

Financial Results for the Fiscal Year ended March 31, 2019 (IFRS, Consolidated)

May 10, 2019

Company name: Mitsubishi Tanabe Pharma Corporation
 Stock exchange listings: Tokyo
 Securities code number: 4508
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Planned date of ordinary general meeting of shareholders: June 21, 2019
 Planned date of start of dividend payments: June 24, 2019
 Planned date of filing of annual securities report: June 21, 2019
 Provision of supplementary explanatory materials for results: Yes
 Results presentation: Yes (for institutional investors and securities analysts)

Notes; Amounts less than ¥1 million have been rounded.

Percentage changes in the list show change in comparison with the previous fiscal year.

1. Results for Fiscal Year 2018 (from April 1, 2018 to March 31, 2019)

(1) Consolidated Business Results

	Revenue		Core operating profit		Operating profit		Profit before income tax	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Fiscal Year 2018	424,767	(2.1)	55,832	(28.9)	50,303	(34.9)	50,439	(36.0)
Fiscal Year 2017	433,855	2.3	78,549	(16.9)	77,285	(17.9)	78,764	(18.0)

	Profit for the year		Profit attributable to owners of the Company	
	Millions of Yen	% change	Millions of Yen	% change
Fiscal Year 2018	32,216	(40.3)	37,372	(35.5)
Fiscal Year 2017	53,992	(21.7)	57,963	(18.7)

Total comprehensive income: ¥40,894 million, (27.8)% in fiscal year 2018 (¥56,620 million, (18.3)% in fiscal year 2017)

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

	Basic earnings per share	Diluted earnings per share	Ratio of net profit to equity attributable to owners of the Company	Ratio of profit before income tax to total assets	Ratio of operating profit to revenue
	Yen	Yen	%	%	%
Fiscal Year 2018	66.64	66.64	4.2	4.8	11.8
Fiscal Year 2017	103.35	103.35	6.6	7.8	17.8

(Reference) Share of profit of affiliates accounted for using equity method: ¥(80) million in fiscal year 2018 (¥23 million in fiscal year 2017)

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity attributable to owners of the Company per share
	Millions of Yen	Millions of Yen	Millions of Yen	%	Yen
As of March 31, 2019	1,056,286	910,332	897,604	85.0	1,600.64
As of March 31, 2018	1,048,444	894,827	882,808	84.2	1,574.26

(3) Consolidated Cash Flows

	Cash Flow from Operating activities	Cash Flow from Investing activities	Cash Flow from Financing activities	Cash and cash equivalents at the end of the year
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal Year 2018	41,460	(31,212)	(25,869)	111,850
Fiscal Year 2017	66,943	(19,178)	(32,501)	127,030

2. Dividends

	Dividends per share					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the Company (consolidated)
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
Fiscal Year 2017	—	38.00	—	28.00	66.00	37,025	63.9	4.2
Fiscal Year 2018	—	28.00	—	28.00	56.00	31,415	84.0	3.5
Fiscal Year 2019 (forecasts)	—	28.00	—	28.00	56.00		628.1	

3. Forecasts for Fiscal Year 2019 (April 1, 2019 to March 31, 2020)

	Revenue		Core operating profit		Operating profit	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Interim	187,000	(10.8)	4,500	(87.0)	5,000	(85.5)
Full year	376,000	(11.5)	10,000	(82.1)	11,500	(77.1)

	Profit before income tax		Profit for the year		Profit attributable to owners of the Company	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Interim	5,500	(84.2)	1,000	(95.7)	4,000	(84.0)
Full year	12,000	(76.2)	4,000	(87.6)	5,000	(86.6)

Basic earnings per share: Interim ¥7.13 Full year ¥8.92

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

※ Notes

(1) Significant change involving subsidiaries during the period: No

(Change in designated subsidiaries accompanying changes in the scope of consolidation)

(2) Changes in accounting policies and accounting estimates

1. Changes in accounting policies required by IFRS: Yes

2. Other changes: No

3. Change in accounting estimates: No

(Note) Please refer to "3. Consolidated Financial Statements and Main Notes (6) Notes to Consolidated Financial Statements (Basis of Preparation) (5) Changes in Accounting Policies."

(3) Number of shares issued (ordinary shares)

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

Fiscal Year 2018	561,417,916 shares	Fiscal Year 2017	561,417,916 shares
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2. Number of treasury shares at the end of the period

Fiscal Year 2018	640,305 shares	Fiscal Year 2017	642,309 shares
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3. Average number of shares during the period (cumulative total)

Fiscal Year 2018	560,776,874 shares	Fiscal Year 2017	560,857,644 shares
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(Note) The Company introduces the executive compensation BIP Trust. The shares that the trust account holds are included in treasury shares (208,655 shares at the end of the fiscal year ended March 31, 2019, compared to 211,100 shares at the end of the fiscal year ended March 31, 2018).

(Reference) Overview of Non-consolidated Business Results

Notes: Amounts less than ¥1 million have been omitted in non-consolidated business results.

Percentage changes in the list show change in comparison with the previous fiscal year.

Results for Fiscal Year 2018 (April 1, 2018 to March 31, 2019)

(1) Non-consolidated Business Results

	Net sales		Operating income		Ordinary income		Net income	
	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change	Millions of Yen	% change
Fiscal Year 2018	395,620	(4.7)	79,255	(12.3)	87,630	(3.6)	67,539	(8.4)
Fiscal Year 2017	414,957	4.7	90,385	4.1	90,935	2.2	73,755	54.0

	Basic net income per share	Diluted net income per share
	Yen	Yen
Fiscal Year 2018	120.44	120.44
Fiscal Year 2017	131.50	131.50

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of March 31, 2019	907,910	819,121	90.2	1,460.69
As of March 31, 2018	881,868	779,414	88.4	1,389.89

(Reference) Shareholders' equity: ¥819,121 million in fiscal year 2018 (¥779,414 million in fiscal year 2017)

*This financial results report is exempt from the audit procedures performed by Certified Public Accountants and auditing firm.

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

(Note about forward-looking statements)

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

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

- Supplementary materials are disclosed on TDnet and available on the Company's homepage on the same day.
- The Company plans to hold a results presentation for institutional investors and securities analysts on May 13, 2019 (Monday).

The content of the results presentation (documents and videos used in the presentation) will be released on the homepage of the Company immediately after the presentation.

(Other information)

The Company finalized the provisional accounting treatment for the business combinations in the first six months of the fiscal year ended March 31, 2019. As a result, the comparative amount of previous fiscal year listed in the Consolidated Financial Statements reflected the revision of the initial purchase price allocation. For details, please see "3. Consolidated Financial Statements and Main Notes (6) Notes to Consolidated Financial statements (Business Combinations)."

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1. Overview of Business Results and Financial Position

(1) Overview of Business Results

① Overview of operating results

The business environment of the domestic pharmaceutical industry remains challenging due to the government's accelerating efforts to cut the medical expenses by undertaking radical reform of NHI drug price system with the intention to restrain the increase of social security costs.

In the current business environment, despite the sales of RADICAVA, the treatment of ALS (amyotrophic lateral sclerosis) in the U.S. achieved rapid growth, revenue decreased due to the decline in royalty revenue and domestic ethical drugs. From the viewpoint of profit, core operating profit and all other profit items below decreased due to the increase in R&D expenses owing to the progress in the late-stage development and the acquisition of NeuroDerm Ltd. (hereinafter referred to as "NeuroDerm").

(Millions of yen)

	Fiscal Year 2017	Fiscal Year 2018	Increase / Decrease	% change
Revenue	433,855	424,767	(9,088)	(2.1)
Core operating profit	78,549	55,832	(22,717)	(28.9)
Operating profit	77,285	50,303	(26,982)	(34.9)
Profit before income tax	78,764	50,439	(28,325)	(36.0)
Profit attributable to owners of the Company	57,963	37,372	(20,591)	(35.5)

【Revenue】

Revenue decreased by 2.1%, or ¥9.0 billion, year-on-year, to ¥424.7 billion.

(Millions of yen)

	Fiscal Year 2017	Fiscal Year 2018	Increase / Decrease	% change
Pharmaceuticals	433,855	424,767	(9,088)	(2.1)
Domestic ethical drugs	309,372	298,798	(10,574)	(3.4)
Overseas ethical drugs	38,574	55,119	16,545	42.9
Royalty revenue, etc.	79,151	63,117	(16,034)	(20.3)
OTC products	3,732	3,771	39	1.0
Others	3,026	3,962	936	30.9

• Revenue of domestic ethical drugs decreased by 3.4%, year-on-year, to ¥298.7 billion. Despite the sales of priority products increased contributed by SIMPONI, the treatment agent of Rheumatoid arthritis (RA), and CANALIA, a type 2 diabetes mellitus treatment agent launched in September 2017, as well as STELARA, a treatment for Crohn's disease jointly promoted with Janssen Pharmaceutical K.K., updated the co-promotion framework in July 2018, the NHI drug price revision in April 2018 and the transfer of generic drug business in October 2017 caused a net negative impact on revenue.

• Revenue of overseas ethical drugs increased by 42.9%, year-on-year, to ¥55.1 billion mainly driven by the launch of RADICAVA, the treatment of ALS in the U.S. in August 2017.

• Royalty revenue, etc. decreased by 20.3%, year-on-year, to ¥63.1 billion due to the decline in royalty revenue from GILENYA, the treatment for multiple sclerosis licensed to Novartis Pharma AG (hereinafter referred to as "Novartis") and INVOKANA and its fixed dose combination with metformin, the treatment for type 2 diabetes mellitus licensed to Janssen Pharmaceuticals, Inc (hereinafter referred to as "Janssen Pharmaceuticals").

With regard to "GILENYA Royalty" amounts, given the arbitration proceedings, there was a decrease in revenue because a part of the royalty income of "GILENYA Royalty" was not recognized as sales revenue in accordance with IFRS 15. The Company maintains it is entitled to receive the full royalty amounts due according to the license agreement with Novartis, and the Company will rigorously pursue its rights in the arbitration. As for the "GILENYA Royalty" amounts which will not be recognized as sales revenue, those will be recognized as revenue at the end of the arbitration, depending on the outcome of the arbitration.

【Core operating profit】

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

Core operating profit decreased by 28.9%, or ¥22.7 billion, year-on-year, to ¥55.8 billion due to the following results:

- Sales growth of domestic priority products and RADICAVA in the U.S.
- Decrease in SG&A expenses owing to the promotion of operational productivity reforming.
- Negative impact of the NHI drug price revision and the decline in royalty revenue.
- Increase in R&D expenses arising from advance to late stage of development and the acquisition of NeuroDerm Ltd.

【Operating profit】

Operating profit decreased by 34.9%, or ¥26.9 billion, year-on-year, to ¥50.3 billion.

In non-recurring items, restructuring expenses and impairment losses were recorded.

【Profit attributable to owners of the Company】

Profit attributable to owners of the Company decreased by 35.5%, or ¥20.5 billion, year-on-year, to ¥37.3 billion.

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

The Group engages business operations aiming to grow sustainably under the "Medium-Term Management Plan 16-20: Open Up the Future" established in 2015, which contains four strategic priorities, (i) Maximizing Pipeline Value, (ii) Accelerating U.S. Business Development, (iii) Strengthening IKUYAKU (Drug Fostering and Evolution) and Marketing, and (iv) Reforming Operational Productivity.

The major progresses achieved in the fiscal year ended March 31, 2019 are showed below.

(i) Maximizing Pipeline Value

Started with launching MCI-186 (generic name: edaravone, U.S. product name: RADICAVA), the indication for ALS in the U.S. in May 2017, for the purpose of expanding its global market, the Group received approvals in Canada and Switzerland subsequently. Moreover, with the intend to reduce the patient's burden brought by the intravenous infusion administration, MT-1186, the oral suspension is under development at the moment. Furthermore, in order to provide a more beneficial therapy option to patients, clinical study of biomarkers etc. to identify the disease progress in ALS patients is initiated.

As one of the growth driver following MC-186 in the U.S. and European market, MT-2271 (plant-based VLP vaccine), prophylaxis of seasonal influenza has completed the phase 3 clinical trials for adults and applications in the U.S. and Canada are prepared currently. Moreover, phase 3 clinical trials for elderly have started. As for ND0612, the indication for Parkinson diseases, it has generally reached an agreement with FDA (Food and Drug Administration) regarding its revised development plan, and the preparation for new clinical trials in the U.S. and Europe is currently undergoing simultaneously.

Regarding four priority areas in domestic market, diabetes and kidney diseases (TA-7284, MT-6548), autoimmune diseases (MT-5547), central nervous system diseases (MT-5199) and vaccines (MT-2355), late stage developments are advancing. MT-6548 (hypoxia inducible factor prolyl hydroxylase inhibitor), the treatment for anemia due to chronic kidney diseases conducted phase 3 clinical studies over 24 weeks with positive results and plans to file an application in FY2019.

With aim of increasing the opportunity to discover innovative new drugs, besides the conventional areas like small molecule and antibody, the Company also engages in gene therapy, nucleic acid therapeutics and expands the extent of modality.

In the current consolidated fiscal year, the R&D expenses reached its highest level to ¥86.5 billion, accounting for 20.4% of revenue.

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

Acquisition of approval

- In June 2018, an anti-fungal agent, Jublia for the treatment of onychomycosis was approved in Taiwan.
- In August 2018, an additional pediatric indication for the prevention of cytomegalovirus disease in organ transplant patients for Valixa was approved in Japan.
- MCI-186 (generic name: edaravone, U.S. product name: RADICAVA), the treatment for ALS was approved in Canada in October 2018 and in Switzerland January 2019.
- In February 2019, immunosuppressant Azanin, the treatment for autoimmune hepatitis received approval in Japan.

Application of approval

- Applications of MCI-186, the treatment for ALS were filed in Canada in April 2018, and Europe in May 2018.
- Applications were filed for the treatment of schizophrenia, MP-214 (cariprazine, dopamine D3/D2 receptor partial agonist) in Singapore in June 2018, Thailand in August 2018, and Indonesia in December 2018.
- Applications were filed for MP-513 (generic name: teneligliptin, domestic product name: TENELIA), the treatment for type 2 diabetes mellitus in Singapore in July 2018, Thailand in September 2018, and Malaysia in December 2018.
- In August 2018, an application of Azanin, the treatment for autoimmune hepatitis was filed in Japan.
- Applications for TAU-284 (generic name: Bepotastine, domestic product name: Talion), the treatment for allergic rhinitis and urticaria were filed in Thailand in November 2018, and Singapore in March 2019.

In addition, applications for MCI-186, the treatment for ALS were filed in China and Singapore in April 2019.

Start of clinical trials (from phase 2)

- In July 2018, the Company started phase 2 clinical trials of MT-7117 for erythropoietic protoporphyria in the U.S.
- In September 2018, phase 3 clinical trials of MT-2271, prophylaxis of seasonal influenza in elderly adults started in the U.S., Europe and Canada etc.
- In January 2019, phase 2 clinical trials of MT-2990, the treatment for endometriosis started in the U.S.

Development status of licensing-out products

- Licensee Novartis received approval for FTY720 (generic name: fingolimod, product name: Gilenya), for pediatric multiple sclerosis in the U.S in May 2018, and Europe in November 2018.
- Licensee Janssen Pharmaceuticals, Inc. received approval for TA-7284 (generic name: canagliflozin, product name: INVOKANA), for composite risk reduction of CV death, nonfatal MI and stroke in type 2 diabetes with established, or risk for cardiovascular disease (CANVAS/CANVAS-R) in Europe in September 2018.
- Licensee Janssen Pharmaceuticals, Inc. received approval for TA-7284, for composite risk reduction of CV death, nonfatal MI and stroke in type 2 diabetes with established cardiovascular disease (CANVAS/CANVAS-R) in the U.S. in October 2018.
- Licensee Janssen Pharmaceuticals, Inc. submitted an application for TA-7284, for the treatment of diabetic nephropathy (CREDESCENCE) in the U.S. in March 2019.

In addition, licensee Kyowa Hakko Kirin Co., Ltd. submitted an application for MT-4580 (generic name: Evocalcet, product name: Orkedia), the treatment of hypercalcemia in patients with parathyroid carcinoma or primary hyperparathyroidism in April 2019.

(ii) Accelerating U.S. Business Development

Since the launch of RADICAVA for ALS in August 2017, the Company actively undertook sales promotion in various perspectives such as visiting healthcare professionals and optimizing patients access. By the end of the fiscal year ended March 31, 2019, the cumulative number of patients received treatment reached 3,760, and revenue totaled ¥27.0 billion.

With the intention of expanding business in the U.S., the Company acquired NeuroDerm, whose candidate ND0612, the drug-device combinations for Parkinson's disease, generally reached an agreement with FDA regarding its amended development plan of phase 3 clinical trial design towards launching in 2022.

Furthermore, Medicago Inc., a R&D subsidiary is carrying out phase 3 clinical trials for MT-2271, an indication of prophylaxis of seasonal influenza, aiming to launch in North America in 2020.

(iii) Strengthening IKUYAKU and Marketing

In the field of diabetes mellitus, CANALIA, jointly promoted with Daiichi Sankyo Co., Ltd continually showed a favorable increase since launched in September 2017. In immune inflammation area, the sales of Rupafin, which is jointly promoted with Teikoku Seiyaku Co., Ltd increased since launched in November 2017. Additionally, as to STELARA, an anti-IL-12/23p40 monoclonal antibody licensing from Janssen Pharmaceutical K.K., the Company recorded revenue since domestic distribution was transferred to the Company under the updated co-promotion agreement, effective June 2018.

(iv) Reforming Operational Productivity

To reduce cost of sales and SG&A expense by ¥20.0 billion (in comparison with FY2015) under the Medium-Term Management Plan, the Group strives to reduce labor cost by optimizing personnel and supply cost of the pharmaceutical ingredients etc. As a result, a reduction of ¥19.0 billion was achieved by the end of the fiscal year ended March 31, 2019. In addition, seeking to embrace the digital transformation, Mitsubishi Tanabe Pharma Provision Co., Ltd. was founded in January 2019 as a core company in the Group to promote efficient and high-quality operation handling pharmacy information and accounting, general affairs and human resources management by utilizing RPA (Robotic Process Automation) etc.

As for the working environment, the Company received several awards from external institutions such as a certification of "Outstanding Enterprise in Health and Productivity Management 2018 - White 500" in the large enterprise category carried out by the Ministry of Economy, Trade and Industry, the special encouragement award at "Ikumen (men raising children) Enterprise Award 2018" received from the Ministry of Health, Labor and Welfare, and an award of excellence at "Working Women Empowerment Awards" sponsored by Working Women's Empowerment Forum.

(2) Overview of Financial Position

【Statement of financial position】

(Millions of yen)

	End of Fiscal Year 2017 (As of March 31, 2018)	End of Fiscal Year 2018 (As of March 31, 2019)	Increase / Decrease
Non-current assets	462,919	467,853	4,934
Current assets	585,525	588,433	2,908
Total assets	1,048,444	1,056,286	7,842
Liabilities	153,617	145,954	(7,663)
Equity	894,827	910,332	15,505
Total liabilities and equity	1,048,444	1,056,286	7,842

Total assets at the end of the fiscal year ended March 31, 2019 were ¥1,056.2 billion, an increase of ¥7.8 billion from the end of the fiscal year ended March 31, 2018. Major factors causing changes in the consolidated statement of financial position in comparison with the previous year-end were as follows:

- Non-current assets were up ¥4.9 billion, to ¥467.8 billion, due to the increase in deferred tax assets, increase resulting from the currency fluctuation related to intangible assets associated with products and decrease in tangible assets as a result of impairment following the decision to close the Toda Office and decrease in net defined benefit assets.
- Current assets were up ¥2.9 billion, to ¥588.4 billion as a result of the increase in other financial assets derived from securities and decrease in cash and cash equivalents and trade and other receivables.
- Liabilities were down ¥7.6 billion, to ¥145.9 billion primarily due to the decrease in income taxes payable.
- Equity was up ¥15.5 billion, to ¥910.3 billion, as a result of net profit recorded and dividends distributed out of retained earnings.

【Cash flows】

(Millions of yen)

	Fiscal Year 2017	Fiscal Year 2018	Increase / Decrease
Operating activities	66,943	41,460	(25,483)
Investing activities	(19,178)	(31,212)	(12,034)
Financing activities	(32,501)	(25,869)	6,632
Change in cash and cash equivalents	13,807	(15,090)	(28,897)
At the beginning of the year	113,215	127,030	13,815
At the end of the year	127,030	111,850	(15,180)

Net decrease in cash and cash equivalents was ¥15.0 billion, and the balance of cash and cash equivalents at the end of the fiscal year ended March 31, 2019 was ¥111.8 billion.

- Net cash provided by operating activities was ¥41.4 billion because cash inflows including profit before income tax of ¥50.4 billion exceeded cash outflows including income taxes paid of ¥35.5 billion.
- Net cash used in investing activities was ¥31.2 billion mainly due to investment of cash reserve.
- Net cash used in financing activities was ¥25.8 billion mainly resulting from dividends paid.

(Reference) Cash flow indicators

	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Ratio of equity attributable to owners of the Company to total assets (%)	87.4	84.2	85.0
Ratio of equity attributable to owners of the Company to total assets (market price) (%)	132.1	111.3	78.5
Ratio of interest-bearing debt to cash flow (years)	0.0	0.0	0.0
Interest coverage ratio	335.9	418.4	186.8

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

Notes: 1. Each indicator is calculated on a consolidated basis.

2. Total market capitalization is calculated based on the number of shares outstanding at the end of the fiscal year, excluding treasury shares. Those treasury shares to be deducted include the Company's shares held by the executive compensation BIP trust.
3. Cash flows refers to cash flows from operating activities.
4. Interest-bearing debt includes all liabilities, reported on the consolidated statements of financial position that are subject to interest payments.

(3) Future Forecasts

In the fiscal year ending March 31, 2020, the Company is endeavoring to strengthen the sales in priority products to cover the sales decline affected by the continuing NHI drug price revision along with the consumption tax hike in October 2019 in domestic market. However, revenue is expected to drop substantially in comparison with the previous fiscal year since a part of "GILENYA Royalty" amounts will not be recognized as sales revenue, presuming the arbitration process will continue in the coming fiscal year, and new patients who are waiting for the treatment of RADICAVA in the U.S. will decrease.

From the viewpoint of profit, besides all the factors above mentioned causing decline in revenue, in order to achieve the revised Medium-Term Management Plan 2023, the Company intends to keep the high R&D expenditure thus the core operating profit with all profit items from operating profit below are expected to decrease significantly compared to the previous fiscal year.

(Millions of yen)

	Fiscal Year 2018	Fiscal Year 2019	Increase / Decrease	% change
Revenue	424,767	376,000	(48,767)	(11.5)
Core operating profit	55,832	10,000	(45,832)	(82.1)
Operating profit	50,303	11,500	(38,803)	(77.1)
Profit before income tax	50,439	12,000	(38,439)	(76.2)
Profit for the year	32,216	4,000	(28,216)	(87.6)
Profit attributable to owners of the Company	37,372	5,000	(32,372)	(86.6)

(4) Basic Policy regarding the Distribution of Profits and Dividends in the Fiscal Year ended March 31, 2019 and ending March 31, 2020

The Company aims to maximize corporate value through actively carrying out strategic investment and R&D investment targeting sustainable growth and provide a stable and continuous return to shareholders. In accordance with the revision of "Medium-Term Management Plan 16-20" released in November 2018, the Company determines to maintain the current level of dividends distribution (annual dividend of ¥56 per share).

Given the arbitration proceedings, there was a decrease in revenue in the fiscal year ended March 31, 2019 because a part of the royalty income of "GILENYA Royalty" was not recognized as sales revenue in accordance with IFRS 15. Besides the impact of this matter, profit shifted consistently with the estimation in the revision of Medium-Term Plan.

Consequently, according to the dividends distribution policy mentioned above, the Company plans to pay a year-end dividend of ¥28 per share for the fiscal year ended March 31, 2019, the annual dividend for the fiscal year ended March 31, 2019 will be ¥56 per share.

For the fiscal year ending March 31, 2020, notwithstanding the arbitration proceedings, the Company intends to pay an annual dividend of ¥56 per share, including an interim dividend of ¥28 per share based on the dividends distribution policy mentioned above.

2. Basic Stance of the Selection for Accounting Standards

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

3. Consolidated Financial Statements and Main Notes

(1) Consolidated Statements of Income

(Millions of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Revenue	433,855	424,767
Cost of sales	169,750	180,646
Gross profit	264,105	244,121
Selling, general and administrative expense	104,055	98,725
Research and development expense	79,083	86,533
Amortization of intangible assets associated with products	2,451	2,934
Other income	6,661	1,481
Other expense	7,915	7,027
Share of profit of affiliates accounted for using equity method	23	—
Share of loss of affiliates accounted for using equity method	—	80
Operating profit	77,285	50,303
Financial income	1,881	1,253
Financial expense	402	1,117
Profit before income tax	78,764	50,439
Income taxes	24,772	18,223
Profit for the year	53,992	32,216
Profit attributable to:		
Owners of the Company	57,963	37,372
Non-controlling interests	(3,971)	(5,156)
Profit for the year	53,992	32,216
Earnings per share		
Basic earnings per share (Yen)	103.35	66.64
Diluted earnings per share (Yen)	103.35	66.64

(2) Consolidated Statements of Comprehensive Income

(Millions of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Profit for the year	53,992	32,216
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net changes in financial assets measured at fair value through other comprehensive income	4,542	4,170
Remeasurements of defined benefit plans	5,823	(780)
Subtotal	10,365	3,390
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(8,798)	5,304
Effective portion of changes in fair value of cash flow hedges	1,033	—
Share of other comprehensive income of associates and joint ventures accounted for using equity method	28	(16)
Subtotal	(7,737)	5,288
Other comprehensive income (loss), net of tax	2,628	8,678
Comprehensive income	56,620	40,894
Comprehensive income (loss) attributable to:		
Owners of the Company	60,861	46,169
Non-controlling interests	(4,241)	(5,275)
Comprehensive income	56,620	40,894

(3) Consolidated Statements of Financial Position

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Non-current assets		
Property, plant and equipment	80,457	73,338
Goodwill	91,136	91,640
Intangible assets	200,940	206,918
Investments in associates and joint ventures accounted for using equity method	16,445	16,294
Other financial assets	46,109	46,245
Net defined benefit assets	22,711	21,474
Other non-current assets	379	257
Deferred tax assets	4,742	11,687
Total non-current assets	462,919	467,853
Current assets		
Inventories	81,998	75,559
Trade and other receivables	123,537	116,951
Other financial assets	246,733	271,432
Other current assets	6,227	11,011
Cash and cash equivalents	127,030	111,850
Subtotal	585,525	586,803
Assets held for sale	—	1,630
Total current assets	585,525	588,433
Total assets	1,048,444	1,056,286

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities and equity		
Liabilities		
Non-current liabilities		
Borrowings	420	150
Other financial liabilities	2,199	2,151
Net defined benefit liabilities	868	629
Provisions	8,571	6,975
Other non-current liabilities	5,505	5,116
Deferred tax liabilities	37,861	39,234
Total non-current liabilities	55,424	54,255
Current liabilities		
Borrowings	122	45
Trade and other payables	35,631	31,477
Other financial liabilities	20,737	27,032
Income taxes payable	18,093	9,576
Provisions	1,934	1,638
Other current liabilities	21,676	21,682
Subtotal	98,193	91,450
Liabilities directly related to assets held for sale	—	249
Total current liabilities	98,193	91,699
Total liabilities	153,617	145,954
Equity		
Share capital	50,000	50,000
Capital surplus	451,228	451,253
Treasury shares	(1,045)	(1,040)
Retained earnings	382,122	387,964
Other components of equity	503	9,427
Total equity attributable to owners of the Company	882,808	897,604
Non-controlling interests	12,019	12,728
Total equity	894,827	910,332
Total liabilities and equity	1,048,444	1,056,286

(4) Consolidated Statements of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the Company						
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity		
					Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income
As of April 1, 2017	50,000	451,187	(496)	353,427	(4,666)	—	11,101
Profit for the year	—	—	—	57,963	—	—	—
Other comprehensive income	—	—	—	—	(8,528)	1,033	4,542
Total comprehensive income	—	—	—	57,963	(8,528)	1,033	4,542
Acquisition of treasury shares	—	—	(549)	—	—	—	—
Disposal of treasury shares	—	0	0	—	—	—	—
Dividends	—	—	—	(37,017)	—	—	—
Share-based payments	—	41	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	7,749	—	—	(1,926)
Transfer from other components of equity to non-financial assets	—	—	—	—	—	(1,033)	—
Total contributions by and distributions to owners	—	41	(549)	(29,268)	—	(1,033)	(1,926)
Issuance of new shares	—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others	—	—	—	—	—	—	—
Total transactions with owners	—	41	(549)	(29,268)	—	(1,033)	(1,926)
As of March 31, 2018	50,000	451,228	(1,045)	382,122	(13,194)	—	13,717

	Equity attributable to owners of the Company					
	Other components of equity					
	Remeasure- ments of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
As of April 1, 2017	—	(48)	6,387	860,505	10,925	871,430
Profit for the year	—	—	—	57,963	(3,971)	53,992
Other comprehensive income	5,823	28	2,898	2,898	(270)	2,628
Total comprehensive income	5,823	28	2,898	60,861	(4,241)	56,620
Acquisition of treasury shares	—	—	—	(549)	—	(549)
Disposal of treasury shares	—	—	—	0	—	0
Dividends	—	—	—	(37,017)	(138)	(37,155)
Share-based payments	—	—	—	41	—	41
Transfer from other components of equity to retained earnings	(5,823)	—	(7,749)	—	—	—
Transfer from other components of equity to non- financial assets	—	—	(1,033)	(1,033)	—	(1,033)
Total contributions by and distributions to owners	(5,823)	—	(8,782)	(38,558)	(138)	(38,696)
Issuance of new shares	—	—	—	—	5,473	5,473
Changes in ownership interests in subsidiaries and others	—	—	—	—	5,473	5,473
Total transactions with owners	(5,823)	—	(8,782)	(38,558)	5,335	(33,223)
As of March 31, 2018	—	(20)	503	882,808	12,019	894,827

(Millions of yen)

	Equity attributable to owners of the Company						
					Other components of equity		
	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Net changes in financial assets measured at fair value through other comprehensive income
As of April 1, 2018	50,000	451,228	(1,045)	382,122	(13,194)	—	13,717
Profit for the year	—	—	—	37,372	—	—	—
Other comprehensive income	—	—	—	—	5,423	—	4,170
Total comprehensive income	—	—	—	37,372	5,423	—	4,170
Acquisition of treasury shares	—	—	(1)	—	—	—	—
Disposal of treasury shares	—	(8)	6	—	—	—	—
Dividends	—	—	—	(31,403)	—	—	—
Share-based payments	—	33	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(127)	—	—	(653)
Transfer from other components of equity to non-financial assets	—	—	—	—	—	—	—
Total contributions by and distributions to owners	—	25	5	(31,530)	—	—	(653)
Issuance of new shares	—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries and others	—	—	—	—	—	—	—
Total transactions with owners	—	25	5	(31,530)	—	—	(653)
As of March 31, 2019	50,000	451,253	(1,040)	387,964	(7,771)	—	17,234

	Equity attributable to owners of the Company					
	Other components of equity					
	Remeasurements of defined benefit plans	Share of other comprehensive income of associates and joint ventures accounted for using equity method	Total	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
As of April 1, 2018	—	(20)	503	882,808	12,019	894,827
Profit for the year	—	—	—	37,372	(5,156)	32,216
Other comprehensive income	(780)	(16)	8,797	8,797	(119)	8,678
Total comprehensive income	(780)	(16)	8,797	46,169	(5,275)	40,894
Acquisition of treasury shares	—	—	—	(1)	—	(1)
Disposal of treasury shares	—	—	—	(2)	—	(2)
Dividends	—	—	—	(31,403)	(292)	(31,695)
Share-based payments	—	—	—	33	—	33
Transfer from other components of equity to retained earnings	780	—	127	—	—	—
Transfer from other components of equity to non-financial assets	—	—	—	—	—	—
Total contributions by and distributions to owners	780	—	127	(31,373)	(292)	(31,665)
Issuance of new shares	—	—	—	—	6,276	6,276
Changes in ownership interests in subsidiaries and others	—	—	—	—	6,276	6,276
Total transactions with owners	780	—	127	(31,373)	5,984	(25,389)
As of March 31, 2019	—	(36)	9,427	897,604	12,728	910,332

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Cash flows from operating activities:		
Profit before income tax	78,764	50,439
Depreciation and amortization	11,535	11,529
Impairment losses	3,791	17
Interest and dividends income	(1,238)	(1,144)
Share of loss (profit) of associates and joint ventures accounted for using equity method	(23)	80
Loss (gain) on sales of property, plant and equipment	(2,287)	(13)
Loss (gain) on sales of investments in subsidiaries	(3,565)	—
Restructuring loss	2,144	5,695
Decrease (increase) in trade and other receivables	(6,111)	6,567
Decrease (increase) in inventories	(2,683)	6,641
Increase (decrease) in trade and other payables	56	(4,728)
Increase (decrease) in provisions	2,529	(1,974)
Decrease (increase) in net defined benefit assets	1,153	193
Increase (decrease) in net defined benefit liabilities	(948)	(253)
Increase (decrease) in deferred revenue	(480)	(687)
Other	(2,965)	3,600
Subtotal	79,672	75,962
Interest received	522	555
Dividends received	772	688
Interest paid	(160)	(222)
Income taxes paid	(13,863)	(35,523)
Net cash provided by operating activities	66,943	41,460
Cash flows from investing activities:		
Payments into time deposits	(3,742)	(1,709)
Proceeds from withdrawal of time deposits	8,407	5,220
Purchase of property, plant and equipment	(6,416)	(5,730)
Proceeds from sales of property, plant and equipment	3,703	91
Purchase of intangible assets	(22,034)	(3,777)
Purchase of investments	(391,749)	(450,669)
Proceeds from sales and redemption of investments	428,741	422,367
Proceeds from withdrawal of deposits	70,000	—
Proceeds from sales of subsidiaries	10,803	—
Purchase of subsidiaries	(119,724)	—
Proceeds from transfer of business	3,000	3,000
Other	(167)	(5)
Net cash used in investing activities	(19,178)	(31,212)
Cash flows from financing activities:		
Purchase of treasury shares	(549)	(1)
Proceeds from stock issuance to non-controlling interests	5,409	6,276
Dividends paid	(37,017)	(31,403)
Other	(344)	(741)
Net cash flows used in financing activities	(32,501)	(25,869)
Effect of exchange rate changes on cash and cash equivalents	(1,457)	531
Net increase in cash and cash equivalents	13,807	(15,090)
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	8	(90)
Cash and cash equivalents at the beginning of the year	113,215	127,030
Cash and cash equivalents at the end of the year	127,030	111,850

(6) Notes to Consolidated Financial Statements

(Note regarding Going Concern Assumption)

Not applicable.

(Reporting Entity)

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

The Company's consolidated financial statements as of and for the fiscal year ended March 31, 2019 comprise the Company, its subsidiaries and its affiliates (collectively, "the Group"), and the Group's interests in joint arrangements.

The Group is principally engaged in the pharmaceuticals business.

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

(Basis of Preparation)

(1) Compliance with IFRS

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

(2) Authorization of financial statements

The Group's consolidated financial statements were approved on May 10, 2019 by President and Representative Director Masayuki Mitsuka.

(3) Basis of measurement

The Group's Consolidated Financial Statements have been prepared on an acquisition cost basis, except for specific financial instruments described in "Significant Accounting Policies, (11) Financial instruments".

(4) Presentation currency

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

(5) Changes in Accounting Policies

The Group has adopted the following standard from the first quarter of the fiscal year ended March 31, 2019. In the application of this standard, the Group recognized the cumulative effect retrospectively at the date of initial application (modified retrospective approach), which was permitted as a transitional measure.

IFRS		Description of new standards and revisions
IFRS 15	Revenue from Contracts with Customers	Revision of accounting treatment for revenue recognition

The Group adopted IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (hereinafter collectively referred to as "IFRS 15") from the first quarter of the fiscal year ended March 31, 2019.

With the adoption of IFRS 15, except revenue including interest and dividends income under IFRS 9 "Financial Instruments", revenue was recognized by applying the following five steps.

Step 1: Identify the contract with a customer.

Step 2: Identify the separate performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the separate performance obligations.

Step 5: Recognize revenue when the entity satisfies performance obligations.

There was no significant impact on the Group's consolidated financial statements arising from the adoption of IFRS 15.

Details regarding the standard of revenue recognition are described in "Significant Accounting Policies, (3) Revenue".

(Significant Accounting Policies)

(1) Basis of consolidation

1) Subsidiaries

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

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

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

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

All intercompany balances, transactions and unrealized gains or losses on transactions within the Group are eliminated on consolidation.

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

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

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

2) Affiliates

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

3) Joint arrangements

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

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

4) Business combinations

Business combinations are accounted for by applying the acquisition method.

The acquiree's identifiable assets and liabilities are measured at their acquisition-date fair values, except certain assets and liabilities based on the requirements of IFRS.

The excess of the aggregate of the consideration transferred, the fair value of equity interests in the acquiree held by the Group prior to acquisition-date in case of step acquisition, and the amount of non-controlling interest in the acquiree over the net value of the identifiable assets and liabilities is recorded as goodwill. If the excess is negative, then the excess is immediately recognized in profit or loss.

The consideration transferred is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

Non-controlling interests are measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets on a transaction-by- transaction basis.

Acquisition-related costs incurred in connection with business combinations, such as finder's fees and advisory fees, are expensed when incurred.

(2) Foreign currency translation

1) Foreign currency transactions

Each entity of the Group has set its own functional currency as the currency of the primary economic environment in which the entity operates. Transactions of each entity are measured at the functional currency.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions or an exchange rate that approximates the spot rate.

At the end of the reporting period, foreign currency monetary items are translated into the functional currency using the spot exchange rates at the end of the reporting period.

Translation differences arising from the translation and settlement are recognized as profit or loss.

However, translation differences arising from financial assets measured through other comprehensive income and cash flow hedges are recognized as other comprehensive income.

2) Foreign operations

Assets and liabilities of foreign operations in the statement of financial position are translated into Japanese yen using the exchange rate at the end of the reporting period. Income and expenses in each financial statement presenting profit or loss and other comprehensive income are translated into Japanese yen using the average exchange rate for the period.

Exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income.

In cases of disposition of whole interests of foreign operations or certain interests involving loss of control, significant influence or joint arrangement, the cumulative amount of other comprehensive income is reclassified to part of profit or loss on disposal.

(3) Revenue

1) Sale of goods

The Group engages in business of ethical drugs and OTC products in Japan and overseas.

Regarding the sale of goods, revenue is recognized when goods are delivered to the customer as the control of the products is transferred to the customer and performance obligations are fulfilled.

Revenue arising from sales of goods is measured by the promised consideration from the contract with the customer, deducting discounts, rebates and sales returns.

Consideration for the sale of goods is generally received within 1 year from the delivery of the goods to customers. In addition, it does not include significant financial components.

2) Royalty revenue

Some of the Group's revenues are generated from the agreements signed with third parties who were granted rights to produce or market products or rights to use technologies.

For upfront payment, when performance obligations are fulfilled at a specific point in time, revenue is recognized once the right to use is granted. When performance obligations are not fulfilled at that time, deferred revenue is recorded, and revenue is recognized over a certain period of time along with the fulfillment of performance obligations.

For milestone payment, it is recognized as revenue when such milestone event addressed in the contract is achieved, considering the probability of a significant reversal of revenue previously recognized.

Running royalty is measured based on the sales provided by counterparty and recognized as revenue when it is occurred.

Royalty revenue is generally received within 1 year from the time when the right addressed in the contract is entitled. In addition, it does not include significant financial components.

3) Interest revenue

Interest revenue is recognized using the effective interest method.

4) Dividend income

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

(4) Income taxes

Income taxes are comprised of current and deferred taxes, and recognized in profit or loss, except for taxes related to business combinations and to items that are recognized in other comprehensive income or directly in equity.

Current tax is calculated at the amount expected to be paid to or recovered from the taxation authority by applying the statutory tax rate and tax laws enacted or substantially enacted at the end of the reporting period.

Deferred tax assets and liabilities are determined based on temporary differences between tax base of assets and liabilities and their accounting carrying amount at the end of the reporting period, unused tax credits and tax loss carryforwards.

However, deferred tax assets and liabilities are not recognized for:

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

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax loss carryforwards, and unused tax credits can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on statutory tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

(5) Earnings per share

Basic earnings per share are calculated by dividing profit (loss) attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusting treasury shares.

Diluted earnings per share are calculated reflecting the adjustment of the impact from all potential shares with dilutive effect.

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

Property, plant and equipment after recognition is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes any costs directly attributable to the acquisition of the item, costs of dismantling, removing and restoring the item and borrowing costs eligible for capitalization.

An item of property, plant and equipment other than land and construction in progress is depreciated in a way that allows the depreciable amount, which is determined by deducting its residual value from its cost, to be allocated regularly on a straight-line basis over the following useful lives.

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

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

(7) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership of leased assets are transferred to the Group. All other leases are classified as operating leases.

In finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease.

Lease payments are apportioned between the financial costs and the reduction of the outstanding obligation based on the interest method. Financial costs are recognized in the consolidated statement of income.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or lease terms.

Under operating lease transactions, lease payments are recognized as an expense on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease, based on the substance of the arrangement.

(8) Goodwill

Goodwill is not amortized but carried at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash-generating units that are expected to benefit from the synergies of the business combination.

Measurement at the initial recognition of Goodwill is stated in “(1) Basis of consolidation, 4) Business combinations.”

Impairment of goodwill is stated in “(10) Impairment of property, plant and equipment, goodwill, and intangible assets, 2) Impairment of goodwill.”

(9) Intangible assets

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

Intangible assets after recognition are measured by using the cost model and are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at cost including costs directly related to the acquisition at the initial recognition. Cost of intangible assets acquired through business combinations is measured at fair value at the acquisition date.

Internally incurred expenditure in the research stage is recognized as expenses when incurred. Expenditure in the development stage is recognized as intangible assets when the Group can prove all the following requirements.

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

The Group considers that expenditure incurred for ongoing development projects does not meet requirements for capitalization unless marketing approval is obtained from the regulatory authorities in a major market, and recognizes such expenditure as expenses when incurred.

Except for intangible assets with indefinite useful lives and intangible assets that are not yet available for use, each asset is amortized over the estimated useful life on a straight-line basis.

The estimated useful life of intangible assets acquired through business combinations and under the in-licensing of technologies, etc. is the shorter of the period of legal protection or its economic life in principle. However, if there is a period in which the effect of intangible assets is expected more appropriately, with the purpose of the expenditure and economic substance of the transaction taken into account, this period is deemed as the estimated useful life.

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

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

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

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

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

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

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

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

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

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

2) Impairment of goodwill

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

3) Reversal of impairment loss

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

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

Any impairment loss recognized for goodwill is not reversed.

(11) Financial instruments

1) Financial assets (excluding derivatives)

(i) Initial recognition and measurement

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

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

All financial assets are measured at fair value with addition of transaction costs that are directly attributable to the financial assets, except for the case of being classified in the category of "financial assets measured at fair value through profit or loss."

(Debt financial assets)

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

- (a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- (b) The contractual terms of the financial asset give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding.

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

- (c) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and collect by sale.
- (d) The contractual terms of the financial asset give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding.

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

(Equity financial assets)

Equity financial assets, except in case where they are held for trading, are designated by financial asset to be classified as “financial assets measured at fair value through other comprehensive income” or “financial assets measured at fair value through profit or loss,” and the classification is applied continuously.

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

Amortization under the effective interest method and any gain or loss in the case of derecognition of financial assets are recognized in profit or loss.

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

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

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

Changes in fair value are recognized in profit or loss.

(iii) Impairment loss

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

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

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

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

(iv) Derecognition

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

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

2) Financial liabilities (excluding derivatives)

(i) Initial recognition and measurement

Upon initial recognition, financial liabilities held for trading are classified as financial liabilities measured at fair value through profit or loss, while other financial liabilities are classified as financial liabilities measured at amortized cost.

Financial liabilities are measured at fair value at initial recognition. Financial liabilities measured at amortized cost are measured deducting transaction costs that are directly attributable to the issue of the financial liabilities.

(ii) Subsequent measurement

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

(a) Financial liabilities measured at amortized cost

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

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

Changes in fair value are recognized in profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or expired.

3) Derivatives

The Group hedges the risks arising mainly from their exposure to fluctuations in foreign exchange rates and interest rates by using derivative financial instruments such as forward exchange contracts and currency options.

Derivatives are initially recognized at fair value of the date when the contracts are entered into and are subsequently measured at their fair values at the end of the reporting period.

Derivatives to which hedge accounting is not applied are classified as financial assets or liabilities measured at fair value through profit or loss, and any change in fair value is recognized at the end of the reporting period.

4) Hedge accounting

Hedges that meet criteria for hedge accounting are accounted for as follows:

Relationship between the hedging instrument and the hedged item is documented based on the risk management strategy and the risk management purpose at the inception of the hedge.

(i) Fair value hedges

Changes in the fair value of derivatives are recognized in profit or loss.

Changes in the fair value of the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in profit or loss.

(ii) Cash flow hedges

The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss.

The cumulative amounts of hedging instruments that has been recognized in other comprehensive income as equity are reclassified to profit or loss when the hedged transaction affects profit or loss.

If a hedged item results in the recognition of a non-financial asset or a non-financial liability, the associated amount recognized in other comprehensive income is accounted for as adjustment to the carrying amount of the non-financial asset or the non-financial liability.

When any forecast transaction is no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income as equity is reclassified to profit or loss.

When any hedging instrument expires, is sold, or terminated or exercised without the replacement or rollover of the hedging instrument into another hedging instrument, or when any hedge designation regarding all or the portion of the hedge relationship accompanying the change in the risk management purpose is revoked, the cumulative amount that has been recognized in other comprehensive income as equity is continued to be recognized as equity until the forecast transaction occurs or no longer expected to occur.

5) Offsetting financial instruments

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

6) Fair value of financial instruments

With regard to the fair value of financial instruments traded on active financial markets as of the end of each reporting period, the Group refers to the fair value in the market or dealer prices.

The Group calculates the fair value of financial instruments for which an active market does not exist by reference to an appropriate evaluation technique or offered prices by financial institutions.

(12) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, readily available deposits, and short-term, highly liquid investments having maturities of three months or less of the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(13) Inventories

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

Cost of inventories is principally determined using the weighted average method and includes cost of purchase, cost of conversion and all incidental costs incurred in bringing the inventories to their present location and condition.

Net realizable value is calculated as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell.

(14) Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

To be classified as assets held for sale, the asset must be available for immediate sale in its present condition, and the sale must be highly probable. Management of the Group must have a firm commitment to execute the plan to sell the asset and the sale is expected to be completed within one year from the date of classification, as a general rule.

For non-current assets (or disposal groups), depreciation or amortization is ceased. Non-current assets (or disposal groups) are measured at the lower of their carrying amounts and fair values less costs to sell. The resulting losses are recognized as impairment losses.

(15) Equity

1) Ordinary shares

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

2) Treasury shares

When the Company reacquires its own treasury shares, the amount of the consideration paid is deducted from equity.

When the Company sells treasury shares, the difference between the carrying amount and the consideration received from the sale is recognized in capital surplus.

(16) Share-based payment

The Group has employed an equity-settled share-based payment plan for the Group's directors (excluding outside directors) and executive officers.

Equity-settled share-based payment plan

Under the equity-settled share-based payment plan, services received are measured at the fair value of the equity instruments at the grant date, and are recognized as expenses from the grant date over the vesting period, with a corresponding increase in equity.

(17) Employee benefits

1) Post-employment benefits

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

(i) Defined benefit plans

Retirement benefit obligations of each plan are determined using the projected unit credit method and, the discount rate is determined by reference to market yield on high-quality corporate bonds having maturity terms consistent with the estimated term of the related pension obligations.

The defined benefit assets and liabilities are calculated by deducting fair value of plan assets from retirement benefit obligations.

The Group recognizes the actuarial gains or losses in other comprehensive income and immediately transfers them to retained earnings in the fiscal year in which they were incurred.

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

(ii) Defined contribution plans

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

2) Short-term employee benefits

Short-term employee benefits are recognized as an expense when the related service is rendered.

Paid absences are recognized as a liability when the Group has legal or constructive obligations resulting from past service rendered by the employees and reliable estimates of the obligations can be made.

(18) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be occurred to settle the obligations, and reliable estimates of the obligations can be made.

When the effect of the time value of money is material in measurement of provisions, the present value of the expenditures expected to be required to settle the obligations are used.

In calculating the present value, the Group principally calculates using the pretax discount rate reflecting the time value of money and the risks specific to the liability.

(19) Government grants

Government grants are measured and recognized at fair value, if there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants related to revenue are deducted directly from related costs covered by the grants.

Government grants related to assets are deducted directly from the acquisition cost of the assets.

(Segment Information)**(1) Overview of reportable segments**

The Group is engaged in the single pharmaceuticals business and does not have multiple operating segments. In its pharmaceuticals business, the Group conducts operations related to ethical drugs and OTC products in Japan and overseas.

(2) Information about products and services

The components of revenue are as follows:

(Millions of yen)

	April 1, 2017 - March 31, 2018		April 1, 2018 - March 31, 2019	
	Revenue	Ratio (%)	Revenue	Ratio (%)
Pharmaceuticals				
Domestic ethical drugs	309,372	71.3	298,798	70.3
Overseas ethical drugs	38,574	8.9	55,119	13.0
Royalty revenue, etc.	79,151	18.2	63,117	14.9
OTC products	3,732	0.9	3,771	0.9
Others	3,026	0.7	3,962	0.9
Total	433,855	100.0	424,767	100.0

(3) Geographical information

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

1) Revenue from external customers

(Millions of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Japan	320,889	307,723
Europe	62,649	54,829
North America	27,583	39,170
Asia	22,477	22,792
Others	257	253
Total	433,855	424,767

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

2) Non-current assets

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Japan	191,141	181,263
Europe	73	66
North America	37,732	40,519
Asia	143,143	150,305
Total	372,089	372,153

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

(4) Information about major customers

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

(Millions of yen)

Customer name	Related segment name	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
SUZUKEN CO., LTD.	Pharmaceuticals	63,660	57,974
Toho Pharmaceutical Co., Ltd.	Pharmaceuticals	58,906	53,762
Novartis Pharma AG (Note)	Pharmaceuticals	57,708	49,748
Alfresa Corporation	Pharmaceuticals	54,114	48,558
MEDICEO CORPORATION	Pharmaceuticals	44,068	38,664
Total		278,456	248,706

Note: Regardless of the disclosed amounts, the Company maintains it is entitled to receive the full royalty amounts due according to the license agreement with Novartis, and the Company will rigorously pursue its rights in the arbitration.

(Business Combinations)

(Acquisition of NeuroDerm Ltd.)

The Company acquired all of the outstanding shares (including shares underlying options) of NeuroDerm Ltd. which carries out development of treatments for CNS disorders including Parkinson's disease, and made it a wholly-owned subsidiary on October 18, 2017 (IDT: Israel Daylight Time).

The Company measured the provisional fair value of assets acquired and liabilities assumed as of the acquisition date in connection with this business combination in the fiscal year ended March 31, 2018. However, during the first six months of the fiscal year ended March 31, 2019, the Company carried out an additional verification regarding the assets acquired and liabilities assumed as of the acquisition date based on the newly obtained information. As a result, the fair value of certain liabilities is revised as follows:

Consideration for the acquisition, fair value of assets acquired and liabilities assumed, and goodwill as of the acquisition date

(Millions of yen)

	Provisional fair value (as of March 31, 2018)	Adjustments	Revised fair value
Consideration for the acquisition	124,410	—	124,410
Assets acquired and liabilities assumed			
Non-current assets	136,395	—	136,395
Intangible assets associated with products	136,178	—	136,178
Other non-current assets	217	—	217
Current assets	13,694	—	13,694
Other financial assets	8,705	—	8,705
Other current assets	303	—	303
Cash and cash equivalents	4,686	—	4,686
Non-current liabilities	(32,692)	—	(32,692)
Deferred tax liabilities	(32,692)	—	(32,692)
Current liabilities	(3,697)	(874)	(4,571)
Goodwill	10,710	874	11,584

The Company has finalized the purchase price allocation during the first six months of the fiscal year ended March 31, 2019. Hence, a retroactive adjustment of the comparative amount for previous fiscal year listed in Consolidated Statements of Financial Position was made. Comparing to results before the retroactive adjustment, both goodwill and current liabilities as of March 31, 2018 increased by ¥823 million, respectively.

(Other Income)

The breakdown of other income is as follows:

(Millions of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Gain on sales of investments in subsidiaries	3,565	—
Gain on sales of property, plant and equipment	2,287	13
Rental income from property, plant and equipment	190	132
Others	619	1,336
Total other income	6,661	1,481

(Other Expense)

The breakdown of other expense is as follows:

(Millions of yen)

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Restructuring loss (Note 1)	2,144	5,695
Provision of reserve for HCV litigation (Note 2)	1,170	—
Impairment loss of property, plant and equipment	642	17
Impairment loss of intangible assets	3,149	—
Loss on sale and disposal of property, plant and equipment	257	191
Others	553	1,124
Total other expenses	7,915	7,027

(Note 1) The breakdown of major items of restructuring loss is as follows:

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

As of March 31, 2019 : Mainly arising from the impairment loss following the decision to close the Toda Office.

(Note 2) Provision of reserve for HCV litigation represents the estimated amount to be paid by the Company due to the 5-year extension of the period for filing an action under "the Special Relief Law Concerning the Payment of Benefits to Relieve the Patients of Hepatitis C Infected through Specified Fibrinogen Preparations and Specified Blood-Coagulation Factor IX Preparations Contaminated by Hepatitis C Virus" by partial revision of such Law in December 2017.

(Earnings per Share)

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

	April 1, 2017 - March 31, 2018	April 1, 2018 - March 31, 2019
Basis of calculating basic earnings per share		
Profit attributable to owners of the Company (Millions of yen)	57,963	37,372
Profit not attributable to ordinary equity holders of the Company (Millions of yen)	—	—
Profit to be used in calculating basic earnings per share (Millions of yen)	57,963	37,372
Average number of ordinary shares outstanding during the year (Thousands of shares)	560,857	560,776
Basis of calculating diluted earnings per share		
Profit to be used in calculating basic earnings per share (Millions of yen)	57,963	37,372
Adjustment of profit during the year (Millions of yen)	—	—
Profit to be used in calculating diluted earnings per share (Millions of yen)	57,963	37,372
Average number of ordinary shares outstanding during the year (Thousands of shares)	560,857	560,776
Increase in the number of ordinary shares due to Performance- Linked Stock Compensation Plan (Thousands of shares)	3	16
Average number of diluted shares outstanding during the year (Thousands of shares)	560,860	560,793
Earnings per share		
Basic earnings per share (Yen)	103.35	66.64
Diluted earnings per share (Yen)	103.35	66.64

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

(Subsequent Event)

Not applicable.

(7) Other

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

【Court action for compensation by patients infected with HCV (hepatitis C virus)】

In accordance with "the Special Relief Law Concerning the Payment of Benefits to Relieve the Patients of Hepatitis C Infected through Specified Fibrinogen Preparations and Specified Blood-Coagulation Factor IX Preparations Contaminated by Hepatitis C Virus" (promulgated on January 16, 2008), the Company incurs a portion of the expenses for relief payments to the patients allegedly suffered through HCV (hepatitis C virus) infection following use of a fibrinogen product or a blood coagulant factor IX product sold by the former Green Cross Corporation, one of the predecessors of the Company.

【Arbitration regarding GILENYA, the treatment for multiple sclerosis】

The Company has received a notice of request for arbitration from Novartis in February 2019. Novartis has asked the arbitral tribunal to rule that Novartis has no obligation to pay certain royalties, because some terms of the license agreement entered into with the Company in 1997 are allegedly invalid. The Company maintains it is entitled to receive the full royalty amounts due according to the license agreement with Novartis, and the Company will rigorously pursue its rights in the arbitration.

Besides, given the arbitration proceeding, as for the part of "GILENYA Royalty" amounts that was not recognized as sales revenue in accordance with IFRS 15, those will be recognized as revenue at the end of the arbitration, depending on the outcome of the arbitration.