135,272
Non-controlling interests	(1,032)	2,563
Comprehensive income	64,627	137,835

(4) Consolidated Statement of Changes in Equity
FY2016 (From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2016	81,690	503,384	(47,262)	1,159,537	–	23,096
Profit for the period	–	–	–	92,563	–	–
Other comprehensive income	–	–	–	–	11,159	(673)
Comprehensive income	–	–	–	92,563	11,159	(673)
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(54,184)	–	–
Share-based payment transactions	–	147	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	448	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	11,223	(11,159)	(63)
Total transactions with owners, etc.	–	595	(2)	(42,961)	(11,159)	(63)
Balance as of December 31, 2016	81,690	503,979	(47,264)	1,209,139	–	22,358

	Equity attributable to owners of the Company					
	Other components of equity					
	Foreign currency translation reserve	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance as of January 1, 2016	(22,112)	130	1,113	1,698,463	28,906	1,727,370
Profit for the period	–	–	–	92,563	769	93,332
Other comprehensive income	(37,265)	(123)	(26,903)	(26,903)	(1,802)	(28,705)
Comprehensive income	(37,265)	(123)	(26,903)	65,660	(1,032)	64,627
Purchase of treasury shares	–	–	–	(2)	–	(2)
Dividends	–	–	–	(54,184)	(501)	(54,686)
Share-based payment transactions	–	–	–	147	–	147
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	448	538	986
Transfer from other components of equity to retained earnings	–	–	(11,223)	–	–	–
Total transactions with owners, etc.	–	–	(11,223)	(53,591)	36	(53,555)
Balance as of December 31, 2016	(59,377)	6	(37,012)	1,710,531	27,910	1,738,441

FY2017 (From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2017	81,690	503,979	(47,264)	1,209,139	–	22,358
Profit for the period	–	–	–	112,492	–	–
Other comprehensive income	–	–	–	–	2,121	17,389
Comprehensive income	–	–	–	112,492	2,121	17,389
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(54,184)	–	–
Share-based payment transactions	–	235	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	1,405	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	(1,046)	(2,121)	3,167
Total transactions with owners, etc.	–	1,641	(2)	(55,231)	(2,121)	3,167
Balance as of December 31, 2017	81,690	505,620	(47,267)	1,266,399	–	42,915

	Equity attributable to owners of the Company					
	Other components of equity					
	Foreign currency translation reserve	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance as of January 1, 2017	(59,377)	6	(37,012)	1,710,531	27,910	1,738,441
Profit for the period	–	–	–	112,492	1,895	114,387
Other comprehensive income	3,283	(14)	22,780	22,780	668	23,448
Comprehensive income	3,283	(14)	22,780	135,272	2,563	137,835
Purchase of treasury shares	–	–	–	(2)	–	(2)
Dividends	–	–	–	(54,184)	(645)	(54,830)
Share-based payment transactions	–	–	–	235	–	235
Changes in ownership interests in subsidiaries that do not result in loss of control	21	–	21	1,426	(1,156)	270
Transfer from other components of equity to retained earnings	–	–	1,046	–	–	–
Total transactions with owners, etc.	21	–	1,067	(52,524)	(1,802)	(54,327)
Balance as of December 31, 2017	(56,072)	(8)	(13,165)	1,793,278	28,671	1,821,950

(5) Consolidated Statement of Cash Flows

(Millions of yen)

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Profit before taxes	116,680	103,712
Depreciation and amortization expenses	59,574	62,235
Impairment loss and reversal of impairment loss	32,133	28,847
Share of loss (profit) of associates	(15,974)	(19,307)
Finance income	(3,814)	(4,268)
Finance costs	13,126	5,068
Other non-operating (income) expenses	(24,846)	(331)
Decrease (increase) in inventories	(629)	(8,437)
Decrease (increase) in trade and other receivables	22,817	(9,942)
Increase (decrease) in trade and other payables	11,623	(5,790)
Other	(30,439)	(12,313)
Subtotal	<u>180,250</u>	<u>139,473</u>
Interest and dividends received	9,191	10,177
Interest paid	(3,507)	(3,608)
Income taxes paid	(43,929)	(43,210)
Net cash flows from (used in) operating activities	<u>142,004</u>	<u>102,832</u>
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	1,703	538
Payments for acquisition of property, plant and equipment	(44,385)	(54,153)
Payments for acquisition of intangible assets	(27,202)	(23,388)
Proceeds from sales and redemption of investments	100,061	74,409
Payments for acquisition of investments	(72,087)	(48,416)
Payments for acquisition of subsidiaries	-	(47,100)
Decrease (increase) in time deposits	(111,083)	59,679
Other	17,893	(1,640)
Net cash flows from (used in) investing activities	<u>(135,100)</u>	<u>(40,072)</u>
Cash flows from financing activities		
Purchase of treasury shares	(2)	(2)
Increase (decrease) in current borrowings	(2,648)	(17,976)
Proceeds from non-current borrowings	1,944	25,497
Repayments of non-current borrowings	(35,841)	(40,037)
Dividends paid	(54,699)	(54,861)
Other	(1,847)	(7,155)
Net cash flows from (used in) financing activities	<u>(93,094)</u>	<u>(94,537)</u>
Increase (decrease) in cash and cash equivalents	(86,190)	(31,777)
Cash and cash equivalents at beginning of period	460,619	369,875
Effect of exchange rate changes on cash and cash equivalents	(4,553)	(1,484)
Cash and cash equivalents at end of period	<u>369,875</u>	<u>336,613</u>

(6) **Notes to Consolidated Financial Statements**

Note to Going Concern Assumptions

Not applicable.

Changes in Accounting Policies

The same significant accounting policies used for the prior fiscal year's consolidated financial statements are applied to the consolidated financial statements except for the accounting standards provided below.

The Group applied the following standards starting from FY2017. The application of these standards had no material effect on the Group's consolidated financial statements.

IFRS		Description of new standards, interpretations and amendments
IAS 7	Statement of Cash Flows	Amendment concerning disclosure for changes in liabilities attributable to financing activities
IAS 12	Income Taxes	Amendment concerning recognition of deferred tax assets on unrealized losses

Significant Accounting Estimates and Judgments

In preparing IFRS-compliant consolidated financial statements, the management is required to make judgments, estimates and assumptions that may affect the application of accounting policies and the amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Such estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the review was conducted and future accounting periods.

Of items for which the management made estimates and judgments, those that have significant effects on the amounts recognized in the consolidated financial statements are as follows:

- Useful lives of property, plant and equipment and intangible assets
- Impairment of property, plant and equipment, goodwill and intangible assets
- Fair value measurement of the financial instruments
- Recoverability of deferred tax assets
- Accounting and measurement of provisions
- Measurement of defined benefit obligations
- Contingent liabilities

Segment Information

(1) Overview of reportable segments

The Group's reportable segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the Board of Directors in order to make decisions on allocation of business resources and to evaluate the business performances of the respective segments.

As the Group's holding company, the Company directs the Group's strategic planning, monitors group operations and provides various services to its group companies. Business activities are conducted by the Group's subsidiaries and associates.

Centering on healthcare business, the Group operates activities inside and outside Japan relating to the following four reportable segments: "Pharmaceuticals," "Nutraceuticals," "Consumer products" and "Others" businesses.

The Group defines the reportable segments as follows:

"Pharmaceuticals" comprises manufacturing and sales of prescription drugs, intravenous solutions, and others.

"Nutraceuticals" comprises manufacturing and sales of functional beverages, etc., over-the-counter drugs and nutritional supplements.

"Consumer products" comprises manufacturing and sales of mineral water, soft beverages and food products.

"Others" encompasses logistics, warehousing, manufacturing and sales of chemical products, evaluation systems for LED displays and spectroanalysis devices.

(2) Net sales and performances by reportable segment

Net sales and performances by the Group's reportable segment are as follows.

Segment profit is based on operating profit.

Intersegment sales and transfers reflect reasonable prices for intersegment transfers based on market value.

FY2016 (From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Consolidated Statement of Income (Note 2)
	Pharma- ceuticals	Nutra- ceuticals	Consumer products	Others	Total		
Net sales							
Sales to external customers	753,005	300,883	35,151	106,507	1,195,547	–	1,195,547
Intersegment sales or transfers	–	10,666	317	34,743	45,727	(45,727)	–
Total	753,005	311,550	35,468	141,251	1,241,275	(45,727)	1,195,547
Segment profit	92,029	32,507	5,451	7,782	137,770	(36,624)	101,145
Other items							
Depreciation and amortization expenses	39,714	10,163	1,138	5,280	56,297	3,277	59,574
Share of profit of associates accounted for using equity method	1,804	504	11,539	2,125	15,974	–	15,974
Capital expenditures (Note 3)	52,163	11,562	2,909	6,303	72,939	2,518	75,457

FY2017 (From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Consolidated Statement of Income (Note 2)
	Pharma- ceuticals	Nutra- ceuticals	Consumer products	Others	Total		
Net sales							
Sales to external customers	774,762	314,651	35,333	115,204	1,239,952	–	1,239,952
Intersegment sales or transfers	–	11,570	261	35,928	47,759	(47,759)	–
Total	774,762	326,221	35,595	151,133	1,287,711	(47,759)	1,239,952
Segment profit	82,694	39,169	11,115	9,743	142,722	(38,541)	104,181
Other items							
Depreciation and amortization expenses	41,139	10,859	1,124	5,475	58,598	3,637	62,235
Share of profit of associates accounted for using equity method	3,115	575	13,261	2,354	19,307	–	19,307
Capital expenditures (Note 3)	82,371	53,322	1,186	12,494	149,375	2,882	152,257

(Notes) 1. Details of adjustments are as follows.

Segment profit

(Millions of yen)

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2016 (From January 1, 2017 to December 31, 2017)
Intersegment eliminations	287	37
Unallocated expenses*	(38,012)	(39,229)
Other income	1,100	650
Total	(36,624)	(38,541)

* Unallocated expenses consist mainly of costs of the headquarter functions of the Company and certain subsidiaries.

Other items

Depreciation and amortization expenses

Adjustments include depreciation and amortization of property, plant and equipment and intangible assets as assets associated with headquarter functions of the Company and certain subsidiaries.

Capital expenditures

Adjustments include capital expenditures relating to assets associated with headquarter and research functions of the Company and certain subsidiaries.

2. Segment profit is adjusted to operating profit as stated in the consolidated statement of income.
3. Capital expenditures are increases of Property, plant and equipment, Goodwill and Intangible assets.

(3) Information about products and services

Sales to external customers by product and service are as follows.

(Millions of yen)

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
(Pharmaceuticals)		
Clinical nutrition	107,398	111,191
<i>ABILIFY Maintena</i>	57,154	70,942
<i>ABILIFY</i>	95,381	67,312
(Nutraceuticals)		
Functional beverages, etc. *1	112,553	111,068
Functional foods, etc. *2	74,741	76,939
Supplements	87,922	95,262

*1 Functional beverages, etc. consist mainly of *Pocari Sweat*, *Tiovita Drink*, *Oronamin C* and *FIBE-MINI*.

*2 Functional foods, etc. consist mainly of products of Nutrition & Santé SAS (N&S), *Calorie Mate* and *SOYJOY*.

(4) Information by geographical area
Sales to external customers

(Millions of yen)

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
Japan	624,001	638,650
U.S.	305,594	311,811
Others	265,951	289,489
Total	1,195,547	1,239,952

(Note) Sales to external customers are classified based on the location of customers.

Non-current assets

(Millions of yen)

	FY2016 (As of December 31, 2016)	FY2017 (As of December 31, 2017)
Japan	340,942	363,523
U.S.	540,593	516,260
Others	159,940	212,063
Total	1,041,475	1,091,847

- (Notes) 1. Non-current assets are classified based on the location of assets.
2. Non-current assets do not include investments in associates, other financial assets, deferred tax assets and net defined benefit assets.
3. Goodwill included in non-current assets is classified based on the location of investees.

(5) Information about major customers

Information is not presented because no revenue from transactions with a single external customer amounts to more than 10% of the Group's net sales.

Income tax expense

Income tax expense is as follows.

(Millions of yen)

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
Current tax expense	33,252	32,441
Deferred tax expense	(9,904)	(43,115)
Income tax expense total	23,347	(10,674)

Income tax expense for FY2017 was decreased. This decrease was mainly due to a ¥29,657 million profit included in deferred tax expense as an effect of tax reform that was executed mainly in United States.

Earnings Per Share

(1) Basis of calculating basic earnings per share

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
Profit for the year attributable to owners of parent (Millions of yen)	92,563	112,492
Amount not attributable to ordinary equity holders of parent (Millions of yen)	–	–
Profit for the year used for calculation of basic earnings per share (Millions of yen)	92,563	112,492
Weighted average number of ordinary shares (Thousands of shares)	541,849	541,849
Basic earnings per share (Yen)	170.82	207.60

(2) Basis of calculating diluted earnings per share

	FY2016 (From January 1, 2016 to December 31, 2016)	FY2017 (From January 1, 2017 to December 31, 2017)
Profit for the year used for calculation of basic earnings per share (Millions of yen)	92,563	112,492
Adjustments of profit for the year (Millions of yen)	(66)	(318)
Profit for the year used for calculation of diluted earnings per share (Millions of yen)	92,496	112,173
Weighted average number of ordinary shares (Thousands of shares)	541,849	541,849
Increase in ordinary shares		
Warrants (Thousands of shares)	15	57
Weighted average number of diluted ordinary shares (Thousands of shares)	541,865	541,907
Diluted earnings per share (Yen)	170.70	206.99