Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2018 [IFRS]

May 11, 2018

Company name	: **Otsuka Holdings Company Limited**
Stock exchange listing	: Tokyo Stock Exchange
Code number	: 4578
URL	: https://www.otsuka.com/en/
Representative	: Tatsuo Higuchi President and Representative Director, CEO
Contact	: Yuji Kogure Director, Investor Relations Department Telephone: +81-3-6361-7411
Scheduled date of quarterly securities report submission	: May 14, 2018
Scheduled date of dividend payment commencement	: -
Supplementary materials for quarterly financial results	: Yes
Earnings announcement for quarterly 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 for the First Quarter of FY2018 (January 1, 2018 to March 31, 2018)

(1) Consolidated Operating Results (cumulative)

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

	Revenue		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	%
FY2018 Q1	294,650	5.2	34,769	15.3	31,109	10.4	23,525	10.1	22,726	8.2	(23,795)	–
FY2017 Q1	280,192	(0.0)	30,167	(11.2)	28,177	(9.0)	21,373	(4.3)	21,012	(3.9)	(48)	–

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2018 Q1	41.94	41.24
FY2017 Q1	38.77	38.52

(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 March 31, 2018	2,423,264	1,699,670	1,672,591	69.0	3,086.82
As of December 31, 2017	2,480,256	1,821,950	1,793,278	72.3	3,309.55

2. Dividends

	Annual dividend per share				
	First Quarter	Second Quarter	Third Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	–	50.00	–	50.00	100.00
FY2018	–				
FY2018 (forecast)		50.00	–	50.00	100.00

(Note) Revisions to dividends forecast most recently announced: None

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)

	Revenue		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

(Note) Revisions to financial forecast most recently announced: None

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):
March 31, 2018 557,835,617 shares
December 31, 2017 557,835,617 shares
2) Number of shares of treasury shares as of the end of the reporting period:
March 31, 2018 15,986,891 shares
December 31, 2017 15,986,878 shares
3) Average number of shares outstanding during the reporting period:
Quarter ended March 31, 2018 541,848,736 shares
Quarter ended March 31, 2017 541,849,215 shares

***** The quarterly financial statements are not subject to quarterly reviews.

*** 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. Qualitative Information (3) Forecast for Consolidated Performance” on page 8 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 May 11, 2018. Presentation materials and the webcast of the meeting will be available on the Company’s website promptly after the meeting.

Attachment Index

1. Qualitative Information

(1) Consolidated Operating Results

The forward-looking statements in this report were prepared at the discretion of the Otsuka group of companies (hereinafter the "Group") based on information available as of March 31, 2018.

Starting from FY2018, the Group adopted IFRS 15 "Revenue from Contracts with Customers". " (6) Notes to Condensed Interim Consolidated Financial Statements (Changes in Accounting Policies)" in " 2. Condensed Interim Consolidated Financial Statements and Major Notes" presents the impact resulting from the adoption of IFRS 15.

Summary of Operating Results for the first three months of FY2018

For the first three months of FY2018 (from January 1 to March 31, 2018), the Group recorded revenue of ¥294,650 million (up 5.2% year on year), with operating profit of ¥34,769 million (up 15.3%), profit for the period of ¥23,525 million (up 10.1%) and profit attributable to owners of the Company of ¥22,726 million (up 8.2%).

Results by business segment are as follows:

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Revenue	189,476	73,266	7,305	33,802	(9,200)	294,650
Operating profit	30,449	8,199	2,734	2,732	(9,345)	34,769

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 V_2-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 central nervous system and neurology, sales of antipsychotic agent *ABILIFY* declined compared with the prior year period due to the impact of a launch of generics after June 2017. However, sales of intramuscular depot formulation *ABILIFY for extended–release injectable suspension, for intramuscular use* (once-monthly injection) increased since cases in which the agent is used have increased steadily in the third year since its launch. 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, due to improved usability through the expansion of our product line-up.

In the area of oncology, sales of anti-cancer agent *Abraxane* increased compared with the prior year period due to growth in dosage and administration for the treatment of gastric cancer. Sales of anti-cancer agent *LONSURF* increased compared with the prior year period, as the drug held a position on as one of the standard therapies for unresectable advanced or recurrent colorectal cancer. Sales of antiemetic agent *Aloxi* was steady compared with the prior year period.

In the area of the cardiovascular and renal system, sales of *Samsca* increased significantly compared with the prior year period 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, continuing from the previous fiscal year, prescriptions increased significantly for *TAKECAB*, a treatment for acid-related diseases, co-promoted with Takeda Pharmaceutical Company Limited.

In the area of ophthalmology, sales of dry eye treatment *Mucosta ophthalmic suspension UD 2%* declined slightly compared with the prior year period. However, prescriptions for *Mikeluna combination ophthalmic solution*, a treatment for glaucoma and ocular hypertension launched in January 2017, continued to increase due to its reliable effect to lower intraocular pressure and usability.

In the area of immunology and allergy, sales of antiallergic agent *Bilanoa* increased significantly compared with the prior year period mainly due to the ban on long-term prescriptions was lifted in the end of 2017.

In the area of diagnostics, influenza test agent *Quick Navi™–Flu2*, launched in September 2017, made a large contribution to overall sales of diagnostics, which posted a sharp increase.

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* continued to increase compared with the prior year period, 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. The sales network for *NUEDEXTA* of U.S. company Avanir Pharmaceuticals, Inc., which has strengths in drug development in the area of neurological disorders, was reinforced in order to grow the drug's status as the world's first and only treatment for the neurologic disease pseudobulbar affect ("PBA"). Sales of *LONSURF* declined compared with the prior year period. Sales of

Samsca, which is sold as an oral aquaretic agent, increased due to stepped up efforts to promote the product's benefits.

Others

Prescriptions for *ABILIFY MAINTENA* increased in Europe, driving a large increase in sales compared with the prior year period. Under a license agreement with Servier, *LONSURF* has been launched in a growing number of countries since 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 27 markets worldwide, including Japan and North America.

As a result, revenue in the pharmaceutical segment for the first three months of FY2018 (from January 1 to March 31, 2018) totaled ¥189,476 million (up 5.0% year on year), with operating profit of ¥30,449 million (up 6.2%).

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

While demand for products in response to seasonal factors in the winter increased compared with past years, the sports drink market was weak[*1] due to the diversification of beverages with functionality as their appeal. However, sales volume for the *POCARI SWEAT* electrolyte supplement drink, particularly that for large-size products, increased compared with the prior year period due to high consumer confidence in the product brand. Despite a weak market for non-medicinal nutritional drinks[*2] and lower sales volume for carbonated nutritional drink *ORONAMIN C* compared with the prior year period, the share remained at the same level as in the previous fiscal year. Sales volume for the *Calorie Mate* range, the brand with the leading share in the nutritionally balanced foods market[*4], increased compared with the prior year period due to its advantage and convenience as a ready source of balanced nutrition for various opportunities. Sales volume for the *SOYJOY* range of baked soy bars declined compared with the prior year period due to the drop following the launching of *SOYJOY Crispy White Macadamia*, which was launched in February 2017. However, *SOYJOY Crispy Banana*, which was launched in March 2018, is gradually gaining ground in the market.

North America

Sales volume for *Nature Made*, supplied by subsidiary Pharmavite LLC of the U.S. increased compared with the prior year period, partly due to growth in the U.S. market for supplements[*5]. Daiya Foods Inc., which became a consolidated subsidiary in September 2017, develops, manufactures and sells plant-based foods in North America and continues growing.

Others

At Nutrition & Santé SAS, one of the Group's subsidiaries that operates in more than 40 countries, mainly in Europe, sales increased compared with the prior year period, due to growth mainly in sugar-free products for nutrition and health food sold under the *Gerblé* brand, France's leading health food brand[*6]. *POCARI SWEAT*, which is sold in more than 20 markets worldwide, mainly in Asia, registered an increase in overseas sales volume compared with the prior year period, on the back of greater product recognition due to public relations activities for consumers in China, Indonesia, and others.

As a result, revenue in the nutraceutical segment for the first three months of FY2018 (from January 1 to March 31, 2018) totaled ¥73,266 million (up 7.6% year on year), with operating profit of ¥8,199 million (up 31.9%).

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*2: INTAGE SRI (01/2018 to 3/2018, -2.6%). All rights reserved, no reproduction without permission.
*3: INTAGE SRI (01/2018 to 3/2018, 14.0%). All rights reserved, no reproduction without permission.
*4: INTAGE SRI revenues, nutritionally balanced foods market (categories: cookies and biscuits, cereal, cakes) 01/2018 to 3/2018, 31.9%. All rights reserved, no reproduction without permission.
*5: © 2018, The Nielsen Company, Scantrack© service, US xAOC Channel 12-weeks ended 3/24/18, the Total Vitamin Category grew 5.6%. All rights reserved, no reproduction without permission.
*6: 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, increased compared with the prior year period, due to the expansion of new accounts 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 prior year period, mainly due to weaker sales in the direct sales channel. However, accounts for 700 ml bottles expanded on active marketing efforts to attract new customers.

As a result, revenue in the consumer products segment for the first three months of FY2018 (from January 1 to March 31, 2018) totaled ¥7,305 million (down 0.9% year on year), with operating profit of ¥2,734 million (up 24.0%).

4) Others

In the specialty chemical business, sales increased compared with the prior year period, supported by growth in sales volume for hydrazine hydrate, friction materials and other products. In the fine chemical business, sales increased compared with the prior year period due to the start of operation at a plant expanded in a manufacturing plant of cephem antibiotic intermediate GCLE in India.

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

As a result, revenue in the others segment for the first three months of FY2018 (from January 1 to March 31, 2018) totaled ¥33,802 million (down 4.7% year on year), with operating profit of ¥2,732 million (up 2.6%).

(2) Research and Development Activities

Research and development expenses for the first three months of FY2018 (from January 1 to March 31, 2018) totaled ¥42,613 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 first three months of FY2018 (from January 1 to March 31, 2018) were ¥40,268 million.

Research and development activities carried out during the first three months of FY2018 (from January 1 to March 31, 2018) in the pharmaceutical business are summarized below.

Category	*Brand Name*, (Generic Name), Development Code	Status
Central nervous system and neurology	*REXULTI* (brexpiprazole) OPC-34712	<Japan> ・Approval was granted in January 2018 for the indication of schizophrenia.
	(deuterium-modified dextromethorphan, quinidine) AVP-786	<U.S.> ・Development for the treatment of disinhibition syndrome in neurodegenerative disorders was halted in line with development strategy. ・Phase II trial for the treatment of intermittent explosive disorder was initiated in February 2018.
Oncology	ASTX727	<U.S.> ・Phase III trial for the treatment of myelodysplastic syndrome was initiated in February 2018.
	TAS0313	<Japan> ・Phase I/ II trial for the treatment of solid cancer was initiated in January 2018.
Cardiovascular and renal system	*Samsca/JINARC* (tolvaptan) OPC-41061	<Asia> ・Approval was granted in Taiwan in March 2018 for the indication of ADPKD.

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.

Otsuka Pharmaceutical, which has taken particular note of soy with rich nutrition such as soy protein, launched *SOYJOY Crispy Banana* in March 2018, a new flavor in the *SOYJOY* range of baked soy bars, a ready source of all the nutrition in soy. Amid growing consciousness of health, the intake of protein has attracted attention in recent years. The *SOYJOY* brand offers a satisfying option for health-conscious people in a variety of consumption scenes through the expansion of items.

Research and development expenses for the nutraceutical business for the first three months of FY2018 (from January 1 to March 31, 2018) were ¥1,256 million.

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 first three months of FY2018 (from January 1 to March 31, 2018) were ¥142 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 first three months of FY2018 (from January 1 to March 31, 2018) were ¥945 million.

(2) Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

Assets

Total assets as of March 31, 2018 were ¥2,423,264 million, a decrease of ¥56,992 million compared to ¥2,480,256 million at the end of the previous fiscal year. This decrease was due to the ¥26,345 million decrease in current assets and ¥30,647 million increase in non-current assets.

(Current Assets)

Total current assets as of March 31, 2018 were ¥984,597 million, a decrease of ¥26,345 million compared to ¥1,010,942 million at the end of the previous fiscal year. This decrease was mainly due to decreases in cash and cash equivalents by ¥23,857 million and trade and other receivables by ¥17,154 million, while there were increases in inventories by ¥7,928 million and other financial assets by ¥4,574 million.

(Non-current Assets)

Total non-current assets as of March 31, 2018 were ¥1,438,666 million, a decrease of ¥30,647 million compared to ¥1,469,313 million at the end of the previous fiscal year. This was mainly due to decrease in goodwill by ¥13,070 million and intangible assets by ¥23,615 million mainly from fluctuations in exchange rates, while there was an increase in deferred tax assets by ¥16,063 million which was the impact from the adoption of IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) (hereinafter, “IFRS 15” collectively).

Liabilities

(Current Liabilities)

Total current liabilities as of March 31, 2018 were ¥387,567 million, an increase of ¥1,101 million compared to ¥386,465 million at the end of the previous fiscal year. This increase was mainly due to a ¥11,338 million record of contract liabilities which is the impact from the adoption of IFRS 15, while there was a decrease in trade and other payables by ¥13,837 million.

(Non-current Liabilities)

Total non-current liabilities as of March 31, 2018 were ¥336,026 million, an increase of ¥64,186 million compared to ¥271,840 million at the end of the previous fiscal year. This increase was mainly due to a ¥90,117 million record of contract liabilities and a decrease in deferred tax liabilities by ¥18,421 million which are impacts from the adoption of IFRS 15.

Net Assets

Total net assets as of March 31, 2018 were ¥1,699,670 million, a decrease of ¥122,280 million compared to ¥1,821,950 million at the end of the previous fiscal year. This decrease was mainly due to a ¥74,563 million decrease in retained earnings as a result of a ¥27,092 million payment of dividends, quarterly net income attributable to owners of the Company of ¥22,726 million and the impact of the IFRS 15 adoption of ¥70,242 million , and a ¥46,364 million decrease in other components of equity due to stock market and exchange rate fluctuations.

2) Cash Flows

Cash and cash equivalents as of March 31, 2018 decreased by ¥23,857 million to ¥312,755 million from the end of the previous fiscal year. Net cash provided by operating activities was ¥29,448 million, while net cash used in investing activities and financing activities were ¥21,332 million and ¥26,584 million respectively.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥29,448 million as of March 31, 2018. Contributing factors were ¥31,109 million in profit before taxes, ¥14,963 million in depreciation and amortization expenses, a ¥9,744 million decrese in trade and other receivables, a ¥13,034 million increase in inventories, a ¥7,780 million decrease in trade and other payables, and ¥(9,147) million in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥(21,332) million as of March 31, 2018. Main investing activities included ¥(10,981) million in payments for acquisition of property, plant and equipment, ¥(3,454) million in payments for acquisition of intangible assets, ¥4,674 million in proceeds from sales and redemption of investments, ¥(9,080) million in payments for acquisition of investments, and ¥(3,465) million in decrease (increase) in time deposits.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥(26,584) million as of March 31, 2018. Main financing activities included ¥2,631 million in increase in current borrowings, ¥2,822 million in proceeds from non-current borrowings, ¥(3,417) million in repayments of non-current borrowings, and ¥(27,809) million in dividends paid.

(3) Forecast for Consolidated Performance

There are no changes to the Q2 cumulative and full year consolidated forecast released on February 14, 2018.

2. Condensed Interim Consolidated Financial Statements and Major Notes

(1) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	336,613	312,755
Trade and other receivables	363,920	346,766
Inventories	144,538	152,467
Income taxes receivable	11,453	12,498
Other financial assets	116,383	120,957
Other current assets	37,542	39,048
Subtotal	1,010,451	984,493
Assets held for sale	490	104
Total current assets	1,010,942	984,597
Non-current assets		
Property, plant and equipment	382,462	377,908
Goodwill	249,463	236,392
Intangible assets	455,862	432,247
Investments in associates	188,234	184,981
Other financial assets	176,104	174,737
Deferred tax assets	6,980	23,043
Other non-current assets	10,206	9,356
Total non-current assets	1,469,313	1,438,666
Total assets	2,480,256	2,423,264

	As of December 31, 2017	As of March 31, 2018
		(Millions of yen)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	159,898	146,060
Bonds and borrowings	64,472	65,598
Other financial liabilities	2,325	4,278
Income taxes payable	8,036	8,250
Contract liabilities	–	11,338
Other current liabilities	151,718	152,041
Subtotal	386,450	387,567
Liabilities directly related to assets held for sale	15	–
Total current liabilities	386,465	387,567
Non-current liabilities		
Bonds and borrowings	176,961	173,324
Other financial liabilities	18,981	15,687
Net defined benefit liabilities	14,678	14,528
Provisions	3,749	3,555
Contract liabilities	–	90,117
Deferred tax liabilities	44,685	26,263
Other non-current liabilities	12,784	12,549
Total non-current liabilities	271,840	336,026
Total liabilities	658,306	723,594
Equity		
Equity attributable to owners of the Company		
Share capital	81,690	81,690
Capital surplus	505,620	505,861
Treasury shares	(47,267)	(47,267)
Retained earnings	1,266,399	1,191,836
Other components of equity	(13,165)	(59,530)
Total equity attributable to owners of the Company	1,793,278	1,672,591
Non-controlling interests	28,671	27,079
Total equity	1,821,950	1,699,670
Total liabilities and equity	2,480,256	2,423,264

(2) Condensed Interim Consolidated Statement of Income

(Millions of yen)

	FY2017 (From January 1, 2017 to March 31, 2017)	FY2018 (From January 1, 2018 to March 31, 2018)
Revenue	280,192	294,650
Cost of sales	(95,463)	(100,524)
Gross profit	184,729	194,125
Selling, general and administrative expenses	(122,027)	(121,295)
Research and development expenses	(36,658)	(42,613)
Share of profit of associates	4,364	3,973
Other income	1,033	1,056
Other expenses	(1,272)	(477)
Operating profit	30,167	34,769
Finance income	1,125	1,720
Finance costs	(3,115)	(5,381)
Profit before taxes	28,177	31,109
Income tax expenses	(6,803)	(7,583)
Profit for the period	21,373	23,525
Attributable to:		
Owners of the Company	21,012	22,726
Non-controlling interests	361	799
Earnings per share:		
Basic earnings per share (Yen)	38.77	41.94
Diluted earnings per share (Yen)	38.52	41.24

(3) Condensed Interim Consolidated Statement of Comprehensive Income

(Millions of yen)

	FY2017 (From January 1, 2017 to March 31, 2017)	FY2018 (From January 1, 2018 to March 31, 2018)
Profit for the period	21,373	23,525
Other comprehensive income		
Components that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	4	2
Financial assets measured at fair value through other comprehensive income	3,922	124
Share of other comprehensive income of associates	(12)	(81)
Subtotal	3,914	45
Components that may be reclassified to profit or loss		
Foreign currency translation reserve	(21,092)	(41,199)
Cash flow hedges	(6)	2
Share of other comprehensive income of associates	(4,237)	(6,169)
Subtotal	(25,336)	(47,365)
Total other comprehensive income	(21,422)	(47,320)
Comprehensive income	(48)	(23,795)
Attributable to:		
Owners of the Company	(311)	(23,593)
Non-controlling interests	262	(201)
Comprehensive income	(48)	(23,795)

(4) Condensed Interim Consolidated Statement of Changes in Equity

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

(Millions of yen)

	Equity attributable to owners of the Company					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasure-ments of defined benefit plans	Financial assets measured at fair value through other comprehen-sive income
Balance as of January 1, 2017	81,690	503,979	(47,264)	1,209,139	–	22,358
Profit for the period	–	–	–	21,012	–	–
Other comprehensive income	–	–	–	–	(3)	4,003
Comprehensive income	–	–	–	21,012	(3)	4,003
Purchase of treasury shares	–	–	(0)	–	–	–
Dividends	–	–	–	(27,092)	–	–
Share-based payment transactions	–	63	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	33	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	148	3	(152)
Total transactions with owners, etc.	–	96	(0)	(26,943)	3	(152)
Balance as of March 31, 2017	81,690	504,075	(47,265)	1,203,207	–	26,210

	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	–	–	–	21,012	361	21,373
Other comprehensive income	(25,316)	(6)	(21,323)	(21,323)	(98)	(21,422)
Comprehensive income	(25,316)	(6)	(21,323)	(311)	262	(48)
Purchase of treasury shares	–	–	–	(0)	–	(0)
Dividends	–	–	–	(27,092)	(422)	(27,514)
Share-based payment transactions	–	–	–	63	–	63
Changes in ownership interests in subsidiaries that do not result in loss of control	(0)	–	(0)	33	237	271
Transfer from other components of equity to retained earnings	–	–	(148)	–	–	–
Total transactions with owners, etc.	(0)	–	(149)	(26,996)	(184)	(27,180)
Balance as of March 31, 2017	(84,695)	(0)	(58,485)	1,683,223	27,988	1,711,212

FY2018 (From January 1, 2018 to March 31, 2018)

(Millions of yen)

	Equity attributable to owners of the Company					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasure-ments of defined benefit plans	Financial assets measured at fair value through other comprehen-sive income
Balance as of January 1, 2018	81,690	505,620	(47,267)	1,266,399	–	42,915
Changes in Accounting Policies	–	–	–	(70,242)	–	–
Restated balance	81,690	505,620	(47,267)	1,196,157	–	42,915
Profit for the period	–	–	–	22,726	–	–
Other comprehensive income	–	–	–	–	45	(38)
Comprehensive income	–	–	–	22,726	45	(38)
Purchase of treasury shares	–	–	(0)	–	–	–
Dividends	–	–	–	(27,092)	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	240	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	45	(45)	–
Total transactions with owners, etc.	–	240	(0)	(27,047)	(45)	–
Balance as of March 31, 2018	81,690	505,861	(47,267)	1,191,836	–	42,877

	Equity attributable to owners of the Company					
	Other components of equity					
	Foreign currency translation reserve	Cash flow hedges	Total	Total	Non-controll ing interests	Total equity
Balance as of January 1, 2018	(56,072)	(8)	(13,165)	1,793,278	28,671	1,821,950
Changes in Accounting Policies	–	–	–	(70,242)	–	(70,242)
Restated balance	(56,072)	(8)	(13,165)	1,723,036	28,671	1,751,707
Profit for the period	–	–	–	22,726	799	23,525
Other comprehensive income	(46,329)	2	(46,319)	(46,319)	(1,000)	(47,320)
Comprehensive income	(46,329)	2	(46,319)	(23,593)	(201)	(23,795)
Purchase of treasury shares	–	–	–	(0)	–	(0)
Dividends	–	–	–	(27,092)	(890)	(27,982)
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	240	(500)	(259)
Transfer from other components of equity to retained earnings	–	–	(45)	–	–	–
Total transactions with owners, etc.	–	–	(45)	(26,851)	(1,391)	(28,242)
Balance as of March 31, 2018	(102,401)	(5)	(59,530)	1,672,591	27,079	1,699,670

(5) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	FY2017 (From January 1, 2017 to March 31, 2017)	FY2018 (From January 1, 2018 to March 31, 2018)
Cash flows from operating activities		
Profit before taxes	28,177	31,109
Depreciation and amortization expenses	15,370	14,963
Impairment loss and reversal of impairment loss	79	419
Share of loss (profit) of associates	(4,364)	(3,973)
Finance income	(1,125)	(1,720)
Finance costs	3,115	5,381
Decrease (increase) in inventories	(11,406)	(13,034)
Decrease (increase) in trade and other receivables	45,578	9,744
Increase (decrease) in trade and other payables	(16,090)	(7,780)
Other	(801)	2,220
Subtotal	58,533	37,328
Interest and dividends received	1,949	1,804
Interest paid	(600)	(537)
Income taxes paid	(33,644)	(9,147)
Net cash flows from (used in) operating activities	26,237	29,448
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	91	220
Payments for acquisition of property, plant and equipment	(12,730)	(10,981)
Payments for acquisition of intangible assets	(2,698)	(3,454)
Proceeds from sales and redemption of investments	18,732	4,674
Payments for acquisition of investments	(9,237)	(9,080)
Payments for acquisition of subsidiaries	(11,052)	–
Decrease (increase) in time deposits	(15,578)	(3,465)
Other	4,389	755
Net cash flows from (used in) investing activities	(28,084)	(21,332)
Cash flows from financing activities		
Purchase of treasury shares	(0)	(0)
Increase (decrease) in current borrowings	2,702	2,631
Proceeds from non-current borrowings	1,399	2,822
Repayments of non-current borrowings	(6,955)	(3,417)
Dividends paid	(27,514)	(27,809)
Other	(762)	(811)
Net cash flows from (used in) financing activities	(31,130)	(26,584)
Increase (decrease) in cash and cash equivalents	(32,976)	(18,469)
Cash and cash equivalents at beginning of period	369,875	336,613
Effect of exchange rate changes on cash and cash equivalents	(5,553)	(5,387)
Cash and cash equivalents at end of period	331,344	312,755

(6) Notes to Condensed Interim 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 condensed interim consolidated financial statements except for the accounting standards provided below.

Income tax expenses for the three months ended March 31, 2018 are calculated based on the estimated average annual effective tax rate.

The Group applied the following standards starting from FY2018.

IFRS		Description of new standards, interpretations and amendments
IFRS 15	Revenue from Contracts with Customers	Amendment concerning accounting treatment for revenue recognition

Starting from FY2018, the Group adopted IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (together, hereinafter "IFRS 15").

In accordance with the transitional measures under IFRS 15 (hereinafter referred to as the "Standard"), the Group adopts the method where the Standard is applied retrospectively to contracts that have not been completed as of the initial application date (January 1, 2018) and the cumulative effect is recognized as an adjustment to the opening balance of retained earnings for 2018Q1.

In accordance with IFRS 15, except for interests and dividend income stipulated by IFRS 9 " Financial instruments", revenue is recognizes based on the following five-step model.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(1) Sales of products

For sales of products, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products, because legal title, physical possession, material risk and economic value over the products transfer to customer upon delivery and the customer obtains control over the products.

Products may be sold giving rebate subject to achievement of volume and amount of sales. In such a case, transaction price is recognized at the consideration promised in contract with a customer, less estimated rebates and other items. Rebates are measured by mode method based on historical performance, revenue is recognized to the extent that it is extremely high probable that material reversal will not occur.

The consideration of sales is received primarily within one year from the time of delivery and it does not include material financial factors.

(2) License and royalty income

License income is income from up-front and milestone payments received under license agreements, etc. on development and distribution rights and others of products under development or finished products, which the Group has concluded with a third party. Under license agreements, etc., if contractual obligations are fulfilled at a specific point in time, up front income is recognized once development and distribution rights are granted. If contractual obligations are fulfilled over a period of time, such income is recorded as contract liabilities, up-front and milestone income is recognized over a period (estimated contract term, etc.) in accordance with the method of measuring of progress pertaining to fulfillment of performance obligations determined by each contract. Income from milestone payments received under license agreements is recognized as revenue at the point when the conditions are met to avoid future reversal of revenues.

License income is income from license contract, etc. based on the sales, etc. of counterparty and revenue is recognized in accordance with fulfillment of sales, etc. or obligations of counterparty.

License and royalty income is received primarily within one year from the time which the right is acquired based on the contract, and it does not include material financial factors.

Based on the above five-step model, as a result of reviewing the time of revenue recognition which license income (up front income, etc.) is recognized in accordance with fulfillment of performance obligations under license agreements, in some contracts, license income which was already recognized based on the former accounting standard is accounted for as contract liabilities and related license income is recognized over a period in accordance with the method of measuring of progress pertaining to fulfillment of performance obligations determined by each contract based on IFRS 15. Furthermore, as a result of review of contribution payment to the customer, the portion of sales promotion and other expenses that is consideration paid by the Group to customers, which had previously been accounted for as selling, general and administrative expenses, is accounted for as reductions of revenue from FY2018.

In addition, with the application of IFRS 15, the portion of advances and deferred income, which had previously been included in "Other current liabilities" and long-term deferred income, which had previously been included in "Other non-current liabilities" are presented as "Contract liabilities."

As a result, compared with the application of the former accounting standard, as of the beginning of FY2018, mainly, retained earnings and deferred tax liabilities decreased by ¥70,240 million and ¥17,108 million respectively, while deferred tax assets and contract liabilities in current liabilities and non-current liabilities increased by ¥13,751 million, ¥11,170 million and ¥92,711 million respectively.

In the Condensed Interim Consolidated Statement of Income, as a result of a change in accounting policy, revenue and cost of sales increased by ¥1,205 million and ¥332 million respectively, while selling, general and administrative expenses decreased by ¥1,587 million, operating profit and profit before tax increased by ¥2,460 million respectively and profit for the period increased by ¥1,728 million.

In the Condensed Interim Consolidated Statement of Financial Position, as a result of a change in accounting policy, deferred tax assets and contract liabilities in current liabilities and non-current liabilities increased by ¥16,037 million, ¥11,338 million and ¥90,117 million respectively, while retained earnings and deferred tax liabilities decreased by ¥68,512million and ¥14,089 million respectively.

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) Revenue and performances by reportable segment

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

Segment profit is based on operating profit.

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

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

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Condensed Interim Consolidated Statement of Income (Note 2)
	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total		
Revenue							
Revenue to external customers	180,371	65,394	7,303	27,123	280,192	–	280,192
Intersegment revenue or transfers	–	2,683	67	8,341	11,091	(11,091)	–
Total	180,371	68,077	7,370	35,464	291,284	(11,091)	280,192
Segment profit	28,662	6,217	2,205	2,663	39,749	(9,581)	30,167

(Notes) 1. Adjustments to segment profit of ¥(9,581) million include intersegment eliminations of ¥(39) million, unallocated corporate expenses of ¥(9,702) million, and other income of ¥160 million. Corporate expenses include headquarter costs and other indirect expenses.
2. Segment profit is adjusted to operating profit as stated in the condensed interim consolidated statement of income.

FY2018 (From January 1, 2018 to March 31, 2018)

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Condensed Interim Consolidated Statement of Income (Note 2)
	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total		
Revenue							
Revenue to external customers	189,476	73,039	7,198	24,936	294,650	–	294,650
Intersegment revenue or transfers	–	227	106	8,865	9,200	(9,200)	–
Total	189,476	73,266	7,305	33,802	303,850	(9,200)	294,650
Segment profit	30,449	8,199	2,734	2,732	44,115	(9,345)	34,769

(Notes) 1. Adjustments to segment profit of ¥(9,345) million include intersegment eliminations of ¥(132) million, unallocated corporate expenses of ¥(9,351) million, and other income of ¥138 million. Corporate expenses include headquarter costs and other indirect expenses.
2. Segment profit is adjusted to operating profit as stated in the condensed interim consolidated statement of income.

(Adoption of IFRS15 “Revenue from Contracts with Customers”)

The Group applied IFRS15 “Revenue from Contracts with Customers” starting from FY2018 as stated in the Changes in Accounting Policies.

In accordance with the transitional measures under IFRS 15, the cumulative effect is recognized as an adjustment to the opening balance of retained earnings for the FY2018. Therefore, the Group does not restate FY2017 financial statements.