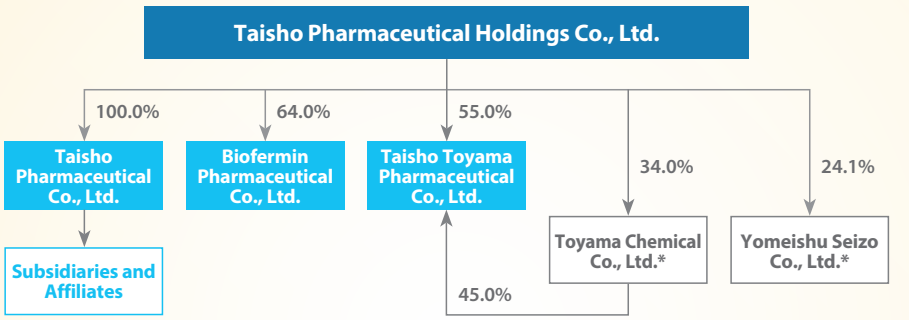
TAISHO PHARMACEUTICAL HOLDINGS CO., LTD.

Annual Report 2017

Fiscal year ended March 31, 2017

Profile

The Taisho Pharmaceutical Group is made up of Taisho Pharmaceutical Holdings Co., Ltd. and its 34 subsidiaries and 4 affiliates. Taisho Pharmaceutical Holdings Co., Ltd. is responsible for the management of the entire Group. Under its leadership, the Group is working to achieve balanced growth and stronger competitiveness in two broad operating areas: the Self-Medication Operation Group, which is centered on over-the-counter (OTC) drugs, and the Prescription Pharmaceutical Operation Group, which handles prescription pharmaceuticals.



(Percentages represent equity share)
* Affiliate accounted for using the equity method

Contents

Philosophy

Mission Statement

Mission

The Company's mission is to contribute to society by creating and offering superior pharmaceuticals and health-related products as well as healthcare-related information and services in socially responsible ways that enrich people's lives by improving health and beauty

Management Policies

Vision

1. Focus on core businesses

(1) Self-Medication Operation Group, Prescription Pharmaceutical Operation Group

(2) Businesses based on clear scientific and objective evidence that take full advantage of the Company's strengths

2. Continue to drive sustained growth in business activities while fulfilling the following obligations expected of the Company by stakeholders:

(1) For consumers, the Company will strive to help realize healthier and more enriched lives based on the theme of health in various fields.

(2) For business customers and suppliers, the Company will establish and maintain fair and reasonable relationships.

(3) For employees, the Company will respect the human rights and dignity of each individual and endeavor to secure employment.

(4) For shareholders and other investors, the Company will disclose proper information in a fair and timely manner.

(5) For local communities, the Company will remain actively engaged in the community as a corporate citizen while striving to protect the environment and build mutually beneficial relationships.

Code of Conduct

Values

Based on the Company's Founding Spirit, we are working to share the following values internally as we conduct business activities:

- Compliance with laws, regulations and other rules
- High ethical standards
- Honesty, diligence and passion
- Competitive viewpoint (provide higher quality products at lower prices and even better services)
- Logical thinking
- Value standards from a long-term perspective

<Cautionary Statement with Respect to Forward-Looking Statements>

Forward-looking statements made in this annual report, including the future performance of the Taisho Pharmaceutical Group, are based on currently available information and assumptions management believes to be reasonable, and the Group does not guarantee their achievement. Various factors could cause actual results to differ materially from those discussed in the forward-looking statements.

<Scope of Reporting>

Companies subject to reporting:
Taisho Pharmaceutical Holdings Co., Ltd., Taisho Pharmaceutical Co., Ltd., Taisho Toyama Pharmaceutical Co., Ltd., and some Group companies

Businesses subject to reporting:
Self-Medication Operation Group, Prescription Pharmaceutical Operation Group, etc.

Reporting period:
April 1, 2016 to March 31, 2017
(includes some information from prior and subsequent periods)

Please refer to the corporate website for detailed reports

Corporate website
http://www.taisho-holdings.co.jp/en/

Financial information
www.taisho-holdings.co.jp/en/ir/

CSR
www.taisho-holdings.co.jp/en/environment/

History

Since its establishment over 100 years ago, the source of the Taisho Pharmaceutical Group's value creation has been the safety, security and trust nurtured under its corporate brand. The Group will continue striving to create new value over the coming century.

1912: Taisho Seiyakusho was founded.

1927: Cough suppressant *Pabron* was launched.

1928: Taisho Pharmaceutical Co., Ltd. was established.

1957: Sales of prescription pharmaceuticals started.

1962: Energy drink *Lipovitan D* was launched.

1963: *Lipovitan* was launched in Taiwan.

1991: Macrolide antibiotic *Clarith* was launched.

1999: Japan's first hair growth medication *RiUP* was launched.

2006: Taisho Direct was released.

2009: Taisho acquired PT Bristol-Myers Squibb Indonesia Tbk's OTC drug business in Asia.

Taisho Pharmaceutical Group

▶ 1912–1944
Founding period
Paving the way for development

▶ 1945–1960
A new start in the post-war era
Launch of major products and expansion of the sales network

▶ 1961–1972
Business expansion
- **Leaping ahead with energy drinks**
- **Public listing of shares**

Social climate

1950: The National Health Insurance drug price standard was launched.

1961: The National Health Insurance system was established.

1964: The Tokyo Olympic Games were held.

2011: **Taisho Pharmaceutical Holdings Co., Ltd. was established.**

2014: **The type 2 diabetes mellitus agent *Lusefi* was launched.**

Net sales

Fiscal year ended March 31, 2017

¥279.8 billion

▶ 1973–1981
Strengthening research and development capabilities

▶ 1982–1991
Laying foundations for globalization and integration

▶ 1992–2001
Striving in a rapidly changing business environment

▶ 2002–
Aiming to become a comprehensive healthcare company

1973: First oil crisis

1995: The resale-price maintenance system for energy drinks was abolished.

1999: Restrictions on sale of OTC drugs were eased.

2009: The Pharmaceutical Affairs Act was revised.

2014: The Pharmaceutical Affairs Act was revised.

Financial and Non-Financial Highlights

Fiscal years ended March 31

(Millions of yen)

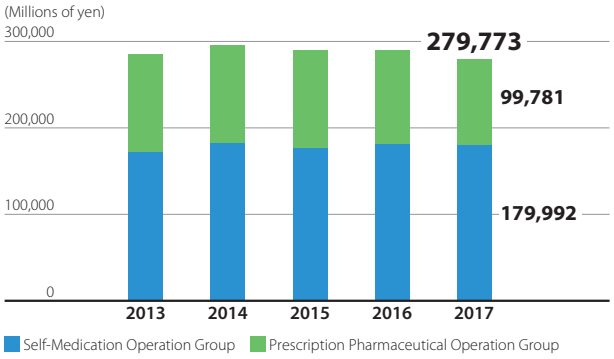
	2013	2014	2015	2016	2017
Net sales	285,168	295,957	290,498	290,135	**279,773**
Self-Medication Operation Group	171,271	181,753	176,295	180,722	**179,992**
Prescription Pharmaceutical Operation Group	113,896	114,204	114,202	109,413	**99,781**
Gross profit*1	176,210	184,693	178,248	176,813	**178,226**
Selling, general and administrative expenses	140,873	143,009	146,273	147,935	**146,260**
Percentage of net sales (%)	49.4	48.3	50.4	51.0	**52.3**
R&D expenses	23,331	21,874	21,554	21,768	**21,260**
Advertising expenses	16,833	16,960	19,169	21,366	**22,087**
Sales promotion expenses	28,364	31,159	32,355	31,775	**30,079**
Operating profit	35,337	41,683	31,974	28,878	**31,966**
Percentage of net sales (%)	12.4	14.1	11.0	10.0	**11.4**
Profit attributable to owners of parent	26,320	32,692	24,528	22,473	**28,781**
Free cash flow	31,933	38,235	15,552	31,396	**38,705**
Total assets	676,388	728,442	768,092	759,049	**771,222**
Net assets	578,158	611,933	653,242	643,127	**665,088**
Equity ratio (%)	83.6	82.4	83.3	82.9	**84.2**
ROE (Return on equity) (%)	4.8	5.6	4.0	3.5	**4.5**
ROA (Return on assets) (%)	4.0	4.7	3.3	2.9	**3.8**
Dividend per share (Yen)	120.00*2	110.00	110.00	100.00	**110.00**
Dividend payout ratio (%)	36.9	27.3	36.4	36.0	**30.5**
Number of employees	6,370	6,381	6,609	6,517	**6,461**
Female manager ratio (%)*3	8.8	9.5	10.8	11.4	**12.0**
Total waste generated (Tons)*4	6,518	6,208	5,378	6,277	**5,743**

*1 After provision/reversal of reserve for returned unsold goods
*2 Includes the commemorative dividend for the 100th anniversary of the founding of Taisho Pharmaceutical.
*3 Employees of Taisho Pharmaceutical Holdings Co., Ltd., Taisho Pharmaceutical Co., Ltd., and Taisho Toyama Pharmaceutical Co., Ltd.
*4 Data from Taisho Pharmaceutical Holdings Co., Ltd., Taisho Pharmaceutical Co., Ltd., and Taisho Toyama Pharmaceutical Co., Ltd.

Net sales

Consolidated net sales decreased ¥10.4 billion, or 3.6%, compared with the previous fiscal year to ¥279.8 billion.

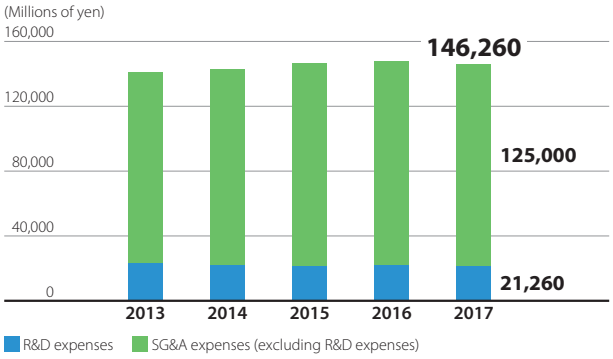
Segment net sales for the Self-Medication Operation Group decreased ¥0.7 billion, or 0.4%, compared with the previous fiscal year to ¥180.0 billion. Segment net sales for the Prescription Pharmaceutical Operation Group decreased ¥9.6 billion, or 8.8%, compared with the previous fiscal year to ¥99.8 billion.



Selling, general and administrative expenses

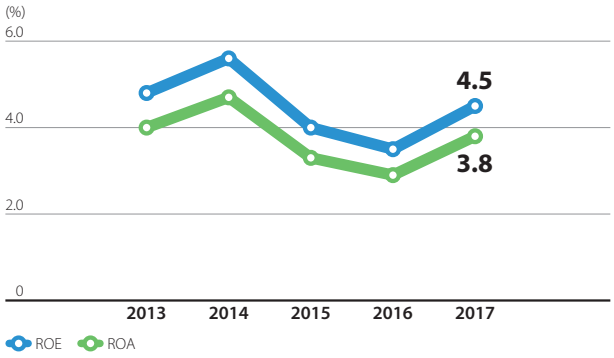
SG&A expenses decreased ¥1.7 billion, or 1.1%, to ¥146.3 billion. Of these, R&D expenses decreased by ¥0.5 billion, or 2.3%, to ¥21.3 billion, and the percentage of net sales was 7.6%.

R&D expenses in the Self-Medication Operation Group were essentially unchanged from the previous fiscal year at ¥5.5 billion. R&D expenses in the Prescription Pharmaceutical Operation Group decreased ¥0.5 billion compared with the previous fiscal year to ¥15.8 billion.



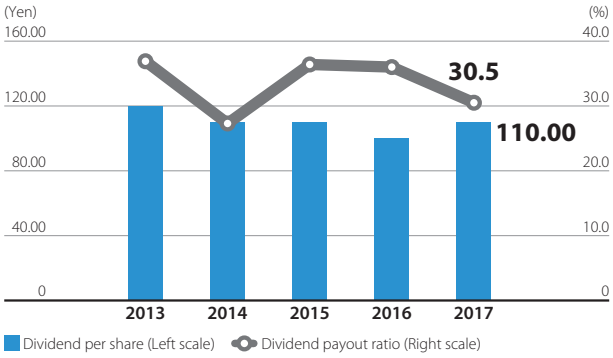
ROE (Return on equity)/ROA (Return on assets)

ROE increased 1.0 percentage point to 4.5%. ROA increased 0.9 of a percentage point to 3.8%.



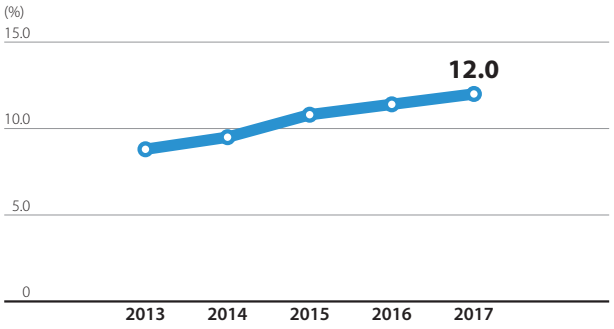
Dividend per share/Dividend payout ratio

The annual dividend per share was ¥110 and the dividend payout ratio was 30.5%.



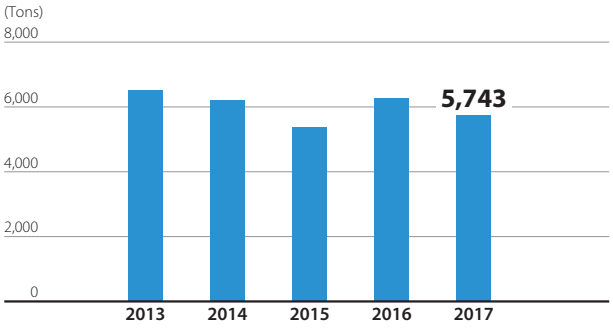
Female manager ratio

The female manager ratio increased 0.6 of a percentage point to 12.0%. The Company aims to achieve a female manager ratio of 13% by the fiscal year ending March 31, 2019.



Total waste generated

Taisho Pharmaceutical is taking initiatives to reduce waste generation as well as reduce landfill disposal by promoting appropriate recycling measures.



Your health partner

The Taisho Pharmaceutical Group operates with the mission of contributing to society by creating and offering superior pharmaceuticals and health-related products as well as healthcare-related information and services in socially responsible ways that enrich people's lives by improving health and beauty.

Changes in conditions affecting the healthcare industry

The healthcare industry environment now is subject to greater change than in the past. Three major shifts illustrate the characteristics of this change.

First, we now live in an aged society. Societies are aging rapidly as birthrates fall and longevity increases, not only in Japan but around the world. We must recognize this demographic shift is contributing to issues such as declining employment opportunities for young people, growing wealth disparity, and rising public healthcare costs.

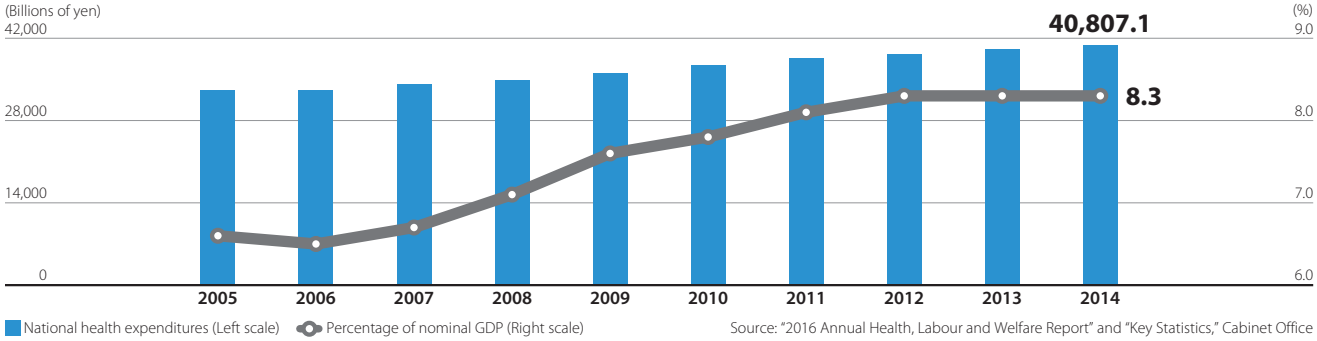
The second major shift is globalization. We are seeing the effects of globalization such as the development of data, transport and logistics not only on people, goods and finance, but also in areas such as information and services.

Third, our society is one where adopting a consumer-oriented viewpoint is more important than ever. The second shift of globalization has enabled consumers to use information technology such as the Internet to source a variety of information worldwide to make decisions. Whereas consumers once had to buy products from a limited range available domestically and were "domestic market gods," now they have become "global market kings."

Under these changing conditions, along with the rest of the industry, Taisho Pharmaceutical Holdings can only thrive by taking into consideration the role of consumers in the markets for disease prevention and treatment in addition to the contribution that we make as a pharmaceutical company.

Staying healthy involves ensuring a proper diet, exercising appropriately, and getting enough rest. It demands a self-medication mindset that one is responsible for protecting one's own health. If, for example, we likened going to the hospital to be treated by a specialist physician for an illness to the back wheel of a bicycle, then looking after one's health every day based on a self-medication mindset is like the front wheel of that bicycle. It drives the whole thing, making sure any disease is discovered and treated early, and translating into a longer, healthier life. I view our corporate mission as adopting this consumer-oriented perspective and servicing people's related needs.

National Health Expenditures and Percentage of Nominal GDP



Source: "2016 Annual Health, Labour and Welfare Report" and "Key Statistics," Cabinet Office

Taisho Pharmaceutical Group Initiatives and Future Directions

The Taisho Pharmaceutical Group aims to build a strong earnings base through balanced growth of the Self-Medication Operation Group led by OTC drugs and the Prescription Pharmaceutical Operation Group handling ethical pharmaceuticals, while also aiming to maximize corporate value. Overseas, we are looking to upgrade our presence across every region in which we do business to achieve sustained growth. Below, I outline how we are addressing this challenge in response to the business conditions discussed earlier.

(1) Self-Medication Operation Group (Japan)

The Self-Medication Operation Group aims to cater to the wishes of seniors looking to age gracefully in good health without being a burden on others. Our efforts also seek to foster greater health consciousness among consumers looking to be responsible for protecting their own health. Various policy initiatives aim to promote healthy extension of life, including the self-medication tax system*1 and the promotion of switch OTC drugs*2. Responding to such initiatives and to the review of the efficacy of healthcare drugs containing vitamins, we will continue to develop products that consumers desire while also promoting health foods, switch OTC drugs and related products.

Our domestic self-medication business continues to reinforce efforts to create demand and build strong brands. We are focused on developing products in new areas or based on new concepts that cater to the heightened health consciousness of consumers and related needs. Our aim is to build brands that enjoy strong user support by means of marketing campaigns that broaden points of contact with consumers and generate empathy.

(2) Self-Medication Operation Group (Overseas)

Asia is the prime focus of our overseas business development. We are looking to make progress in these markets by exchanging information with the pharmaceutical regulatory authorities in each country and receiving government assistance. We will use our active membership in the Asia-Pacific Self-Medication Industry (APSMI)*3, a regional association, to help make exchanges of information more efficient.

Targeting sustainable growth, we are working to increase the Group's presence in markets with strong growth potential, notably in Southeast Asia. We are upgrading business development efforts in the fields of energy drinks and OTC drugs. Specifically, this involves developing line extensions and additional formulations for our existing brands such as the antipyretic analgesic *Tempra* and topical anti-inflammatory analgesic *Counterpain*. In this way, we aim to expand the business by developing new product users.

We are also actively developing business in new countries and regions by leveraging our business resources to establish a foundation for the Group's growth over the medium to long term.

(3) Prescription Pharmaceutical Operation Group

Business conditions in this sector are becoming increasingly challenging. Prices of prescription drugs in Japan are subject to annual review; the NHI reimbursement prices of long-listed drugs can be reduced sharply, and the government is upgrading efforts to promote the use of generic pharmaceuticals. In addition, amid the emergence of technical integration with fields from outside medicine, we are seeing new technologies introduced in a broad range of research domains, including basic research and technology used in therapeutics, diagnostics and drug discovery.

Against this backdrop, we continue to upgrade efforts to introduce a continuous stream of new products by focusing R&D on the priority areas of infectious diseases, orthopedic disorders, central nervous system (CNS) diseases, and metabolic disorders. While targeting the early regulatory approval of developed drugs, we are actively working to in-license promising drug candidates from companies worldwide. We are also looking to strengthen alliances with external research institutions to promote the discovery of original drugs on an ongoing basis, including the in-licensing of new technologies and cultivation of partnerships between industry and academia. In marketing terms, we are working to maximize sales of new products launched over the past few years such as *Lusefi Tablets* and *LOQOA Tape* through our medical detailing activities.

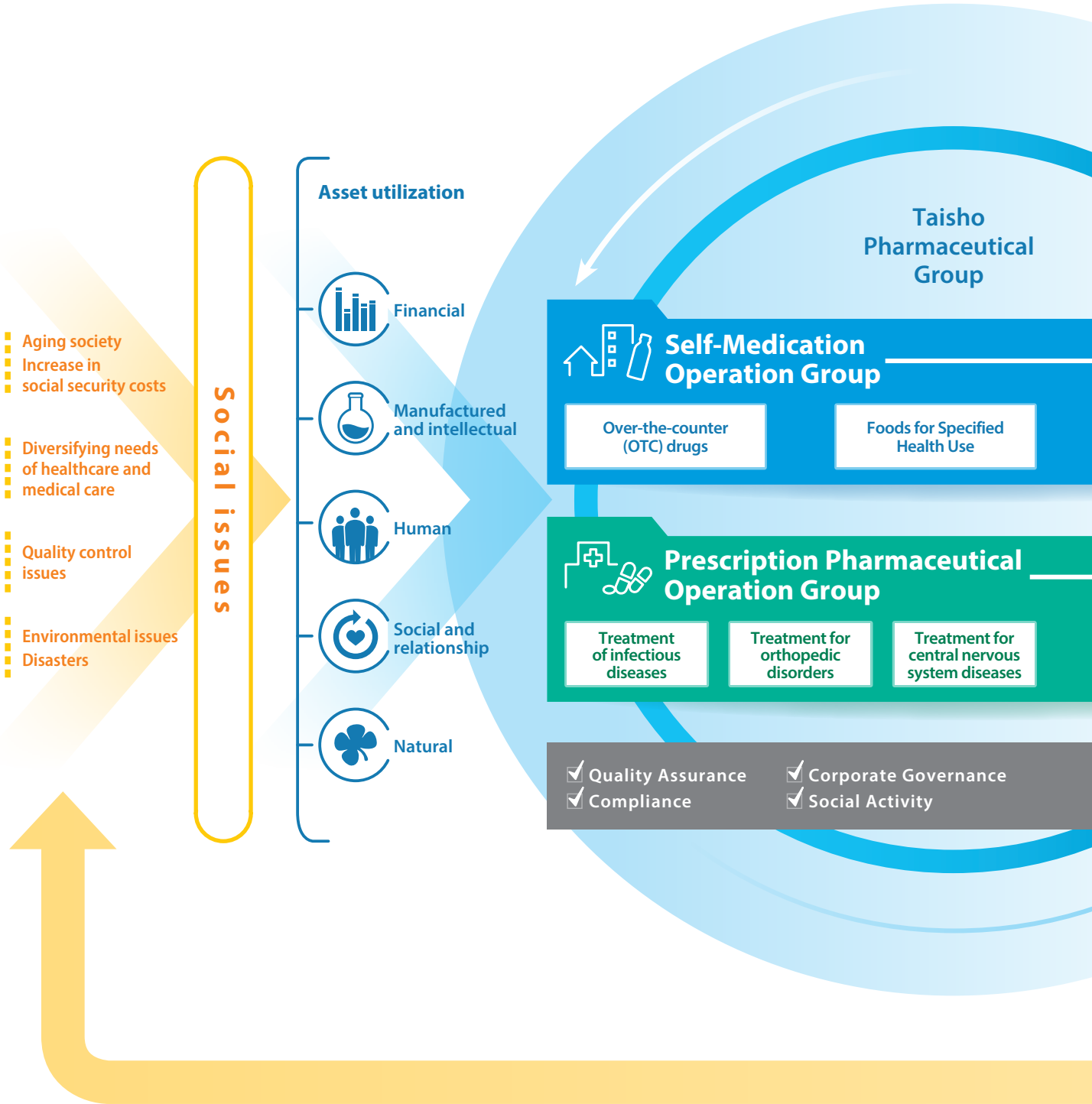
In the increasingly challenging business environment of the pharmaceutical industry, the Group is striving to respond deftly to these environmental changes by being mindful of the corporate philosophy, further strengthening corporate governance and rigorously enhancing quality control, and to increase its comprehensive capabilities.

In closing, I would like to express our sincere thanks to everyone and ask for your continued understanding and support.

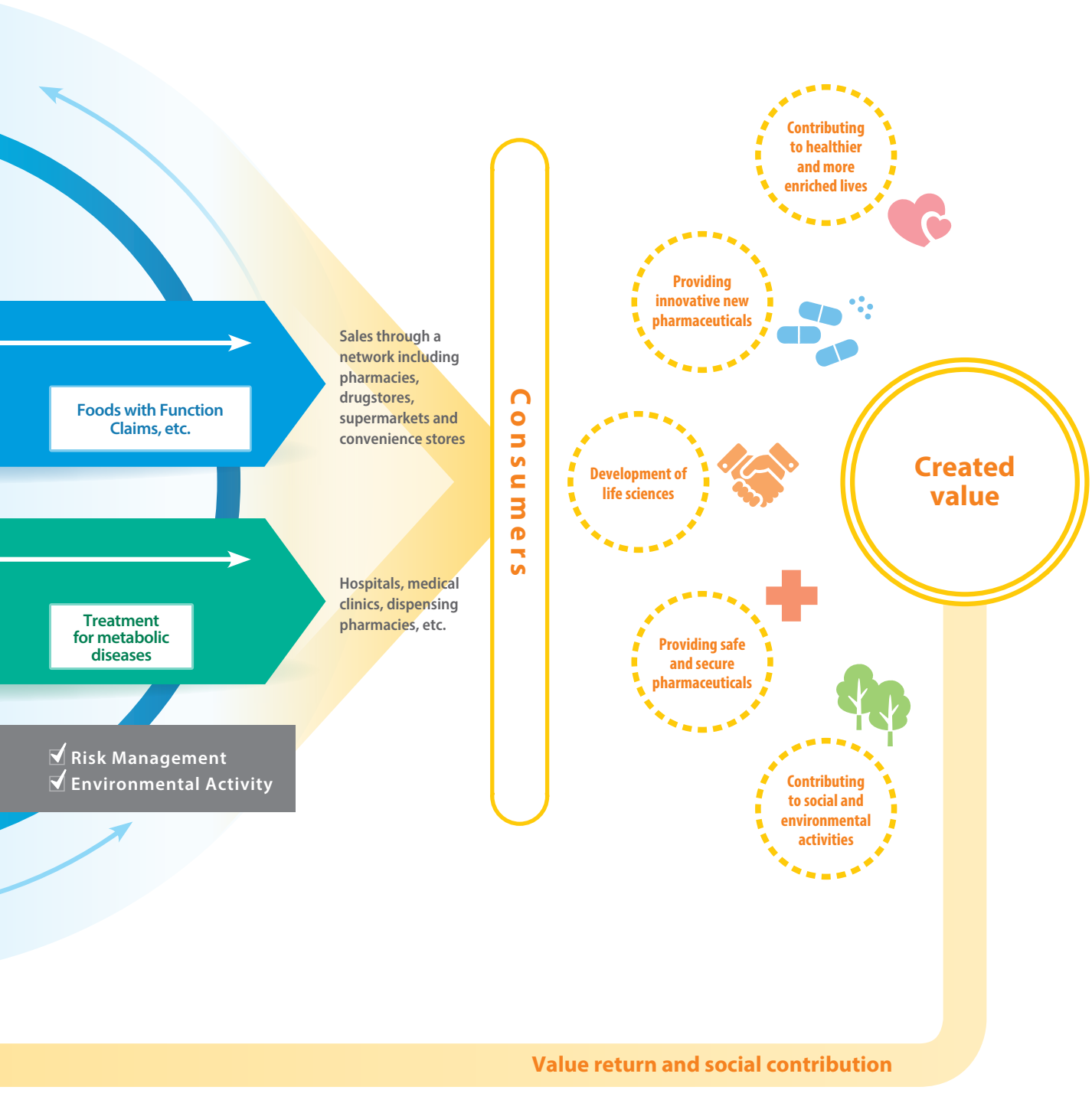
Chief Executive Officer Akira Uehara

*1 Introduced in January 2017, the system allows tax deductions for switch OTC drug purchases of between ¥12,000 and ¥100,000 per year per household.
*2 This term refers to ethical drugs that have been recategorized as OTC drugs.
*3 The organization encompasses industry associations and manufacturers involved in OTC drugs in every country and region within Asia and Oceania. Taisho Pharmaceutical Holdings CEO Akira Uehara was elected to serve as the fourth chairperson of APSMI in October 2016.

Value Creation Process
of the Taisho Pharmaceutical Group



The Taisho Pharmaceutical Group leverages internal and external resources to run two operational groups based on the management principles stated at the introduction to this report.
Reusing value created by the operational groups as management resources and maintaining business activities meet the expectations of many stakeholders.



History of the *Lipovitan* series

The energy drink *Lipovitan D* was introduced in 1962 as a novel concept to Japan during a period of rapid economic growth. The product had been available for years in ampoule form (mainly 20mL). Increased in size and containing more ingredients in larger amounts, the new product was designed to taste good, too. It was sold in pharmacies nationwide using specially designed refrigerated cabinets.

Lipovitan D was later launched as a Japanese product in other countries throughout the world, notably in Southeast Asia. It helped create entirely new markets as a Japanese cultural export. Cumulative sales for the series have risen to around 39 billion units.

The *Lipovitan* series was developed with new line extensions to cater to different needs and modes of consumption. Based on the new communication concept "Have a Dream," we will continue to conduct various initiatives and develop the brand to support those who strive with a positive mindset toward their goals.

Born 55 years ago, loved by generations.

History of the *Lipovitan* series

1960	*Lipovitan* (tablet) and *Lipovitan Liquid* (20mL) launched as *Lipovitan D* precursors
1962	*Lipovitan D* launched as pharmaceutical (100mL bottle)
1963	Launched in Taiwan
1965	Launched in Thailand
1999	Deregulation of pharmaceutical sales enables *Lipovitan D* and some other product lines in the *Lipovitan* series to be sold outside pharmacies in general retail stores and vending machines

Lipovitan Liquid (20mL)

LIPOVITAN-D sold in Thailand (2017)

TV commercial

First-generation *Lipovitan D*

Refrigerated cabinet for the *Lipovitan* series (1960s)

Now

Current main lines in the *Lipovitan* series

***Lipovitan* Brand Site (Japanese)** http://www.taisho.co.jp/lipovitan/

History of the *Pabron* series

Since its initial introduction as a cough medicine in 1927, *Pabron* has been developed as various products to help relieve cold symptoms such as cough, fever and runny nose. Always changing with the times, it is still one of the most powerful brands in this segment due to development of products with outstanding effects.

Various new combination formulations of *Pabron* were developed and launched rapidly in Japan after the active ingredients of ethical drugs were approved for the switch to OTC. This helped to establish it as a leading brand. Today, the brand has been developed further to include a wide range of medicines for treating and preventing colds, including cold remedies, sinus treatments, mouthwashes for gargling as a preventative measure, and face masks.

Advertising campaigns are a critical part of maintaining the brand's leading position. Based on the "Family-Love-Kindness" concept, we have had many actresses communicating warmth in our television commercials.

We continue to develop *Pabron* as a beloved brand, with a range of products to cater to the needs of families. We strive to enhance research into prescription drugs and pharmaceutical production technologies to deliver outstandingly effective cold medicines.

Started as a cough medicine, *Pabron* has evolved steadily over the years.

History of *Pabron*

1927	*Pabron Tablets* and *Pabron Liquid* (Cough medicine with herbal extracts, mainly prescribed)
1955	*Pabron A* and *Pabron B* (for symptomatic relief of colds)
1981	*Pabron Gold Capsules* (first switch OTC cold remedy)
2015	*Pabron S Gold W* (powder/tablet formulations)

Pabron Tablets

Pabron A *Pabron B*

Pabron Gold Capsules

Now

Pabron S Gold W
(Designated Category 2 medicine)

Related product lines

Relief for symptoms of rhinitis
Pabron Rhinitis Capsule-Sa
(Designated Category 2 medicine)

Prevention of colds
Pabron Hand Jell 365 (Designated quasi-drug)
Pabron Gargle 365 (Designated quasi-drug)
Pabron Mask 365 (regular size)

Nutritional supplements
Pabron JIYOUNAIFUKUEKI (Designated quasi-drug)
Pabron JIYOUNAIFUKUEKI Gold (Designated quasi-drug)

***Pabron* Brand Site (Japanese)** http://www.taisho.co.jp/pabron/

Overseas business

The Group's overseas business began in 1963 with the export of energy drinks to Taiwan. We established our first local subsidiary in Hong Kong in 1983. We have continued to expand our overseas bases, completing the construction of a new factory in Shanghai in 2013. Led by energy drinks, our business development has focused mainly on East Asia and Southeast Asia, which have enjoyed startling economic growth in this period. We currently sell energy drinks in 14 countries and regions worldwide.

Since 2009, we have used M&A to develop our fully-fledged OTC drug franchise in Asia by acquiring a new business foundation, mainly targeting Indonesia, Thailand, Malaysia and the Philippines. In 2016, we acquired an equity stake in Duoc Hau Giang Pharmaceutical JSC of Vietnam, concluding a business alliance aimed at utilizing the strengths of both partners to create synergies.

Going forward, we plan to reinforce our OTC drug business development efforts in countries and regions where we manufacture and sell the *Lipovitan* series. At the same time, we plan to actively utilize the resources cultivated by the Group worldwide to build a business foundation for the medium to long term by establishing operations in new countries and in sectors other than OTC drugs.

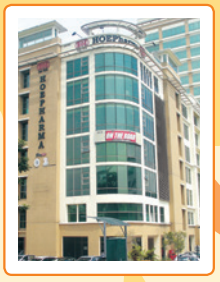
Subsidiaries and affiliates in East Asia and Southeast Asia

China: **Taisho Co., Ltd. Shanghai**
Manufacture and sales of energy drinks and other products

China: **Taisho Pharmaceutical (H.K.) Ltd.**
Sales of energy drinks and other products

Taiwan: **Taisho Pharmaceutical (Taiwan) Co., Ltd.**
Manufacture (commissioned) and sales of OTC drugs, energy drinks and other products

Thailand: **Osotspa Taisho Pharmaceutical Co., Ltd.**
Sales of OTC drugs, energy drinks and other products



Vietnam: **Duoc Hau Giang Pharmaceutical JSC**
Manufacture and sales of OTC drugs and other products

Vietnam: **Taisho Vietnam Co., Ltd.**
Manufacture and sales of energy drinks and other products

The Philippines: **Taisho Pharmaceuticals (Philippines), Inc.**
Manufacture (commissioned) and sales of OTC drugs, energy drinks and other products

Malaysia:
Hoepharma Holdings Sdn. Bhd.
Management of a subsidiary that conducts pharmaceutical business, mainly in Malaysia

Indonesia:
PT Taisho Pharmaceutical Indonesia Tbk
Manufacture and sales of OTC drugs and manufacture (commissioned) and sales of energy drinks and other products

Singapore: **Taisho Pharmaceutical Singapore Private Limited**
Administration of OTC drug business in the ASEAN region

Development of prescription pharmaceuticals

The prescription pharmaceutical business began in 1957 when Taisho Pharmaceutical introduced antipsoriatic agent *Psorion* as its first prescription medicine. In developing this business, we knew our main priority was to establish basic research and invest in a research structure, and that was the path we followed faithfully. The first product developed in-house was the digestive enzyme agent *Vernase*, launched in 1959. We entered the orthopedics field in 1967 with the launch of the antiphlogistic pain reliever *Opyrin*. The development of highly original new drugs with international sales potential has remained our goal as we have strategically developed the Group's prescription drugs business worldwide.

Actively moving ahead on R&D under the theme of internationally competitive, unique drug development.

Clarith® (launched in 1991)

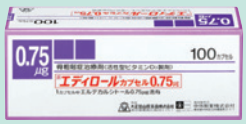
A proprietary macrolide antibiotic developed at a time when the discovery of novel, world-class antibiotics was proving a huge challenge. Today, it is used in over 100 countries worldwide.

Palux® (launched in 1988)

A peripheral vasodilator developed jointly with other companies and researchers, *Palux*® is a lipid microsphere preparation of prostaglandin E_1 that improves circulation by dilating blood vessels and restricting platelet aggregation. The formulation aims to prevent in vivo inactivation and boost the efficacy of a small prostaglandin E_1 dose.

Edirol® (launched in 2011)

Codeveloped with Chugai Pharmaceutical, this drug is an active vitamin D_3 agent for treating osteoporosis, a disease where abnormal calcium and bone metabolism are contributing factors. *Edirol*® is a new type of osteoporosis treatment that works by improving both these aspects.



Bonviva® *IV Injection* (launched in 2013)
Bonviva® *Tablets* (launched in 2016)

Codeveloped with Chugai Pharmaceutical, *Bonviva*® is a bisphosphonate antiresorptive agent for osteoporosis. It provides patients with a choice of oral or injectable administration routes according to their lifestyle.

Lusefi® (launched in 2014)

A novel treatment for type 2 diabetes developed in-house, *Lusefi*® is a drug with a new mechanism of action that selectively inhibits sodium-glucose cotransporter 2 (SGLT2). It lowers blood glucose levels by inhibiting reabsorption of glucose in the renal tubule, thus increasing urinary glucose excretion.

LOQOA® (launched in 2016)

Codeveloped with TOKUHON, *LOQOA*® is a strong transdermal anti-inflammatory analgesic patch for the treatment of osteoarthritis. It is expected to provide a new therapeutic option for this disease.

Members of the Board

(As of June 29, 2017)

Chief Executive Officer (Representative)

Akira Uehara

Apr. 1977 Joined Taisho Pharmaceutical Co., Ltd.
Jun. 1977 Member of the Board
Jun. 1978 Senior Member of the Board
Jun. 1980 Executive Vice President
Jun. 1981 Executive Vice President (Representative)
Jun. 1982 Chief Executive Officer (Representative)
Oct. 2002 Chief Executive Officer (Representative) of Taisho Toyama Pharmaceutical Co., Ltd.
Apr. 2006 Emeritus Chairman, Member of the Board
Jun. 2007 Corporate Adviser (present)
Apr. 2009 Chairman and CEO (Representative) of Taisho Pharmaceutical Co., Ltd.
Oct. 2011 Chairman and CEO (Representative) of the Company
Jun. 2012 Chairman (Representative) of Taisho Pharmaceutical Co., Ltd.
Jun. 2013 Chief Executive Officer (Representative) of the Company (present)
Jun. 2015 Chairman of Taisho Pharmaceutical Co., Ltd. (present)

Executive Vice President

Shigeru Uehara

Apr. 2000 Joined Taisho Pharmaceutical Co., Ltd.
May 2000 Joined Abbott Laboratories
Aug. 2006 Corporate Planning Division of Taisho Pharmaceutical Co., Ltd.
Oct. 2006 Director, Assistant to Officer in charge of Prescription Pharmaceutical Operation Group of Taisho Pharmaceutical Co., Ltd. and Deputy Head of Sales Headquarters of Taisho Toyama Pharmaceutical Co., Ltd.
Jun. 2007 Member of the Board of Taisho Toyama Pharmaceutical Co., Ltd.
Jun. 2007 Member of the Board of Taisho Pharmaceutical Co., Ltd.
Jun. 2008 Managing Member of the Board
Apr. 2009 Executive Vice President
Oct. 2011 Executive Vice President of the Company
Jun. 2012 Chief Executive Officer (Representative) of Taisho Pharmaceutical Co., Ltd. (present)
Jun. 2013 Member of the Board of the Company
Jun. 2015 Executive Vice President (present)

Corporate Adviser, Member of the Board

Akira Ohira

May 1982 Joined Taisho Pharmaceutical Co., Ltd.
Jun. 1982 Member of the Board
Jun. 1983 Managing Member of the Board
Jun. 1985 Senior Member of the Board
Jun. 1994 Executive Vice President
Jun. 1999 Executive Vice President (Representative)
Apr. 2006 Chief Executive Officer (Representative) of Taisho Toyama Pharmaceutical Co., Ltd.
Apr. 2009 Vice Chairman of Taisho Pharmaceutical Co., Ltd.
Oct. 2011 Vice Chairman of the Company
Jun. 2012 Corporate Adviser of Taisho Pharmaceutical Co., Ltd. (present)
Jun. 2013 Member of the Board of the Company
Apr. 2015 Corporate Adviser, Member of the Board of Taisho Toyama Pharmaceutical Co., Ltd. (present)
Jun. 2015 Corporate Adviser, Member of the Board of the Company (present)

Member of the Board

Ken Uehara

Jan. 2004 Joined Taisho Pharmaceutical Co., Ltd.
Oct. 2006 Director and Assistant to Officer in charge of Self-Medication Operation Group
Apr. 2007 Deputy Head of Sales Marketing Headquarters and Deputy Head of Product Planning and Development Headquarters
Apr. 2008 Head of Self-Medication Research and Development Headquarters, Deputy Head of Sales Marketing Headquarters and Deputy Head of Product Planning and Development Headquarters
Jun. 2008 Member of the Board
Apr. 2009 Managing Member of the Board
Oct. 2011 Managing Member of the Board of the Company
Jun. 2012 Senior Member of the Board of Taisho Pharmaceutical Co., Ltd.
Jun. 2013 Member of the Board of the Company (present)
Jun. 2014 Executive Vice President (Representative) of Taisho Pharmaceutical Co., Ltd. (present)
Jun. 2015 Member of the Board of Taisho Toyama Pharmaceutical Co., Ltd. (present)
Jun. 2017 Chairman of Biofermin Pharmaceutical Co., Ltd.

Member of the Board

Ken-ichi Fujita

Apr. 1975 Joined Taisho Pharmaceutical Co., Ltd.
Apr. 1990 Head of Ethical Drug Sales Division of Osaka Branch Office
Oct. 1997 General Manager of Sales Division 1 of Tokyo Branch Office
Apr. 2003 Corporate Officer of Taisho Toyama Pharmaceutical Co., Ltd.
Jun. 2004 Member of the Board
Apr. 2010 Corporate Officer and Head of Prescription Pharmaceutical Development Headquarters of Taisho Pharmaceutical Co., Ltd.
Jun. 2010 Member of the Board
Oct. 2011 Member of the Board of the Company (present)
Jun. 2012 Managing Member of the Board of Taisho Pharmaceutical Co., Ltd.
Jun. 2014 Senior Member of the Board
Apr. 2015 Member of the Board of Taisho Pharmaceutical Co., Ltd. (present) Chief Executive Officer (Representative) of Taisho Toyama Pharmaceutical Co., Ltd. (present)

Member of the Board

Kazuya Kameo

Apr. 1976 Joined Taisho Pharmaceutical Co., Ltd.
Nov. 2000 Manager of First Research Office for Pharmaceutical Development
Apr. 2001 Manager of Research Office for Medicinal Chemistry
Feb. 2003 Manager of Pharmaceutical Quality Assurance Promotion Office
Apr. 2004 Director and Head of Quality Assurance Headquarters
Apr. 2008 Corporate Officer and Head of Pharmaceutical and Chemicals Research Center
Jul. 2008 Deputy Head of Pharmaceutical Research Headquarters
Apr. 2010 Head of Quality Assurance Headquarters
Apr. 2015 Corporate Officer of the Company
Jun. 2015 Member of the Board of the Company (present) Member of the Board of Taisho Pharmaceutical Co., Ltd
Apr. 2016 Member of the Board, Executive Officer (present)

Member of the Board

Tetsu Watanabe

Apr. 1978 Joined Taisho Pharmaceutical Co., Ltd.
Oct. 2001 General Manager of Personnel and Labor Division
Jul. 2005 Director and General Manager of Personnel Division
Oct. 2008 Corporate Officer
Apr. 2013 Corporate Officer of the Company Senior Corporate Officer of Taisho Pharmaceutical Co., Ltd.
Jun. 2015 Member of the Board of the Company (present) Member of the Board of Taisho Pharmaceutical Co., Ltd.
Apr. 2016 Member of the Board, Executive Officer (present)

Member of the Board (Outside)

Toshio Morikawa

Jun. 1993 Chief Executive Officer of The Sumitomo Bank, Limited
Jun. 1997 Chairman (Representative)
Jun. 1999 Audit & Supervisory Board Member (Outside) of Taisho Pharmaceutical Co., Ltd.
Apr. 2001 Counselor of Sumitomo Mitsui Banking Corporation
Jun. 2002 Senior Advisor (*tokubetsu komon*)
Mar. 2005 Emeritus Advisor (*meiyo komon*) (present)
Jun. 2007 Member of the Board (Outside) of Taisho Pharmaceutical Co., Ltd.
Oct. 2011 Member of the Board (Outside) of the Company (present)

Member of the Board (Outside)

Hiroyuki Uemura

Jun. 1991 Member of the Board of Sumitomo Marin & Fire Insurance Co., Ltd.
Jun. 1998 Chief Executive Officer (Representative)
Oct. 2001 Chief Executive Officer (Representative) of Mitsui Sumitomo Insurance Company, Limited
Jul. 2007 Standing Adviser
Jun. 2011 Audit & Supervisory Board Member (Outside) of Taisho Pharmaceutical Co., Ltd.
Oct. 2011 Audit & Supervisory Board Member (Outside) of the Company
Apr. 2013 Senior Adviser of Mitsui Sumitomo Insurance Company, Limited
Jun. 2015 Member of the Board (Outside) of the Company (present)
Apr. 2017 Emeritus Adviser (*meiyo komon*) of Mitsui Sumitomo Insurance Company, Limited (present)

Audit & Supervisory Board Member

Yoshiaki Sasaki

Apr. 1969 Joined Taisho Pharmaceutical Co., Ltd.
Apr. 1986 Head of Ethical Drug Sales Division of Osaka Branch Office
Apr. 1990 Deputy General Manager of Ethical Drug Sales Division of Fukuoka Branch Office
Apr. 1995 Deputy General Manager of Ethical Drug Sales Division
Apr. 1996 General Manager of Ethical Drug Sales Division of Tokyo Branch Office
Jun. 1997 Member of the Board
Oct. 2002 Member of the Board and Head of Sales Headquarters, Taisho Toyama Pharmaceutical Co., Ltd.
Jun. 2006 Managing Member of the Board and Head of Sales Headquarters
Jun. 2010 Medical Senior Adviser of Taisho Pharmaceutical Co., Ltd.
Jun. 2012 Senior Member of the Board of Taisho Toyama Pharmaceutical Co., Ltd.
Apr. 2015 Member of the Board
Jun. 2015 Part-time Audit & Supervisory Board Member (present)
Full-time Audit & Supervisory Board Member of the Company (present)
Full-time Audit & Supervisory Board Member of Taisho Pharmaceutical Co., Ltd. (present)

Audit & Supervisory Board Member

Kyuji Kobayashi

Dec. 1997 Joined Taisho Pharmaceutical Co., Ltd.
Apr. 1998 President of Taisho Foods Deutschland GmbH
Apr. 2002 General Manager of Financial Management Division and General Manager of Overseas Sales Management Division, Taisho Pharmaceutical Co., Ltd.
Oct. 2004 General Manager of Accounting Division
Jun. 2011 Full-time Audit & Supervisory Board Member (present)
Oct. 2011 Full-time Audit & Supervisory Board Member of the Company (present)

Outside Audit & Supervisory Board Member

Chushiro Aoi

Mar. 1974 Executive Director and General Manager of Products Division of Marui Co., Ltd.
Jan. 1982 Managing Director and Head of Products Headquarters
Oct. 1984 Managing Director and Head of Central Sales Headquarters
Jan. 1994 President of AIM CREATE Co., Ltd.
Apr. 1997 President of MOVING CO., LTD.
Apr. 2006 Adviser
Jan. 2010 President of Toshima Kogyo Co., Ltd. (current: A-TOM Co., Ltd.) (present)
Jun. 2015 Outside Audit & Supervisory Board Member of the Company (present)

Outside Audit & Supervisory Board Member

Jun-ya Sato

Apr. 1982 Admitted to the bar (Dai-Ichi Tokyo Bar Association)
Joined Furness, Sato and Ishizawa (current: Ishizawa, Ko, and Sato) (present)
May 1987 Graduated from Duke University School of Law (LL.M.)
Oct. 1990 Admitted to the New York Bar
Apr. 1999 Practicing-attorney-professor for criminal defense, Legal Training and Research Institute of the Supreme Court of Japan
Nov. 2001 Deputy Trustee, Mycal Corporation (undertaken by a corporate reorganization procedure)
Dec. 2001 Member, Examination Committee for the Second Examination of the National Bar Examination (constitutional law)
Apr. 2008 Visiting Professor, Komazawa University Law School
Jan. 2010 Deputy Trustee, Japan Airlines Co., Ltd. (undertaken by a corporate reorganization procedure)
Apr. 2011 Vice President, Dai-Ichi Tokyo Bar Association
Mar. 2012 Outside Audit & Supervisory Board Member, Sapporo Holdings Limited (present)
Jun. 2013 Outside Director, Mitsui Mining & Smelting Co., Ltd. (present)
Jun. 2015 Outside Audit & Supervisory Board Member of the Company (present)
Apr. 2016 Governor of the Japan Federation of Bar Associations

	Category	Attendance at Board of Directors meetings	Attendance at Audit & Supervisory Board meetings	Reasons for appointment
Toshio Morikawa	Outside Director	15/15	—	Mr. Toshio Morikawa has played an active role as an executive and has deep insight based on his abundant experience in corporate management. He has been appropriately offering advice to the Company's management and contributing to the enhancement of the corporate governance structure. Therefore, we have appointed him as an outside director of the Company.
Hiroyuki Uemura	Outside Director	15/15	—	Mr. Hiroyuki Uemura has played an active role as an executive and has deep insight based on his abundant experience in corporate management. He has been providing guidance on the promotion of solid and effective management of the Company. Therefore, we have appointed him as an outside director of the Company.
Chushiro Aoi	Outside Audit & Supervisory Board Member	15/15	9/9	Mr. Chushiro Aoi has accumulated extensive experience and diverse knowledge as a corporate manager. Based on this fact, we have determined that he is well qualified to fulfill the roles of an Audit & Supervisory Board member with an outside perspective. Therefore, we have appointed him as an outside Audit & Supervisory Board member of the Company.
Jun-ya Sato	Outside Audit & Supervisory Board Member	15/15	9/9	Mr. Jun-ya Sato has extensive experience and diverse knowledge as an attorney-at-law and is highly committed to compliance with laws and regulations. Based on this fact, we have determined that he is well qualified to help enhance our audit system. Therefore, we have appointed him as an outside Audit & Supervisory Board member of the Company.

Corporate Governance

Taisho Pharmaceutical Holdings has positioned corporate governance as a management priority with the aim of establishing a strong management foundation to achieve steady growth and development.

Basic Approach

The Taisho Pharmaceutical Group (the "Group") aims to establish even stronger management foundations to ensure that it continues to achieve steady growth and development amid global competition.

Taisho Pharmaceutical Holdings (the "Company") was established as a pure holding company on October 3, 2011 to manage the Group as a whole. The Company is responsible for formulating Group management strategy and effectively allocating resources to businesses and operations in Japan and overseas with the objective of increasing corporate value by generating sustainable, balanced growth and strengthening competitiveness in the Self-Medication Operation Group and Prescription Pharmaceutical Operation Group, and by achieving synergetic effects between these two businesses.

Accordingly, the Company has established an appropriate Groupwide management framework for properly monitoring and supervising the status of business and operational execution at the Company and Group companies. Specifically, the Group establishes a corporate governance structure and properly implements this structure, with the aim of achieving its overall business objectives and fulfilling its social responsibilities. The basic principle behind these efforts is for the Board of Directors and the Audit & Supervisory Board or its members to work in close collaboration, while properly managing the entire Group by exchanging information with the business management bodies of the Company and Group companies.

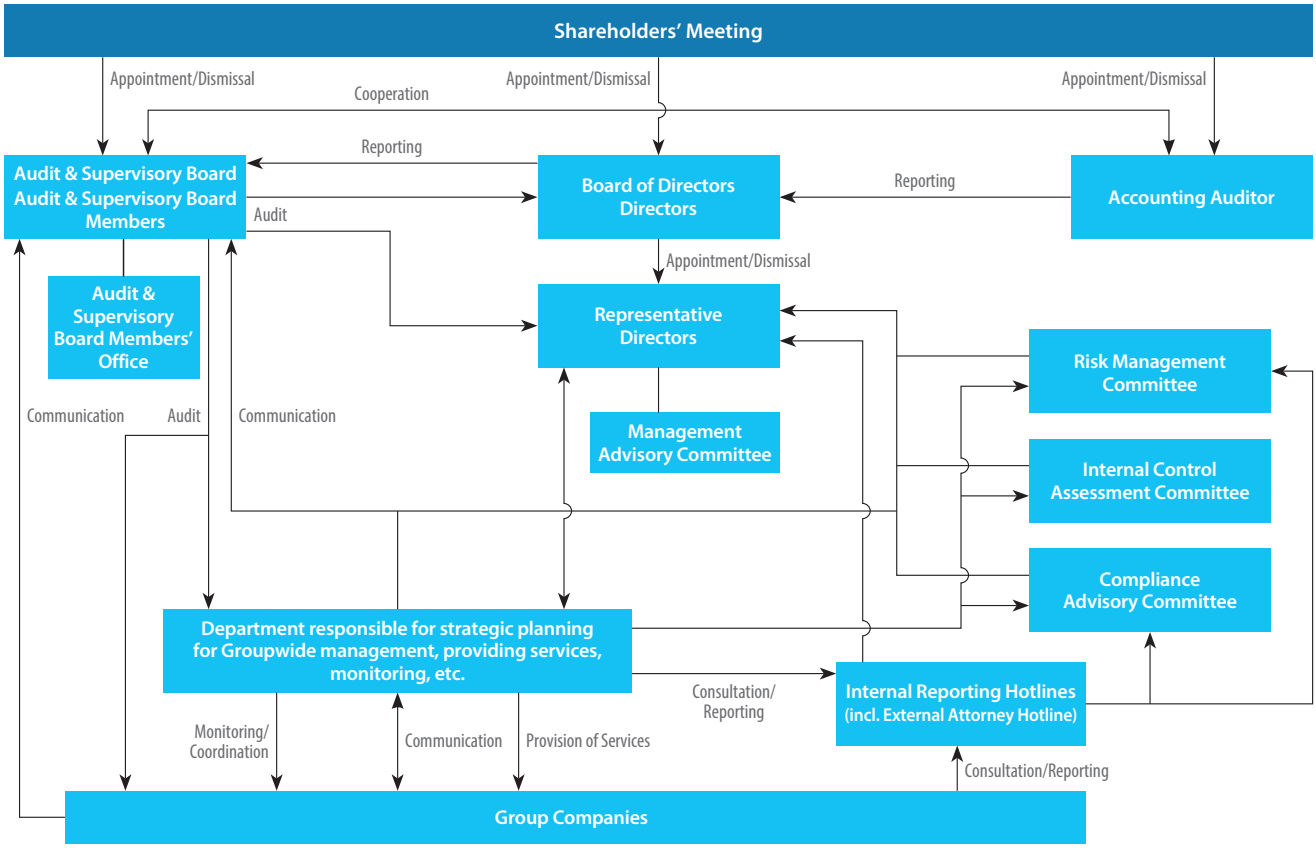
Corporate Governance Structure

The Company has adopted a corporate governance structure with a Board of Directors and an Audit & Supervisory Board. As of June 29, 2017, the Company has nine directors, two of whom are outside directors, and four Audit & Supervisory Board members, two of whom are outside members.

Board of Directors

The Board of Directors holds meetings regularly and as necessary, at which the directors make decisions on important matters related to the Company's business execution and Groupwide management and monitor operations undertaken based on

■ Corporate Governance Structure



their decisions. The Management Advisory Committee, whose members include the Company's representative directors, serves as an advisory body to the Board of Directors. It meets on an as-required basis and deliberates important matters, including matters put forward to the Board of Directors, further facilitating effective and rapid management decision-making.

● Audit & Supervisory Board

The Audit & Supervisory Board meets, in principle, at least once every three months. At these meetings, its members exchange opinions regarding the status of the audits they conduct in accordance with principles and standards for audits that have been established by the Audit & Supervisory Board, and receive reports on the processes and results of audits conducted by the accounting auditor and on internal control system audits. Audit & Supervisory Board members check the status of business execution and asset protection and report as appropriate to the representative directors and the Board of Directors, providing advice as needed.

● Outside Directors and Outside Audit & Supervisory Board Members

As of June 29, 2017, there are two outside directors and two outside Audit & Supervisory Board members (please see page 17). There are no personal or capital relationships between the Company and any of the outside directors and outside Audit & Supervisory Board members.

● Support Framework for Outside Directors and Outside Audit & Supervisory Board Members

The Secretariat to the Board of Directors provides support for the outside directors and outside Audit & Supervisory Board members in coordination with the relevant departments.

Specifically, it uses the electronic data room to provide them with reference materials for board meetings and preliminary explanations of important items on the agenda before the Board of Directors meet. It also facilitates periodic reports from the directors in charge of each business to provide status updates and other information on business issues and plans.

The Company also nominates a director in charge of contacting and liaising with the outside directors and outside Audit & Supervisory Board members. There is also a system in which the outside directors and outside Audit & Supervisory Board members can seek coordination with the Company when they consider it necessary.

● Other Frameworks

The Company has set up various committees to address a variety of across-the-board business management issues faced by the Company and Group companies. These committees include the Risk Management Committee, the Compliance Advisory Committee and the Internal Control Assessment Committee. The Company implements Groupwide monitoring of various issues in each field, and has a reporting system in place to ensure that appropriate information is communicated to business managers at the Company and various Group companies.

In addition, the main divisions of the Company as well as each of the Group companies appropriately communicates management-related information by conducting information meetings with Audit & Supervisory Board members, regarding the status of execution and issues related to the business activities of each company.

Internal Audits and Audits by Audit & Supervisory Board Members

The Audit Division is an organization exclusively for auditing and is independent of the Company's lines of business execution. Consisting of 10 staff members as of June 29, 2017, this division formulates annual audit plans according to the significance of various risks, based on which it performs internal audits in accordance with the Company's internal auditing regulations. In addition, it maintains close contact with the audit organizations of Group companies, with a view to overseeing and managing the implementation of internal audits by Group companies. Regarding internal control audits, the Audit Division and the accounting auditor cooperate to enable the appropriate and efficient execution of mutual audit operations by sharing information concerning audit plans, procedures and verification results.

The Audit & Supervisory Board is composed of two full-time members and two outside members. In addition, the Audit & Supervisory Board Members' Office has a specialized staff to enhance the effectiveness of audits by Audit & Supervisory Board members.

Audit & Supervisory Board members conduct comprehensive audits of all director duties in line with audit policies formulated in accordance with audit standards set by the Audit & Supervisory Board.

Full-time Audit & Supervisory Board members attend meetings of the Board of Directors and other important meetings, and routinely audit the decision-making of the Board of Directors and directors and the status of execution of directors' duties.

The Audit & Supervisory Board receives reports on the status of execution of duties and the progress and results of accounting and internal control system audits, and reports to the representative directors and other directors on the status and results of audits carried out by the Audit & Supervisory Board.

The Audit & Supervisory Board members, the Audit Division and the accounting auditor communicate with each other to support the execution of efficient and effective audits.

Accounting Auditor

The Company has concluded an audit contract with and undergoes audits by PricewaterhouseCoopers Aarata in accordance with the Financial Instruments and Exchange Act and the Companies Law.

Internal Control System

The Company has developed various in-house systems and regulations that provide the basis for internal control, and is working to ensure their proper implementation by promoting Groupwide understanding and adherence. Also, the Company has established a structure to monitor whether business operations are conducted appropriately and efficiently based on laws, ordinances and various in-house systems and regulations. This structure is underpinned by the Audit Division, the Compliance Management Section, the Legal Division, the Financial Division, and the Quality Assurance Management Section.

In connection with internal control of financial reporting operations, relevant divisions periodically conduct self-assessments, and the Audit Division conducts internal audits. Continuous improvement activities are implemented based on the results of these assessments and audits. In addition, the Company has established the Internal Control Assessment Committee as an advisory body to the representative directors for the purpose of issuing reports in accordance with the internal control reporting system of the Financial Instruments and Exchange Act. This committee evaluates the results of self-assessments and internal audits of the status of development and implementation of internal controls for financial reporting, and issues reports on the results of its evaluations to the representative directors.

Compensation of Directors and Audit & Supervisory Board Members

The Board of Directors decides compensation for directors, and the Audit & Supervisory Board members discuss and decide compensation for Audit & Supervisory Board members, within the scope of total officer compensation determined in advance by a resolution of the General Meeting of Shareholders. Directors receive fixed monthly compensation deemed commensurate with their rank and duties and other considerations including the Company's circumstances. Audit & Supervisory Board members receive fixed monthly compensation deemed commensurate with their authority to audit the execution of duties by directors from an independent perspective.

The Company has decided, based on a resolution at the Ordinary General Meeting of Shareholders held on June 28, 2012, to introduce stock options (stock acquisition rights) for a stock-linked compensation plan, in lieu of retirement bonuses, for the Company's directors (excluding outside directors). This was done to provide the directors with further incentive and motivation to contribute to the improvement of business results and corporate value over the medium to long term.

Initiatives to Invigorate the General Meeting of Shareholders and Facilitate the Exercise of Voting Rights

The Company endeavors to send the Notice of Convocation of the General Meeting of Shareholders as early as possible, with a target date three weeks before the meeting is convened. The Company also makes the Notice of Convocation available on its website. In 2015, the Company began making the notice available on its website and via the Tokyo Stock Exchange Listed Company Information Service prior to sending it. The Company has been posting a condensed English version of the notice and related reference materials on its website since the Ordinary General Meeting of Shareholders held in June 2013.

In addition, the Company has been using information technology for the electronic exercise of voting rights since the Ordinary General Meeting of Shareholders held in June 2013 in order to enhance convenience for individual and institutional investors. The Company also participates in ICJ, Inc.'s electronic voting platform.

Response to the Corporate Governance Code

The Company already complies with all of the principles of the Corporate Governance Code. For more information, please refer to the corporate governance report.

http://www.taisho-holdings.co.jp/en/about/governance/

Compensation of Directors and Audit & Supervisory Board Members

Category	Total amount of compensation (Millions of yen)	Total amount by type of compensation (Millions of yen)		Number of eligible directors/Audit & Supervisory Board members
		Basic compensation	Stock options	
Directors (excluding outside directors)	240	196	43	7
Audit & Supervisory Board members (excluding outside members)	25	25	—	2
Outside directors and outside Audit & Supervisory Board members	36	36	—	4

Notes:
1. Director compensation does not include compensation directors receive for concurrently serving as employees of the Company.
2. Director compensation is limited to an annual total of ¥360 million by resolution of the first General Meeting of Shareholders held on June 28, 2012. Compensation for outside directors is limited to ¥36 million. In addition, separate compensation, such as stock options, is limited to an annual total of ¥70 million by resolution of the first General Meeting of Shareholders held on June 28, 2012.
3. Audit & Supervisory Board member compensation is limited to an annual total of ¥60 million by resolution of the first General Meeting of Shareholders held on June 28, 2012.

Management Foundation

Risk Management

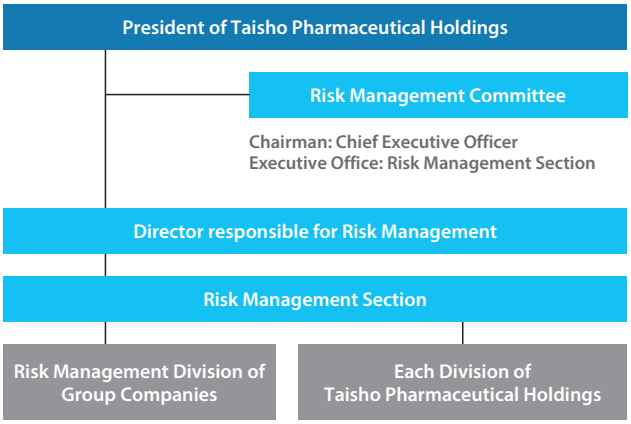
Taisho Pharmaceutical Holdings promotes and coordinates the risk management activities of each company within the Taisho Pharmaceutical Group, and strives to prevent the materialization of risk while reducing risk exposure. In addition, in regard to emergencies following the materialization of risk, the Company has a system in place for preventing the spread of risk by launching a rapid response.

Risk Management System

The Company has formulated Risk Management Guidelines covering risks that could materialize in the course of Group companies' operations, and has a system to respond to various risks. This is to minimize the impact on customers and operations in the event of the materialization of risk. In accordance with these guidelines, in the event risk materializes, the Company convenes a Risk Management Committee, which is chaired by the Chief Executive Officer, and implements response measures according to the nature, scale and other aspects of the risk. Meanwhile, for promoting risk management, the Company has established a specialized risk management division (Risk Management Coordination Section) that shares information with the risk management divisions of Group companies, and confirms the status of risk in normal times and when risks materialize, organizes the information and reports it to management.

A similar kind of organizational initiative is also being carried out at Group company Taisho Pharmaceutical Co., Ltd., which has formulated risk management regulations and established a Risk Management Committee and dedicated section (Risk Management Section). The Risk Management Section inspects and advises on risk management initiatives conducted in respective divisions and provides employees with training and awareness-raising activities. Moreover, each division manages risk appropriately, with division managers made responsible for risk management and management-class employees appointed as risk management officers. Furthermore, the Risk Management Section summarizes status reports from the risk management officers and reports on these to management. The Company is supporting other Group companies in establishing a similar system.

■ **Risk Management System of Taisho Pharmaceutical Holdings**



Furthermore, the Company maintains a framework that enables management, including the representative directors, to respond promptly to risks relating to its management strategies.

Business Continuity Plan Measures

Taisho Pharmaceutical Holdings oversees the business continuity planning for the entire Group.

The Group, centered on operating company Taisho Pharmaceutical Co., Ltd., has formulated and consistently upgrades a business continuity plan (BCP) that serves as a guideline focused on ensuring the continuous supply of products for which it has a large social obligation to supply and that are highly significant for the Company's business, in preparation for scenarios including a major earthquake in the Tokyo metropolitan area. These guidelines clearly define the roles and functions of each division along a timeline from the occurrence of a natural disaster to the restoration of business operations. This is to ensure a rapid and appropriate response in the event of a natural disaster. The guidelines also set forth specific details on measures to be implemented in normal times in anticipation of a natural disaster.

Information Management Measures

The Company recognizes that a leak of internal information could cause considerable loss, disadvantage or other negative impacts to the Company, shareholders, suppliers, employees and other stakeholders.

At operating company Taisho Pharmaceutical as well, where large amounts of important information is handled, information security is being enhanced through collaboration among associated specialist divisions, establishment of related internal regulations, training and awareness raising for employees and regular internal inspections, in addition to constructing a system that enables rapid reporting to management of the information management status. Each organization autonomously and appropriately manages information, centering on its risk management officer or the person in charge of risk management. Furthermore, in the event of an information incident, such as a leak, occurring or discovery of such having occurred, a framework has been built whereby concerned parties immediately assemble to confirm facts and get the matter under control. The Company is supporting other Group companies in building a similar type of information management framework, as well as working toward establishing internal regulations for the Group.

Quality Assurance Framework

The Taisho Pharmaceutical Group has constructed a Groupwide quality assurance framework to provide products, services and information that are reliable to all consumers.

Quality Assurance Framework

In full compliance with the spirit established at its foundation, the Group believes that providing products, services and information that are reliable to all consumers is the Group's social responsibility. To fulfill this responsibility, first each area of business concerning our products, research and development, manufacturing and sales, is in compliance with the relevant laws and regulations, where the highest priority must be placed on the effectiveness, safety and quality assurance of the products. In addition, in order for all consumers to have trust in these areas of our business, it is essential that we firmly look over our processes from the consumers' perspective. The work we conduct in this area is our quality assurance.

At Taisho Pharmaceutical, our Quality Assurance Headquarters, having become independent from our research and development, manufacturing and sales lines, is placed at the center and seeks to maintain and improve our system of promoting quality assurance. Pushing forward daily in this work, we are committed to delivering products, information and services that can receive a high level of trust from all consumers.

Roles of the Quality Assurance Headquarters

To increase reliability in the efficacy, safety and quality of our products, it is essential that we carefully analyze our business activities from the point of view of consumers (quality assurance), and ensure all areas of our business, ranging from research and development to manufacturing and sales which are carried out using reliable methods, are consistently in compliance with laws and regulations.

Firstly, in the research and development stage, various tests to evaluate the efficacy and safety of our products are carried out using the appropriate methods, and other methods are developed to produce high-quality products. We find it highly important that these records are kept in a form where reliability is guaranteed. The Non-Clinical Quality Assurance Section and GCP* Audit Section are responsible for quality assurance at this research and development stage.

Next in the manufacturing and sales stage, our products are manufactured and shipped using the appropriate equipment and predetermined procedures, and further down the line, the Product Quality Assurance Division is constantly monitoring that the products sold on the market are of our guaranteed level of quality.

In addition, to provide our customers peace of mind, it is highly important to promptly deliver to all consumers and medical professionals information regarding the proper use of our products and safety information. To achieve this, information relating to product efficacy and safety is collected, examined and evaluated, and the work to take the appropriate measures (postmarketing safety management and investigation) is carried out. The Company, taking into account differences in product characteristics and sales forms, sets up specialist organizations and performs the work responsibilities of each. These organizations include the Prescription Drug Pharmacovigilance Division and Postmarketing Surveillance Division responsible for medical pharmaceuticals as well as the Self-Medication Pharmacovigilance Division in charge of OTC drugs, quasi-drugs, cosmetics, medical equipment and food.

This quality assurance work must be done in cooperation with a number of departments. The Quality Assurance Headquarters takes charge in an operational role creating a cooperative framework that clarifies the division of duties and responsibilities.

* Good Clinical Practice: quality standards for clinical trials

■ Quality Assurance Organization for Taisho Pharmaceutical Holdings and Taisho Pharmaceutical

	Unit	Operations Overview
Taisho Pharmaceutical Holdings	Quality Assurance Management Section	Quality assurance and safety management of the products of Taisho Pharmaceutical Group companies in Japan and overseas
Taisho Pharmaceutical's Quality Assurance Headquarters	Product Quality Assurance Division	Quality assurance for products including pharmaceuticals, quasi-drugs, cosmetics, medical equipment and food
	Prescription Drug Pharmacovigilance Division	Safety management for ethical drugs and investigational new drugs
	Postmarketing Surveillance Division	Management of postmarketing surveillance for ethical drags, and quality assurance for postmarketing safety management and surveillance
	Self-Medication Pharmacovigilance Division	Safety management for products including OTC drugs, quasi-drugs, cosmetics, medical equipment, food and investigational new drugs and postmarketing surveillance for Pharmacist Intervention Required Medicines
	GCP Audit Section	GCP audits and quality assurance for clinical trials
	Non-Clinical Quality Assurance Section	Quality assurance for non-clinical studies and investigational new drugs
	Management Section	Management of manufacturing and marketing operations, promotion of quality assurance from R&D through postmarketing, and management of the Quality Assurance Headquarters

Fundamental Philosophy and Policies

To ensure the peace of mind and satisfaction of our consumers, it is essential that all employees carry out their work earnestly in a manner based on our shared philosophy. The Company defines our fundamental philosophy in quality assurance on the basis of management philosophy, comprehensive in all concepts related to reliability.

Furthermore, to realize this fundamental philosophy, the Company:

1. At all times takes the opinions of all our consumers with the highest sincerity, and puts these into action to improve our quality and safety management.
2. Acquires all the latest knowledge in response to the progress and changes in quality assurance practices that have accompanied the progress in science and technology and diversification of products.
3. Establishes a cooperation framework between the departments involved, clarifies the framework of responsibilities, and at all times gives energy to the organization to allow several departments working cooperatively to proceed in their tasks.

For this purpose, these principles were established as our fundamental policy in quality assurance work, and we always strive to develop and strengthen the quality assurance systems even further.

Taisho Pharmaceutical Group Initiatives

To respond to the acceleration in globalization, we established the new Quality Assurance Management Section in April 2015, building a management system centered on the Head Office to promote quality assurance and safety management at a high level at Group companies both in Japan and overseas. We are actively engaged in pharmaceutical quality assurance for building a global quality assurance system. The Company and Group companies collaborate to strengthen the pharmacovigilance system to assess and review safety properly and to take appropriate safety measures to ensure that pharmaceuticals are safer and more secure for people overseas.

We comply with the laws and regulations of each country, share our fundamental philosophy throughout the Taisho Pharmaceutical Group, and work to provide products, information and services that our customers overseas can rely upon.

<Fundamental Philosophy for Quality Assurance>

We constantly strive to ensure product safety and to improve product quality from the consumers' perspective. We are also dedicated to the peace of mind and satisfaction of our customers. This commitment is unwavering.

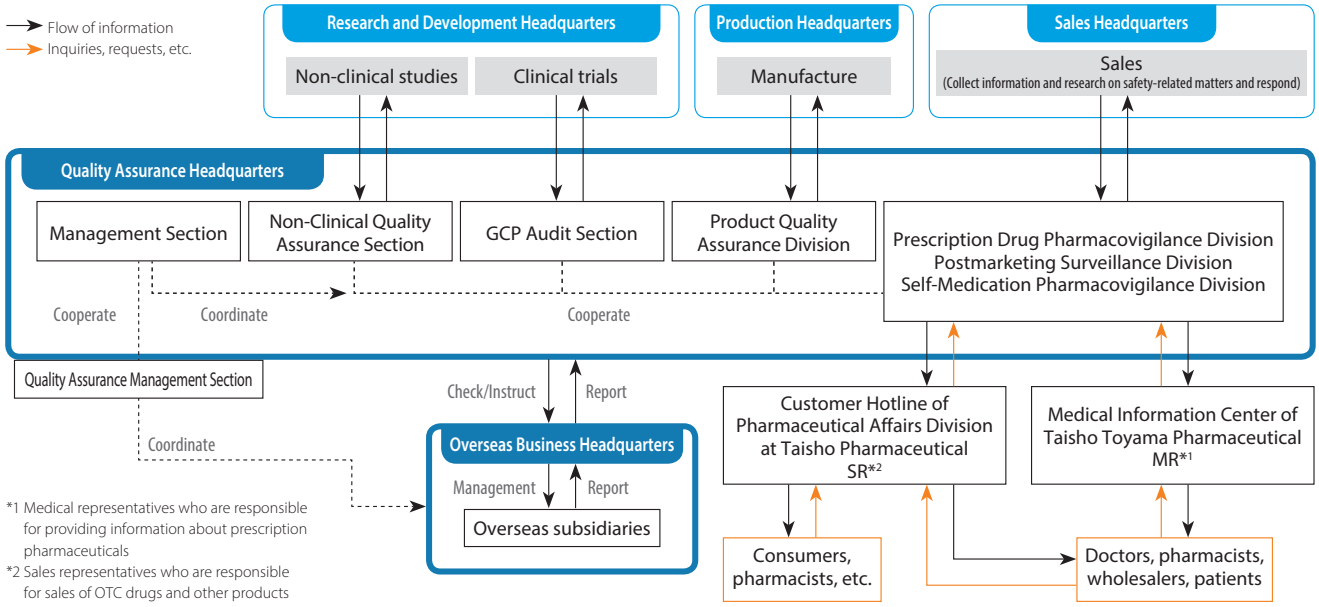
<Fundamental Policies for Quality Assurance>

1. Stance: We will listen to consumers' opinions and meet their expectations.
2. Technology: We will constantly aim for the most advanced technology, adopting a global perspective.
3. Management: We will constantly work on self-management activities that ensure the reliability of our activities.

<Quality Policy>

We continue to provide products high in quality, efficacy, and safety that earn the trust of our consumers, and bring them peace of mind and satisfaction.

Operational Framework of Taisho Pharmaceutical's Quality Assurance Headquarters



Compliance

The Taisho Pharmaceutical Group, based on its management philosophy, values its founding spirit of doing business as a *shinsho**, and is striving for Groupwide compliance.

* *Shinsho*: Literally translated as "gentlemanly business"
Refers to the operation of a business with honesty, diligence, and passion; instilling an individual and a company with pride to fairly interact with society and consumers.

Code of Conduct and Declaration of Corporate Conduct

In July 2001, Taisho Pharmaceutical formulated its Code of Conduct as its standard of judgment for officers and employees when working to achieve its corporate mission and as basic guidelines for conduct at various workplaces. In addition, we work to instill thorough understanding of the code by providing each employee with a copy of the Compliance Guide, which concretely explains each item in the code.

In August 2006, to enable more immediate and specific understanding of the code, we formulated a code of conduct for each division. Divisions are using their codes as guidelines in the context of actual situations, and these codes are reviewed as needed due to changes in the business environment and organization.

In April 2010, in light of changes in society, we formulated the Declaration of Corporate Conduct and announced it inside and outside the Group.

In March 2014, we distributed the Compliance Guide Booklet to further promote understanding and practical application of compliance in the workplace.

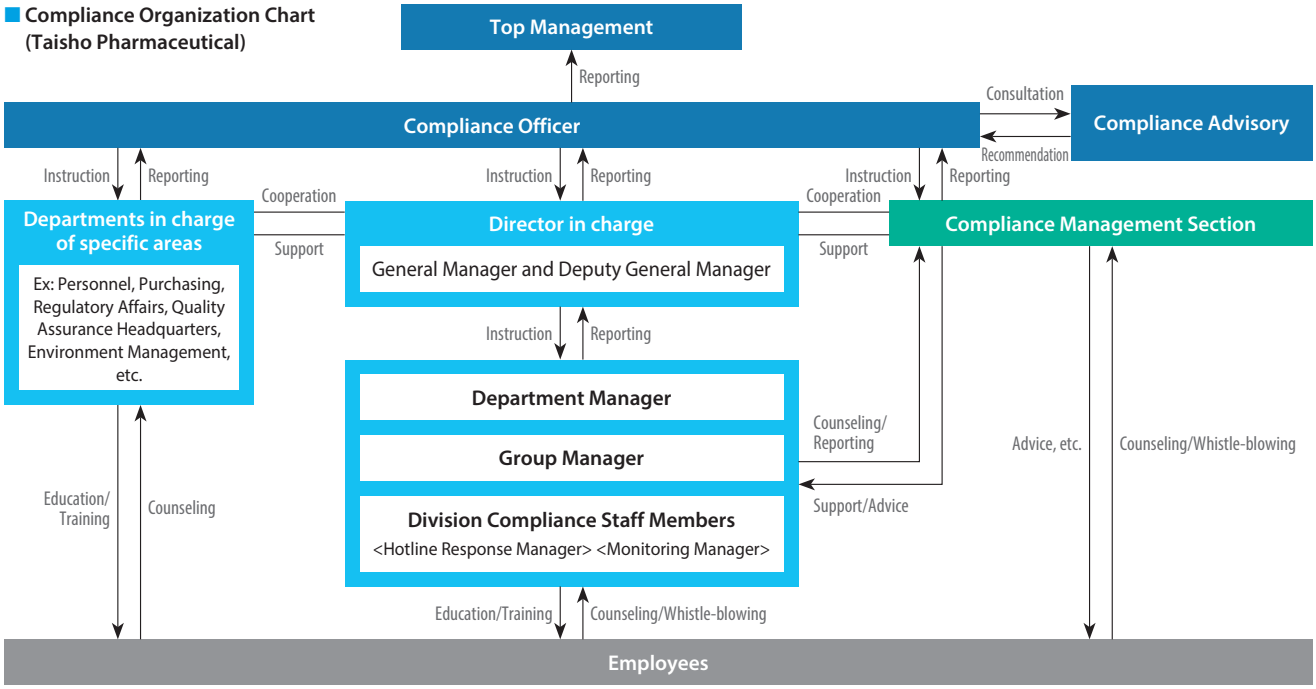
The Compliance Guide Booklet

The Taisho Pharmaceutical Group's Declaration of Corporate Conduct and Code of Conduct are available on our corporate website

The Taisho Pharmaceutical Group's Declaration of Corporate Conduct
http://www.taisho-holdings.co.jp/en/about/compliance/declaration.html

The Taisho Pharmaceutical Group's Code of Conduct
http://www.taisho-holdings.co.jp/en/about/compliance/principles.html

■ **Compliance Organization Chart (Taisho Pharmaceutical)**



Compliance Framework

To ensure promotion of compliance activities, Taisho Pharmaceutical Holdings has appointed one of its officers as a compliance officer and established the Compliance Management Section as a specialized unit.

All officers assist the compliance officer, and are responsible for compliance education in their respective divisions. General managers and group managers promote monitoring and education activities in their divisions and groups to ensure thorough compliance. Generally, two members of each division are in charge of compliance matters within their division. They assist the general manager in promulgating compliance and handle workplace monitoring and consultations with employees.

In addition, as our basic structure for carrying out compliance, we emphasize implementing process management using a Plan-Do-Check-Action management cycle to achieve our targets.

Moreover, we work to educate the employees of major subsidiaries regarding compliance in daily activities with social standards (including laws, social norms and corporate ethics) our philosophy, Declaration of Corporate Conduct, Code of Conduct and internal rules.

In this manner, we create a Groupwide compliance mindset by broadly promoting compliance activities that are rooted in the workplace. We have also established a framework for quickly detecting compliance issues and discussing questions so that the entire Group can take a proactive approach to compliance.

Hotlines

Taisho Pharmaceutical Holdings has established wide-ranging hotlines for reporting, consultation and fielding concerns regarding actions such as corporate or individual violations of laws, ethics or internal rules. These include the Compliance Management Section Hotline, the Harassment Hotline, an external hotline known as the External Attorney Hotline, and the Counselor Section Hotline. In addition, a Minor Concern Corner has also been set up for worries that are not serious enough to warrant contacting a hotline. Each of these hotlines is widely available to Taisho Pharmaceutical Group employees as well as personnel including contract employees, part-time employees and temporary employees. Regardless of the situation, in accordance with the Company's Internal Reporting Regulations, the privacy of hotline users is assured and related parties are obligated to maintain confidentiality.

Fair Business Practices

Approach to Purchasing

A fair approach to purchasing that complies with laws and regulations has become increasingly important given the current strict scrutiny of compliance and corporate ethics. We ensure thorough awareness among employees and request suppliers to understand and cooperate with our approach.

Purchasing Division Code of Conduct

- Appropriate selection of suppliers and setting of transaction terms
- Stable procurement, cost management and supplier management
- Precise purchasing procedures
- Improvement of knowledge and capabilities as Purchasing Division employees
- Thorough purchasing compliance

In the Purchasing Division, we are working to implement proper purchasing procedures by establishing the above action guidelines.

Conducting Workshops

We regularly conduct workshops for suppliers to obtain their understanding of issues including our compliance, environmental initiatives and other policies and pharmaceutical industry trends.

Fiscal 2016 Autumn Supplier Meeting workshop

Each company in the Taisho Pharmaceutical Group cooperates with local governments and other bodies as a member of the community, building trust with local residents and conducting various social contribution activities.

Promotion of Sports

● Rugby Football

Since 2001, Taisho Pharmaceutical Co., Ltd. has contributed to the promotion of rugby, supporting the Japan National Rugby Football Union team as an official partner. Since 2002, we have also been the main sponsor of the Lipovitan D Challenge Cup, which invites national and other teams from overseas, and have supported the team's European tour since 2013. We have also supported Japan's men's national rugby football sevens team since 2013 and Japan's women's rugby football sevens and union national teams since 2014.

Japan National Rugby Football Union team
©JRFU, 2017

● Baseball

Since 2013, Taisho Pharmaceutical has supported the dreams of the young people who are the future of professional baseball in Japan by sponsoring the television broadcast of the Nippon Professional Baseball Amateur Player Draft held by Nippon Professional Baseball. In addition, we help to expand the circle of friendship and goodwill among the children of the world through our support of the World Children's Baseball Fair held by the World Children's Baseball Foundation.

Nippon Professional Baseball Amateur Player Draft

26th World Children's Baseball Fair in Toyama, International Exchange Games
©WCBF, 2016

Participation in and Cooperation with Social Activities

Aiming for a world free of hunger, we share the goals of the World Food Programme (WFP), an organization that conducts food assistance activities around the world. We have conducted supported activities since 2008 as a trustee of the Japan Association for the World Food Programme, an authorized non-profit organization that supports WFP, and since 2009, we have supported WFP End Hunger: Walk the World, a support program in which the general public can participate.

Moreover, we have supported Junior Achievement Japan since 2005. This organization conducts support activities with the goal of cultivating socially self-reliant young people by helping them understand the structure of society and economic systems. In addition, we are now working on public awareness toward disaster prevention, as well as implementing day-to-day training and regional disaster prevention with disaster relief volunteer leaders to support efforts to prepare for large-scale disasters. This support is provided through the Disaster Relief Volunteer Promotion Committee established based on the lessons learned from the Great Hanshin-Awaji Earthquake.

Relationship with the Local Government Where Our Headquarters Is Located

We work closely with the local government and police and fire departments where our headquarters is located to promote safety and security measures for the community. The Mejiro Area Special Organized Crime Prevention Countermeasure Consociation is a neighborhood consociation within the jurisdiction of the Mejiro Police Station, Metropolitan Police Department. Its aim is to eliminate special organized crime within the jurisdiction of the Mejiro Police Station. We have participated in its activities since its inception.

In addition, we are a party to the Takada Area, Toshima City Mutual Support Agreement during Disasters, etc., which is an agreement of mutual support among eight organizations including resident associations, city facilities and companies around our headquarters that promotes disaster countermeasures in cooperation with the local community, including cooperation in evacuation drills for neighborhood facilities.

Factory Tours

Taisho Pharmaceutical's Omiya, Okayama, and Hanyu Factories host tours for a wide range of generations from children to adults, attended by over 4,000 visitors annually. Tours explain the production processes for core products such as *Lipovitan D* and

Pabron to communicate security and safety from a manufacturing site as an effort to share understanding of our quality control and environmental preservation activities. In addition, the Omiya Factory invites Saitama Prefecture elementary school students to take interactive factory tours that leave a lasting impression in ways including teaching subjects that are closely related to the community, such as the history of Yoshinohara Industrial Park, and incorporating quizzes. Since 2009, we have also been conducting factory tours for elementary schoolchildren and their parents who live in Toshima-ku, Tokyo, where the Taisho Pharmaceutical headquarters is located.

Promotion Code and Transparency Guidelines Formulated

Pharmaceutical companies must cooperate with medical institutions and other organizations at every stage from R&D through manufacturing and sales, and therefore need to ensure transparency and highly ethical conduct.

As an organization that handles pharmaceuticals, the Group therefore consistently ensures highly ethical conduct and transparency, and has established and institutionalized a promotion code for its operations that enables it to meet societal requests. It also discloses information based on the Japan Pharmaceutical Manufacturers Association's Transparency Guideline for the Relation between Corporate Activities and Medical Institutions and discloses information based on the Japan Self-Medication Industry's Transparency Guideline for the Relation between the Activities of OTC Drug Companies and Medical Institutions.

Required Considerations in Pharmaceutical Research and Development

The discovery of outstanding pharmaceuticals requires wide-ranging research that employs human genes and cells and animal testing to confirm the safety and efficacy of new drug candidates. Pharmaceutical research and development therefore requires highly ethical standards with respect to life.

Research that employs human genetic analysis and cells requires sufficient consideration of issues in addition to scientific validity, including respect for human rights, commitment to safety, the protection of personal information, and bioethics. In accordance with internal regulations*1 that institutionalize these considerations, we conduct research after the fair and impartial deliberations of the Ethics Committee.

When conducting animal testing, the examination of testing details by the Animal Testing Committee, execution of testing, reporting of the conclusion of testing to the head of the research institution and relevant self monitoring are all carried out in accordance with the animal welfare concepts of the three Rs*2, which forms the basis of the Act on Welfare and Management of Animals and other regulations, as well as our internal regulations*3.

We have acquired certification of our internal animal testing facilities through a third-party organization, the Japan Health Sciences Foundation, which has verified the propriety of our animal testing.

*1 Ethical regulations regarding the use of human genes and cells
*2 Refers to replacement (the use of alternatives to animal testing), reduction (reduction of the number of animals used) and refinement (reduction of pain inflicted)
*3 Regulations regarding animal testing

Taisho Pharmaceutical's Customer Hotline and Taisho Toyama Pharmaceutical's Medical Information Center

Taisho Pharmaceutical's Customer Hotline has pharmacists, advisory specialists for consumers' affairs and qualified hair advisors on staff to provide consultation for OTC drugs sold mainly at dispensing pharmacies and drugstores; quasi-drugs sold at convenience stores, supermarkets and other retail stores; and food products such as Foods for Specified Health Use.

Taisho Toyama Pharmaceutical's Medical Information Center provides consultation concerning ethical drugs. It cooperates with sales departments, development departments, research centers, factories and branches to actively provide information by courteously, honestly and quickly responding to customers to earn their trust.

Customer feedback is collected in a database that provides useful information to relevant departments for product development and improvement and for service improvement.

Taisho Pharmaceutical's Customer Hotline

TEL.	03-3985-1800
Business hours	8:30–21:00 (daily, excluding weekends and holidays)

Taisho Toyama Pharmaceutical's Medical Information Center

Medical personnel only	0120-591-818
For general customers	0120-591-810
Business hours	9:00–17:30 (daily, excluding weekends and holidays)

The Uehara Memorial Foundation

Supporting the Future of the Life Sciences through Grants, International Symposiums and Other Means

In February 1985, the Uehara Memorial Foundation was established as a 70th anniversary project of Taisho Pharmaceutical to commemorate the footsteps of our honorary chairman, the late Shokichi Uehara. The objective of the Uehara Memorial Foundation is to promote research in pharmaceutical development and other life science fields to enhance people's lives and welfare. The foundation has provided approximately 8,700 grants and other forms of assistance totaling ¥26.7 billion.

Support for Researchers

Activities have included research grants for professional life science researchers; grants for overseas study; the Uehara Prize, an award recognizing research accomplishments; and international symposiums.

The Uehara Prize and Grant Presentation Ceremony

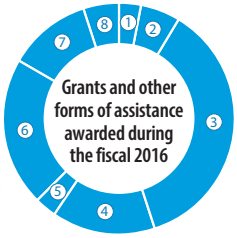
In March 2017, the Uehara Prize presentation ceremony was held at Uehara Memorial Hall in the Second Building of the Taisho Pharmaceutical headquarters. The winner was Professor Hidenori Ichijo (Graduate School of Pharmaceutical Sciences, Faculty of Pharmaceutical Sciences, The University of Tokyo) for his research on the theme of "From discovery of new stress signals to building a base for drug development." The joint award went to Professor Seishi Ogawa (Graduate School of Medicine, Kyoto University) and Professor Satoru Miyano (The Institute of Medical Science, The University of Tokyo) for their research on the theme of "Understanding molecular basis of cancer using advanced genomics."

Symposiums

The foundation promotes the life sciences by holding symposiums. In June 2017, the 12th International Symposium, based on the theme of "Make Life Visible," was held.

■ Total Amount of Grants and Other Forms of Assistance Awarded during Fiscal 2016

¥1,241.7 million



① Uehara Prize	¥40.0 million
② Designated research grants	¥69.0 million
③ Research grants	¥450.0 million
④ Research incentive grants	¥180.0 million
⑤ Special incentive grants to promote research	¥40.0 million
⑥ Overseas research fellowships	¥259.3 million
⑦ Overseas postdoctoral fellowships	¥141.2 million
⑧ Other	¥62.2 million

Uehara Museum of Art

Uehara Museum of Modern Art

Culture Promotion for the Community and Society

Uehara Museum of Modern Art opened in the city of Shimoda, Shizuoka Prefecture in spring 2000, and has a varied collection that includes Western modern paintings, Japanese modern paintings and sculptures. In addition to exhibitions from the collection, the museum offers lectures, workshops and collaborations with local schools to promote culture.

The monthly Gallery Talk artwork explanation

Projects for Culture Promotion during Fiscal 2016

- Three exhibitions held annually, mainly featuring collection works
- Collection works lent for domestic exhibitions
- Sjraar van Heugten presented the Van Gogh Lecture
- Museum newsletter issued
- Curator holds a monthly Gallery Talk artwork explanation
- Japanese-style painting, drawing, and watercolor painting classes
- Educational activities in collaboration with local schools: Held workshops (3 schools, 5 occasions) and lectures (2 schools, 2 occasions), accepted work experience students and trainee curators, provided appraisal education and training for teachers, held summer vacation workshops for junior high and high school students, etc.

Uehara Museum of Buddhist Art

* Reopening on November 3, 2017, following renovations

Contribution to Culture Promotion through Research of Buddhist Art

The Uehara Museum of Buddhist Art opened in May 1983 as a place for the general public to become familiar with Buddhist art. This is the only museum in Japan specializing in Buddhist art. In addition to exhibitions, it contributes to the promotion of local culture by conducting seminars and lectures about Buddhist sculpture making and sutra copying called *shakyo*.

A rendering of the completed renovation (Computer-generated graphics)

Projects for Culture Promotion during Fiscal 2016

- Sutra copy and Buddhist sculpture exhibition held
- Museum newsletter issued
- Seminars on *shakyo*, Buddhist sculptures and Buddhist art
- Lecture held on "Restoration of Buddhist statues in Izu" by Takao Makino, Kibi Conservation Studio for Cultural Objects
- Educational activities in collaboration with local schools: Lectures (11 schools, 12 occasions)

Social Activity Report

Working Together with Employees

Taisho Pharmaceutical Holdings, Taisho Pharmaceutical and Taisho Toyama Pharmaceutical are working together with their employees to create better working environments with the aim of aligning our mission as stated in our corporate philosophy with our objective of achieving the self-expression of our employees.

Employment and Employee Development

In recent years, society wants every employee to grow as a corporate professional who is independent, contributes to corporate results, is valuable to their company and is a human resource with value for society, which are factors necessary to enable companies to fulfill their social responsibilities. The Taisho Pharmaceutical Group is working to create an employee support framework that respects individuality.

Initiatives to Promote Engagement of Female Employees

The Group, as one of its fundamental ideas, "the building of a foundation and environment that engages high-level talent, regardless of gender," is proceeding with initiatives to achieve the goal set out by the government to private companies, requiring "female workers to hold 15% of management level positions (section chief equivalent or higher) by the fiscal year ending March 31, 2021."

As of April 2017, the proportion of female employees in the Group was 25.4%, while the proportion of female managers was 12.1%, with a relatively high 24.5% at research centers. Compared with five years ago, the percentage of women employed at the management level has increased 3.7%, and as of April 2016, one female officer was appointed as a director.

First, we aim to reach a percentage of females at the management level of 13% by the fiscal year ending March 31, 2019, by continuing to maintain an environment where highly motivated women can continue to be engaged, promoting training for the purpose of employee awareness, and expanding support measures.

Systems to Support Working while Providing Childcare and Nursing Care

We are providing support that allows employees to continue to work alongside their family commitments such as childcare and nursing care. This support includes the Flex Work Childcare System, which employees can use until their children complete their sixth year of elementary school, Babysitting Fee Assistance, the introduction of our e-Learning System that can be used while on parental leave, and a Care Leave system.

As of March 31, 2017, a total of 54 employees were using the Childcare Leave System of Taisho Pharmaceutical Holdings and Taisho Pharmaceutical, and 167 employees were using our Reduced Working Hour Childcare System.

Initiatives for Improvement of Both Work and Life

We are carrying out various initiatives that allow our employees to fully exercise their capabilities in and outside of the workplace and achieve self-realization by leading the life they wish.

One of which is the Refresh Vacation System with the aim of promoting mental and physical refreshment, entitling five consecutive days of paid leave. The same amount of paid leave is granted to those whose spouse is undergoing childbirth under the Spousal Childbirth Leave System, and employees are encouraged to take paid leave. The other system is the Stock Vacation System which allows employees to accumulate a maximum of 60 yearly paid vacation days. Employees can also use the system for relief efforts after a disaster and to engage in various volunteer activities, and have thus utilized the system for the purpose of supporting the restoration of employees' family homes damaged in the April 2016 Kumamoto Earthquakes.

Health Management

To maintain and enhance the health of our employees and their family members, we work with our health insurance society to conduct several types of activities such as periodic medical examinations, specific health examinations, spouse health examinations (examination rate of 76%), and as a measure to prevent the onset of diabetes, have rolled out measuring instruments for hemoglobin A1c.

In addition, to cut down on employees working long hours, we promote monthly reports on overtime from the Personnel Department to each division, reinforce efficient work habits through workplace management and conduct face-to-face guidance by occupational health physicians.

Mental Healthcare

We have established a site on our intranet exclusively for providing all kinds of mental health information, and through an agreement with a counseling company, have created an environment where any employee can undergo consultation at any time.

Additionally, we are working systematically on early prevention of mental health disorders by having a system in place at each workplace that leads swiftly to analysis and improvement if and when an issue arises, while inviting employees to be aware of their own state of stress by conducting their own stress checks and facilitating meetings with occupational health physicians if employees so desire.

Policies for Environmental Activities

Taisho Pharmaceutical promotes environmental activities and establishes tasks and initiatives for each fiscal year based on its Fundamental Policy and Code of Conduct related to the environment and on its Fourth Fundamental Environmental Plan (April 1, 2016–March 31, 2021), established in July 2016.

Fundamental Policy and Code of Conduct Related to the Environment

Taisho Pharmaceutical considers environmental issues a key priority in its corporate activities, and has set targets for conserving resources, reducing CO_2 emissions and other environmental issues.

<Fundamental Policy>

The mission of Taisho Pharmaceutical is to contribute to society by creating and offering superior pharmaceuticals and health-related products as well as healthcare-related information and services in socially responsible ways that enrich people's lives by improving health and beauty. Based on this mission, we consider the environment and biodiversity in all corporate activities from product R&D, manufacturing and disposal to distribution and sales.

<Code of Conduct>

1. We shall comply with environmental laws and regulations and our agreements with stakeholders including government institutions, related industry groups, and local residents. We shall also set voluntary management standards and work to improve our level of environmental management.
2. We shall reduce our use of limited energy and resources to promote energy and resource conservation and help preserve the environment, and work to reduce CO_2 emissions.
3. We shall promote the three Rs of reduce, reuse and recycle to reduce waste and practice responsible waste treatment.
4. We shall work to create the conditions for effective environmental initiatives by providing environmental information to all employees to raise their awareness and broaden their perspective.
5. We shall participate in the environmental activities of related pharmaceutical manufacturing organizations, material recycling organizations and other organizations, and cooperate with them on environmental tasks.
6. We shall work to achieve harmony with local communities by energetically participating in the preservation and improvement of the local environment.
7. We shall proactively disclose information related to the environment and participate in various environmental events to promote communication outside the Company.
8. We shall prepare for environmental emergencies in ways such as preparing appropriate systems and manuals, and shall upgrade our crisis management system.

TOPICS Environmental Initiatives at the No. 2 Logistics Building

The view of the No. 2 Logistics Building

The No. 2 Logistics Building started operations in September 2016. It is situated onsite at the Omiya Factory in Saitama City, Saitama Prefecture. The building includes environmental features such as energy saving and measures to reduce CO_2 emissions.

The roof is fitted with 1,144 solar panel modules, creating a solar cell capacity of 303 kWh. Inside, the building is lit by LED lighting, and the air conditioning uses individual units so that each area using air conditioning can be managed separately.

The overall structure has been built to withstand earthquakes, learning from the experience of the Great East Japan Earthquake. Every floor has enhanced seismic resistance as a flat warehouse.

As a production logistics facility, the No. 2 Logistics Building is designed to cope with speed and variation in OTC drugs and ethical drugs.

Solar panel modules

LED lighting

Environmental Activity Report

Environmental Objectives, Achievements and Future Initiatives

Objectives	Targets for the fiscal year ended March 31, 2017	Achievements of the fiscal year ended March 31, 2017	Self-assessment	Future initiatives
1. Rationalization of energy use	Reduce Groupwide average annual energy consumption*1 by 1% or more	▌Group total: down 1.6% Omiya Factory (including Research Center): down 3.4% Hanyu Factory: down 1.0% Okayama Factory: up 6.1% Sales and back offices: up 1.6%	○	▌Upgrade cooling facilities in the Omiya Factory and Hanyu Factory (increase efficiency) ▌Introduce LED lighting
2. Reduction of CO_2 emissions	Reduce the average amount of CO_2 emissions from the offices in Saitama Prefecture (Omiya Factory, Research Center, and Hanyu Factory over the fiscal years ending March 2016 to 2020 by 13% compared with the baseline year*2) (Target CO_2 emissions: 41,998 tons)	▌43,270 tons (down 10.4%)	×	
3. Promotion of environmentally friendly logistics operations	Reduce average annual energy consumption associated with transport by 1% or more against the baseline year by the fiscal year ended March 31, 2017	▌Down 1.5% year on year Fiscal year ended March 31, 2016: 0.0336 liter/ton-km Fiscal year ended March 31, 2017: 0.0331 liter/ton-km Annual average (over 5 years): down 1.5%	○	▌Promote modal shift on main transport routes (factories ⟶ branches) and review transport routes ▌Reduce energy consumption on transport in cooperation with freight companies and improve fuel efficiency ▌Reduce the number of deliveries by increasing delivery volumes
4. Appropriate management of waste treatment	Appropriately manage waste treatment operations through status checks of waste treatment conducted by the Environment Management Division and waste management self-checks at each office based on the Industrial Waste Management and Waste Management Regulations	▌Status checks of waste treatment: Conducted at 2 offices out of 15 ▌Waste management self-checks: Conducted at all 15 offices in May ▌Waste management seminars: Held at two offices	○	▌Continue conducting status checks of waste treatment and waste management self-checks ▌Continue holding waste management seminars at offices
5. Compliance with the Act on Rational Use and Proper Management of Fluorocarbons	Manage fluorocarbons in accordance with the act	▌Conducted simple inspections and periodic inspections ▌Ascertained amount omitted from calculation	○	▌Conduct inspections ▌Ascertain degree of calculation leaks
6. Promotion of environmental risk management	Eliminate environmental risks*3 that have an impact on the external environment	▌Incidents of environmental risk that had an impact on the external environment: None	○	▌Identify environmental risks and assess their impact ▌Risk prevention measures
7. Promotion of environmental communication	Include environmental activities as a theme in Companywide basic training to raise the level of employees' basic knowledge Evaluate understanding of seminar content, improvement of environmental awareness, and environmental awareness on a five-point scale from −2.0 to +2.0 Target +1.0 or higher for each item	▌Carried out environment training in February 2017 as part of Companywide basic training and confirmed its effectiveness All divisions achieved the target	○	▌Repeated training has been effective, so the initiative will not be conducted in the fiscal year ended March 31, 2018
	Raise employees' awareness of the environment through Companywide environment month events and group training events, including environmental seminars held at each branch	▌Conducted questionnaire surveys to confirm the effectiveness of training events Achieved the target at the branches that held training events ▌Failed to achieve a total of 1,500 participants in the summer environmental month events July 2016 (summer): 1,499 participants February 2017 (winter): 1,534 participants	△	▌Incorporate activities in daily life, such as saving electricity and reducing resource consumption
	Publicly disclose information on environmental activities in a proper, fair and timely manner	▌Published the Social and Environmental Report (online edition) in September ▌Held environmental communication (February 2017)	○	▌Publish the Social and Environmental Report (online edition) ▌Participate in environmental activities held by external organizations

Self-assessment ○= Made progress with adequate results △= Made progress with some degree of results ×= More effort required although some progress was made

*1 Groupwide average annual energy consumption
Omiya Factory (including Research Center), Okayama Factory, and Hanyu Factory: Energy consumption / (operation hours × floor area)
Sales and back offices: Energy consumption / floor area

*2 Annual average of CO_2 emissions between the fiscal years ended March 31, 2003 and 2005 (Total emissions of the Omiya Factory, Research Center and Hanyu Factory: 48,275 tons)

*3 Events that have a certain magnitude, calculated by multiplying the impact of accidents or emergencies whose occurrence would have a significant environmental impact by the probability of such occurrence

Self-Medication Operation Group

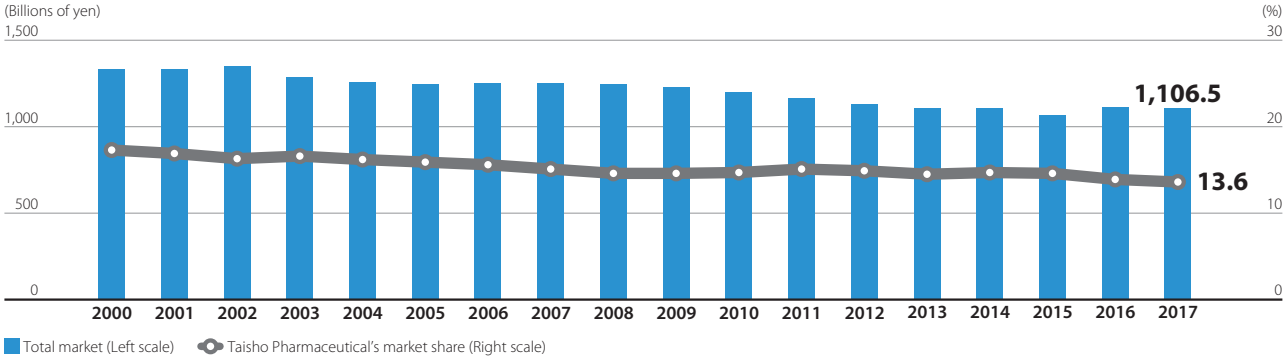
We are a leader in Japan's self-medication market with many top brands including the *Lipovitan* series of energy drinks, the *Pabron* series of cold remedies and the *RiUP* series of hair regrowth treatments. The Company strives to develop attractive products and provide detailed information to answer the diverse range of needs of consumers.

Market Environment

During the fiscal year ended March 31, 2017, Japan's over-the-counter (OTC) drug market was largely steady year on year. Although sales were strong in some categories, such as anti-inflammatory analgesics and nasal inflammation treatments, the boost from inbound demand tailed off. Looking toward the operating environment of the OTC drug market, there is the long-term trend of decline in the Japanese population with a rapidly aging society prompted by a low birthrate. In 2025, the so-called baby boom generation will all be over 75 years old, creating an advanced aging society. This change in population structure is expected to have major effects on the OTC drug market. These demographic changes imply a substantial burden in terms of public health expenditure that is only likely to get heavier over time. The importance of OTC drugs will also increase as the message of self-medication, a national policy, gradually sinks in. Faced with these business conditions, the Self-Medication Operation Group seeks to help consumers satisfy their desire to maintain their health and beauty as they grow older in age by actively developing products in new areas or based on new concepts responding to consumers' heightened health consciousness and related changes.

Switch OTC drugs, which are ethical drugs repurposed into OTC drugs, have not made significant progress, but we have set in motion a new plan aimed at spurring on the switch OTC process. Furthermore, from January 2017, a new self-medication tax system was implemented in Japan that made the purchase of switch OTC drugs tax deductible, which expands the choices

Japan's Over-the-Counter (OTC) Drug Market (Fiscal years ended March 31)



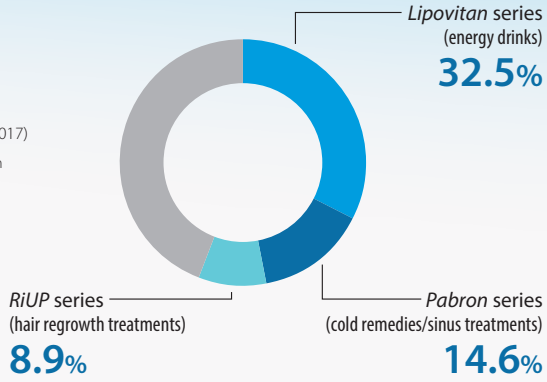
Source: INTAGE Inc.
Note: Includes quasi-drug energy drinks and mini-drinks in the drug category. (Taisho's estimates based on INTAGE SDI/SRI data)

Sales of Main Brands* (Fiscal year ended March 31, 2017)

* Sum of sales in millions of yen, rounded to the nearest 1 million

Net sales

¥180.0 billion



available to consumers. Beyond OTC drugs, the system of Foods with Function Claims was launched in April 2015, where products with easy-to-understand packaging labels outlining functionality are increasing, even outside of Foods for Specified Health Use. In addition, the ongoing government review of market approval standards for healthcare drugs containing vitamins (quasi-drugs) could result in new requirements in the future.

In this changing environment, health and beauty awareness is rising among consumers and their needs are becoming more diverse. Despite the downward trend in self-medication and related markets, we believe that there is sufficient potential to expand the market by responding to each of these needs. For this reason, we have to devise new marketing activities that accurately capture the movements and voices of consumers and lead them toward the act of purchasing.

Initiatives in Japan

In product development, our focus is on the development of new sectors that respond to the heightened health consciousness of consumers, while also working to stimulate new demand by focusing development more closely on satisfying the needs of consumers. On the marketing front, we are conducting campaigns to broaden points of contact with consumers and generate empathy so that we can further enhance the value of our flagship brands such as *Lipovitan*, *Pabron* and *RiUP* while cultivating new brands. In the fiscal year ended March 31, 2017, we began using the new "Have a Dream" communication concept with *Lipovitan D* to position the product as one that continues to support hard-working, aspirational consumers. We also launched several limited-edition bottles for *Lipovitan D* in a bid to give the product a more familiar appeal. Other products aimed at responding to consumers' changing needs that we launched during the year included the switch OTC medication *Clarityn® EX* for allergic rhinitis and the Food with Function Claims *Natural Care Powder Stick (GABA)*. Going forward, we will continue working to upgrade these initiatives.

Pabron series

RiUP series

Clarityn® EX

Limited-edition *Lipovitan D* bottles

TOPICS

New "Have a Dream" concept for *Lipovitan D*

New communication concept developed for *Lipovitan D* commercials

New communication concept: "Have a Dream"

Celebrating its 55th year in 2017, *Lipovitan D* continues to support hard-working, aspirational people

● "Have a Dream" includes the following ideas: ●

Anyone with a dream in sports, work, study or leisure pursuits

Even when you cannot go on or want to give up

Lipovitan D gives you a supportive push at these times

Inspiring you in that instant to continue striving for the dream

Lipovitan D has been on the Japanese market for 55 years since its launch in 1962. It has changed with the times as Japanese society has seen rapid economic expansion, the bubble boom, the lost decade, the recent rise of female empowerment, and the spread of the Internet.

While *Lipovitan D* has developed alongside the growth of the Japanese economy, "dream" was identified as the key concept when we thought about how the product could become a source of empowerment for people in their daily lives. Dreams and hopes are vital in motivating people to advance. *Lipovitan D* can be the brand that supports the fulfillment of dreams as one step on the path to creating a brighter future, helping to bring these dreams within reach. The campaign based on the new communication concept began in September 2016.

The new television commercial features two professional sports stars, namely soccer player Kazuyoshi Miura of Yokohama FC and baseball player Shohei Otani from the Hokkaido Nippon Ham Fighters. Having repeatedly broken the record for the oldest player ever to score in the J-League and played at the highest level as one of the pioneers of Japanese professional soccer, Mr. Miura is well positioned to communicate the "Have a Dream" message. Mr. Otani features as a younger star who is taking on challenges to make his dreams come true.

Becoming the brand that supports the dreams of many represents a new challenge for our brand. *Lipovitan D* will support those who take on challenges and continue to work toward their goals, and create a brighter future with them.

TOPICS

Self-medication tax system (deductibility of medical expenses)

A new tax system was introduced in Japan from January 2017 to help promote greater use of switch OTC drugs.

With the aim of giving assistance to those people willing to manage their own health, the new self-medication tax system grants a deduction for annual purchases of switch OTC drugs above ¥12,000 (capped at ¥100,000) for those paying income tax or local resident's tax. This system is a boon not only for consumers, but for Japan as well. As the leading player in Japan's OTC drug market, Taisho Pharmaceutical plans to work in close partnership with the Japan Federation of Self-Medication Industries, and with pharmacies and drugstores, to promote greater awareness of the system among the public.

Institution of tax deductibility for switch OTC drugs to promote self-medication
(applicable to income tax and local resident's tax)

[1] System overview

From the perspective of encouraging consumers to switch to OTC drugs from prescription drugs as part of appropriate health management practices, those persons seeking to maintain and improve health or prevent disease based on certain procedures*1 can claim a deduction to gross income in the same year in respect of total amounts paid over and above ¥12,000 for the purchase of switch OTC drugs*2 for personal use, or for use by a spouse or family member. This deduction, which is capped at ¥88,000 per year, is available from January 1, 2017 to December 31, 2021.

*1 Medical examinations, vaccinations, periodic health checks, health checks, and cancer screenings
*2 Pharmacist Intervention Required Medicines or OTC drugs that have been reclassified as not requiring a prescription (excluding similar drugs not covered by public medical insurance)
Note: Claims for this deduction disqualify any claims in the same year for tax deductions related to other medical expenses.

[2] Further details

Products covered by this deduction (switch OTC drugs)

- Number of switch OTC ingredients: 83 (as of January 13, 2017)
  - Types of switch OTC drugs by category: cold remedies, gastrointestinal remedies, nasal sprays or sinus treatments, athlete's foot products, analgesics and anti-inflammatory preparations

Note: This list is not exhaustive

* Self-medication is defined by the World Health Organization (WHO) as "the selection and use of medicines by individuals to treat self-recognized illnesses or symptoms."

Source: Ministry of Health, Labour and Welfare

Please refer to our website. (only Japanese) http://www.taisho.co.jp/self-medication/sm_tax.html

[Reference] The Japan Federation of Self-Medication Industries' Advantage Self-Medication Tax System http://www.jfsmi.jp/lp/tax/

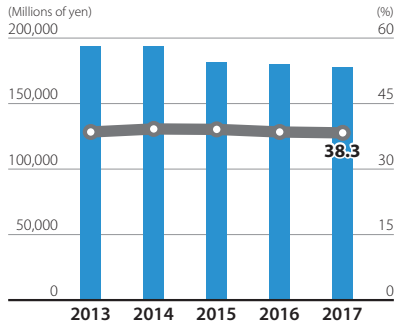
Factual Data

Market Share of Taisho Pharmaceutical's Main Brands (Fiscal years ended March 31)

(Taisho Pharmaceutical's estimates based on INTAGE SDI/SRI data)

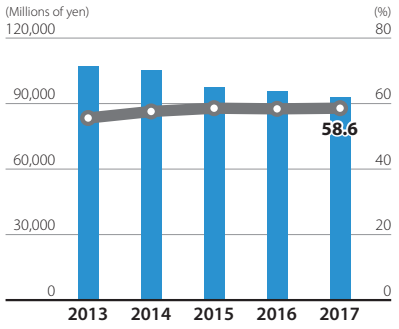
■ Market size (Left scale) ◆ Taisho Pharmaceutical's share (Right scale)

Overall energy drinks (①+②)



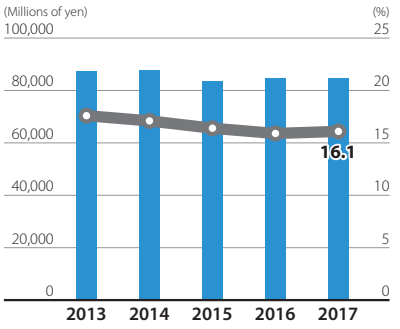
100mL drinks ①

(*Lipovitan* series)



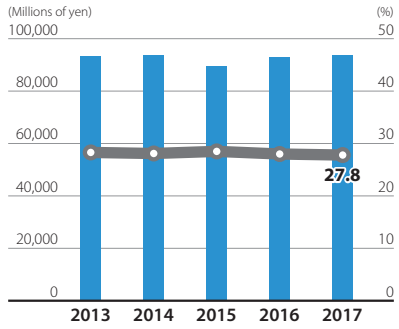
Mini-drinks ②

(*Lipovitan* series + *ZENA* series and others)



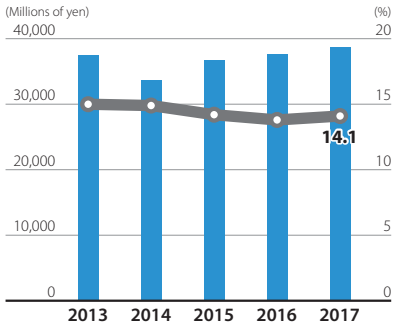
Cold remedies

(*Pabron* series)



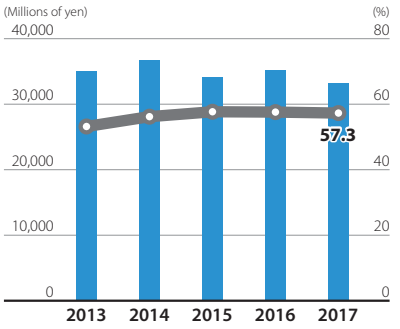
Sinus treatments

(*Pabron* series)



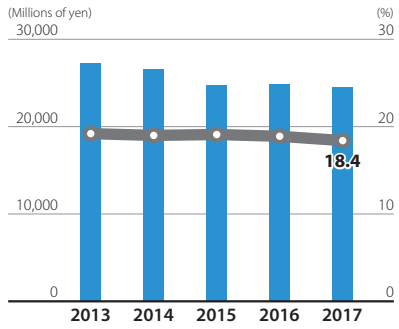
Hair-care products

(*RiUP* series)

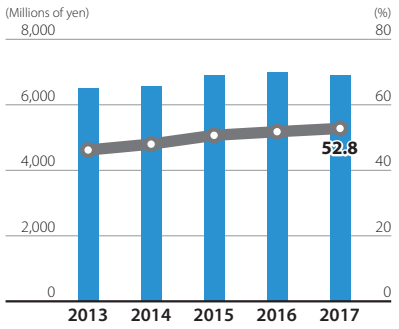


Laxatives

(*Colac* and others)

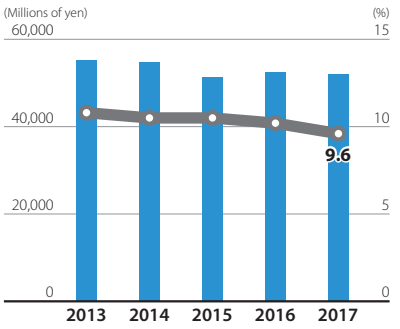


Cough suppressant throat lozenges and medicated drops (*VICKS*)



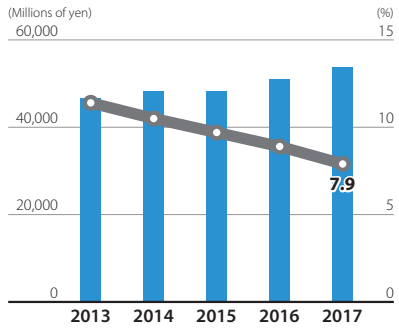
Gastrointestinal treatments

(*Taisho Kampo* and others)



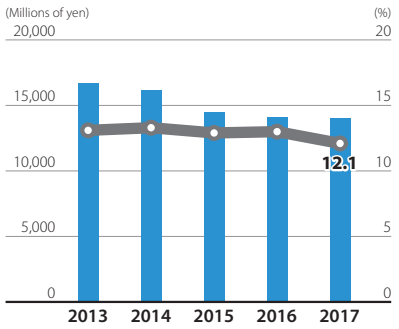
Antipyretic analgesics

(*NARON* and others)



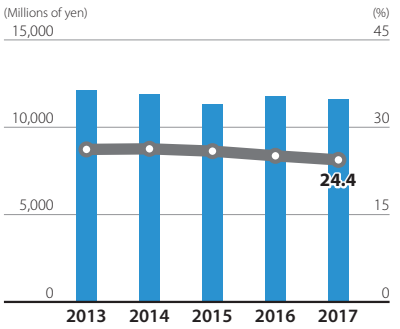
Athlete's foot treatments

(*Dermarin* series)



Hemorrhoid treatments

(*Preser* series)



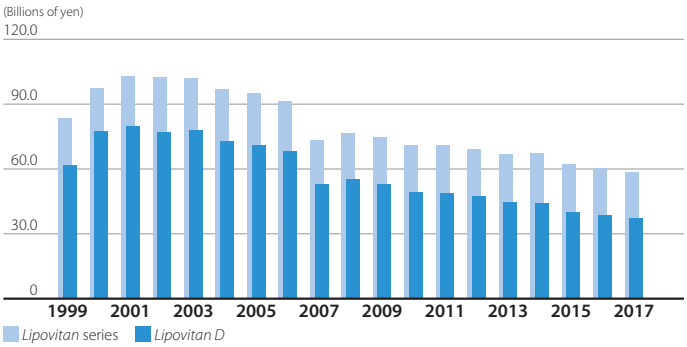
Sales of Main Brands (Fiscal year ended March 31, 2017)

Product Name	Sales (Billions of yen)	% of Total
Lipovitan series	58.5	32.5
Lipovitan D	37.2	20.7
Pabron series	26.3	14.6
RiUP series	16.1	8.9
Livita series	3.8	2.2
Gastrointestinal treatment series	4.0	2.2

Product Name	Sales (Billions of yen)	% of Total
VICKS series	3.6	2.0
NARON series	3.4	1.9
Colac series	3.3	1.8
Biofermin series	8.8	4.9
Overseas energy drinks	9.4	5.2
Overseas OTC drugs	17.2	9.6

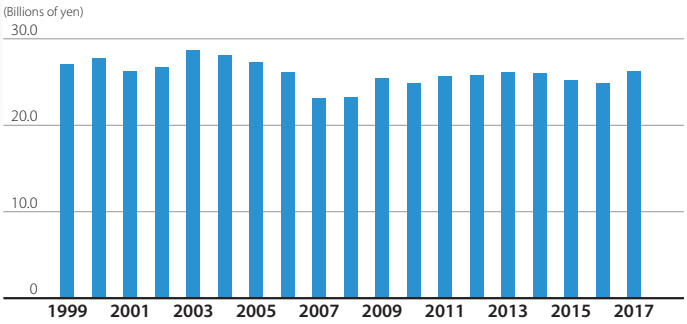
Lipovitan series/ *Lipovitan D*

As a result of deregulation in 1999, sales channels were extended beyond pharmacies and drugstores to include other outlets such as supermarkets and convenience stores. Taisho is rolling out products that meet a diverse range of consumer needs.



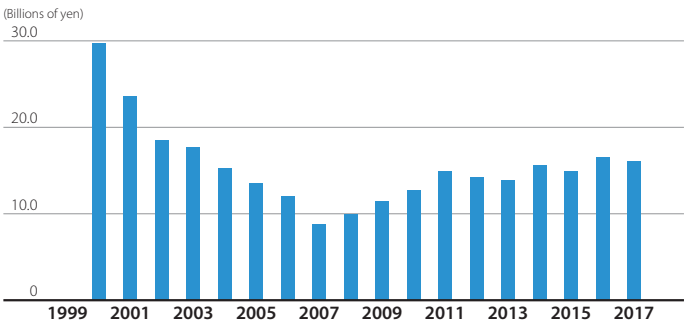
Pabron series

This series comprises a broad range of products, including cold remedies, sinus treatments, and important anti-cold products such as gargles, hand-washing treatments, and face masks.



RiUP series

In 1999, the hair regrowth treatment *RiUP* was launched. This is the only hair loss remedy in Japan with recognized efficacy for treating premature hair loss.

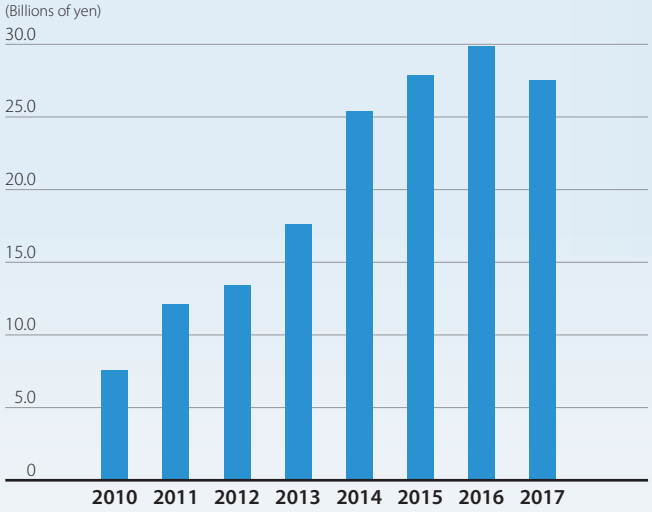


Initiatives Overseas

Overseas, the Self-Medication Operation Group is working to strengthen OTC drug and energy drink franchises, mainly targeting Southeast Asia, which is expected to be an expanding market due to population and economic growth.

We achieved our 10% target for consolidated net sales in the fiscal year ended March 31, 2016. We continue to work on enhancing the Taisho Pharmaceutical Group's presence within Southeast Asia to develop the business around OTC drugs and realize sustained growth. We are working to broaden the user base for well-known brands such as the topical anti-inflammatory analgesic *Counterpain* and antipyretic analgesic *Tempra* by developing line extensions in the form of new products and formulations. To build a foundation for medium- to long-term growth, we are also utilizing the Group's resources to develop operations in new countries and sectors outside of OTC drugs.

Overseas Sales (Fiscal years ended March 31)



▶ *Counterpain*

Topical anti-inflammatory analgesic

Marketed in

Thailand, Indonesia, Malaysia, Singapore

▶ *Flanax*

Anti-inflammatory analgesic

Marketed in

Philippines

▶ *Ezerra/Ellgy Plus*

Dermatological treatments

Marketed in

Malaysia, Thailand, Vietnam, Singapore, Indonesia

▶ Biofermin

Intestinal remedy

Marketed in

Taiwan, Hong Kong

▶ Tempra

Antipyretic analgesic

Marketed in

Philippines, Thailand, Indonesia

▶ Vitacilina/Derman

Dermatological treatment/ Athlete's foot treatment

Marketed in

Mexico, U.S.

Overseas development is focused on East Asia and Southeast Asia. We are actively working to develop the business to realize sustained growth.

▶ Banner

Supplement

Marketed in

Thailand

▶ Bonamine (Dramamine)

Treatment for motion sickness

Marketed in

Philippines, Thailand, Indonesia

Prescription Pharmaceutical Operation Group

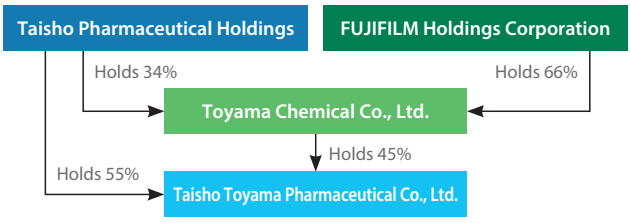
Besides maximizing sales of new prescription drugs in Japan by sales subsidiary Taisho Toyama Pharmaceutical, we are focusing further on R&D for highly original new branded drugs that can be successful internationally, and proactively working to enhance the pipeline by advancing the in-licensing of promising new drug candidates from domestic and overseas companies, along with joint development activities.

Business Conditions

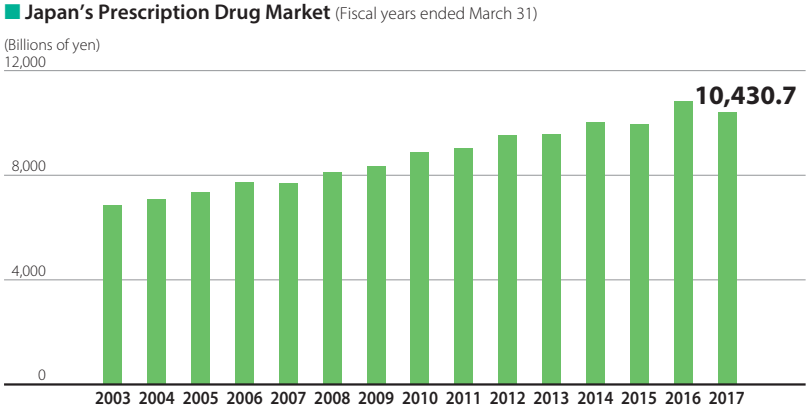
The Japanese prescription drug market declined 3.8% on an NHI price basis in the fiscal year ended March 31, 2017 to around ¥10.4 trillion. Amid the difficulties of discovering new drugs, this reflected the impact of the NHI price revision in April 2016 and the negative year-on-year comparison caused by the prior year's introduction of new treatments for hepatitis C. Meanwhile, the various measures taken to appropriately adjust medical expenses such as promoting the use of generic versions of long-listed drugs have shown a marked effect, with the market share of generic drugs on a volume basis increasing every year. Under this set of circumstances, pharmaceutical companies increasingly need the ability to develop highly original new drugs in order to continue operating in the prescription pharmaceutical business.

Responding to the need to strengthen detailing activities for prescription drugs and to upgrade drug discovery capabilities, the Taisho Pharmaceutical Group established Taisho Toyama Pharmaceutical Co., Ltd. as a joint venture with Toyama Chemical Co., Ltd. The joint venture was set up as a sales company for prescription pharmaceuticals in Japan, with the aim of enhancing the Group's ability to create new drugs in the prescription pharmaceutical business. This alliance enables Taisho Toyama Pharmaceutical to conduct marketing of both the new drugs developed and launched by consolidated subsidiary Taisho Pharmaceutical as a result of its R&D and the new drugs created by Toyama Chemical.

Structure of the Group's Prescription Pharmaceutical Business

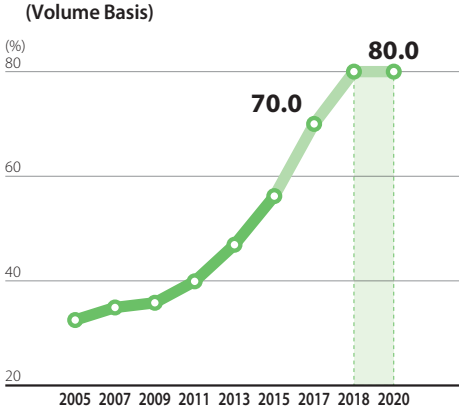


Japan's Prescription Drug Market (Fiscal years ended March 31)



Source: Calculated based on JPM Apr. 2002 – Mar. 2017, MAT. Reprinted with permission.

Market Share of Generic Drugs in Japan and Target (Volume Basis)



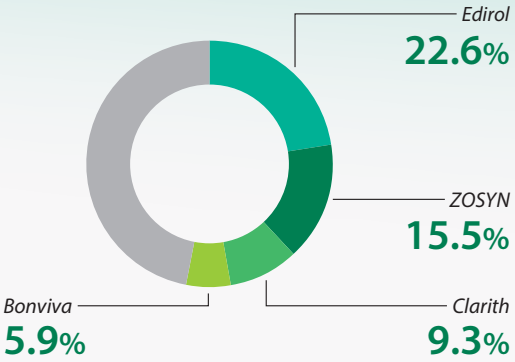
Note: Volume-based market share represents the share of generic drugs, where prescription drugs for which generic drugs are available and generic drugs are combined as the denominator.
Source: Survey by the Ministry of Health, Labour and Welfare

Sales of Main Brands* (Fiscal year ended March 31, 2017)

* Sum of sales in millions of yen, rounded to the nearest 1 million

Net sales

¥99.8 billion



Prescription Pharmaceutical Business Initiatives

Taisho Pharmaceutical, which handles new drug R&D, has prioritized four therapeutic areas in which it is concentrating resources to conduct initiatives to quickly launch new products, and is actively seeking to in-license compounds to bolster its development pipeline while also promoting stronger links with external research institutions to help generate a continuous stream of original drug development candidates.

Taisho Toyama Pharmaceutical is engaged in efforts to maximize the sales of drugs launched in recent years. These include two treatments for osteoporosis, the active vitamin D_3 agent *Edirol*® and bisphosphonate agent *Bonviva*® *Injection*, that are tackling a disease that has become more prevalent in Japan's aging society. Other drugs in the portfolio include the type 2 diabetes agent *Lusefi*®, launched in 2014, and the transdermal anti-inflammatory analgesic *LOQOA*® that was developed by subsidiary TOKUHON and launched in 2016. Having gained regulatory approval for the launch of several drugs in the past few years, the Taisho Pharmaceutical Group is also seeking to expand and upgrade the drug lineup with new products targeting the areas of metabolic diseases and orthopedic disorders.

Drugs under Clinical Development

Taisho Pharmaceutical has designated infectious diseases, orthopedic disorders, central nervous system (CNS) diseases and metabolic diseases as four therapeutic priority areas.

In the fiscal year ended March 31, 2017, TS-133 (preliminary indication: alopecia) and TS-142 (insomnia) advanced to Phase II clinical trials in Japan, while TS-121 (depression) entered Phase II trials outside Japan.

As competition in new drug discovery intensifies, we are working to continuously promote the development of new original drugs in collaboration with external research institutions and other companies from around the world to better expand our development pipeline and create a continuous stream of new drugs, primarily targeting the therapeutic areas that we have prioritized.

Taisho Pharmaceutical's Pipeline (As of May 15, 2017)

	Name	Formulation	Plan applicable diseases, patients	Development	Description	Remarks
In Japan	Phase 2					
	TS-091	Oral	Central disorders of hypersomnolence	In-house		
	TS-152	Injection	Rheumatoid arthritis	In-house	Anti-TNFα (tumor necrosis factor-alpha) antibody	Generic name: Ozoralizumab (in-licensed from Ablynx)
	TS-141	Oral	Childhood attention-deficit/ hyperactivity disorder	In-house		
	TS-133	Topical	Alopecia	In-house		
	TS-142	Oral	Insomnia	In-house		
Overseas	Phase 2					
	TS-121	Oral	Depression	In-house		
	Phase 1					
	TS-071	Oral	Type 2 diabetes	In-house	SGLT2 inhibitor	Generic name: Luseogliflozin Hydrate In Japan: Launched in May 2014 (Product name: *Lusefi*)
	TS-091	Oral	Central disorders of hypersomnolence	In-house		
	TS-134	Oral	Schizophrenia	In-house		

Factual Data

Sales of Prescription Pharmaceutical Operation Group Brands (Fiscal year ended March 31, 2017)

(Billions of yen)

Product Name	Description	Launch	Sales	% of Total
Edirol	Active vitamin D_3 osteoporosis agent	April 2011	22.6	22.6%
ZOSYN	Combination antibiotic with a beta-lactamase inhibitor	October 2008	15.5	15.5%
Clarith	Macrolide antibiotic	June 1991	9.3	9.3%
Bonviva	Bisphosphonate antiresorptive agent	August 2013	5.9	5.9%
Palux	Prostaglandin E_1 preparation (peripheral vasodilator)	October 1988	5.4	5.4%
Geninax	Quinolone antibacterial	October 2007	5.2	5.2%
OZEX	New quinolone antibacterial	April 1990	4.9	4.8%
Biofermin	Live lactobacillus preparation	—	3.9	3.9%
Lusefi	Type 2 diabetes mellitus agent (selective SGLT2 inhibitor)	May 2014	2.9	2.9%
LOQOA	Transdermal anti-inflammatory analgesic	January 2016	1.8	1.8%

Sales of Main Brands

(Billions of yen)

Fiscal years ended March 31	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Edirol	—	—	—	—	1.8	8.8	14.1	17.2	19.8	**22.6**
ZOSYN	—	4.0	10.7	14.8	17.6	21.5	25.4	26.9	27.3	**15.5**
Clarith	25.5	24.0	23.3	22.9	21.6	19.0	16.4	13.5	12.0	**9.3**
Bonviva	—	—	—	—	—	—	1.2	3.6	4.9	**5.9**
Palux	11.4	11.2	10.8	10.2	9.4	8.5	7.9	7.0	6.2	**5.4**
Lusefi	—	—	—	—	—	—	—	2.4	0.9	**2.9**
LOQOA	—	—	—	—	—	—	—	—	0.4	**1.8**

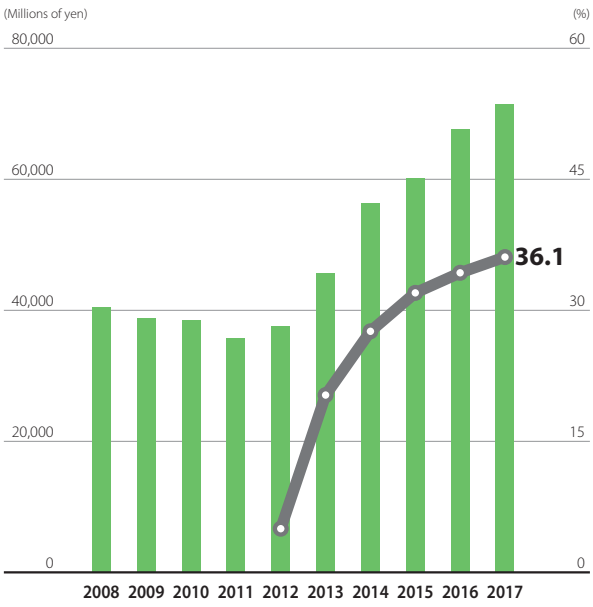
Market Share of Taisho Toyama Pharmaceutical's Main Brands

(Fiscal years ended March 31) (NHI price basis)*1

■ Market size (Left scale) ◆ Taisho Toyama Pharmaceutical's share (Right scale)

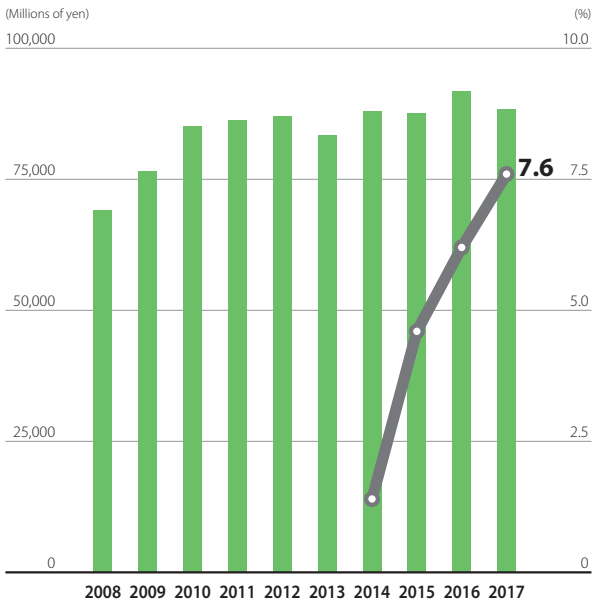
Active vitamin D_3 derivatives*2

(*Edirol*)



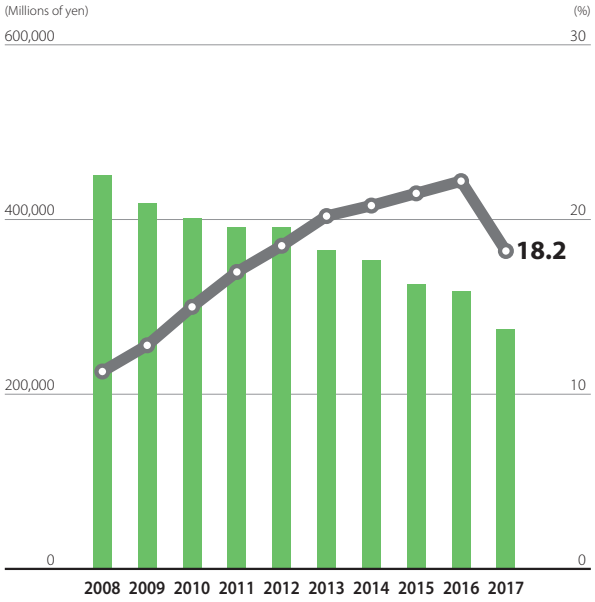
Bisphosphonate agents for osteoporosis and related diseases*3

(*Bonviva*)



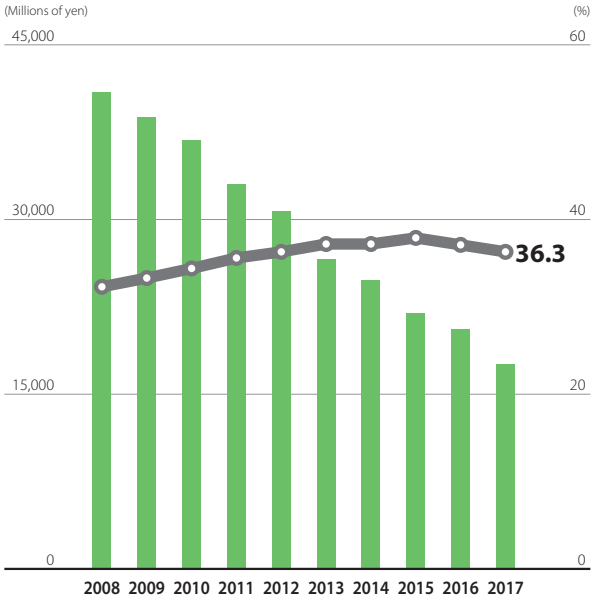
Antibacterial products*4

(*ZOSYN*, *Clarith*, *OZEX*, *Geninax* and others)



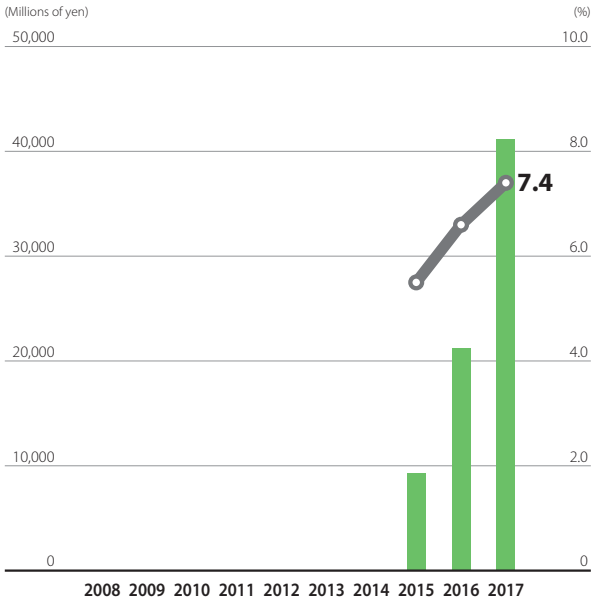
Peripheral vasodilator agent; injections*5

(*Palux*)



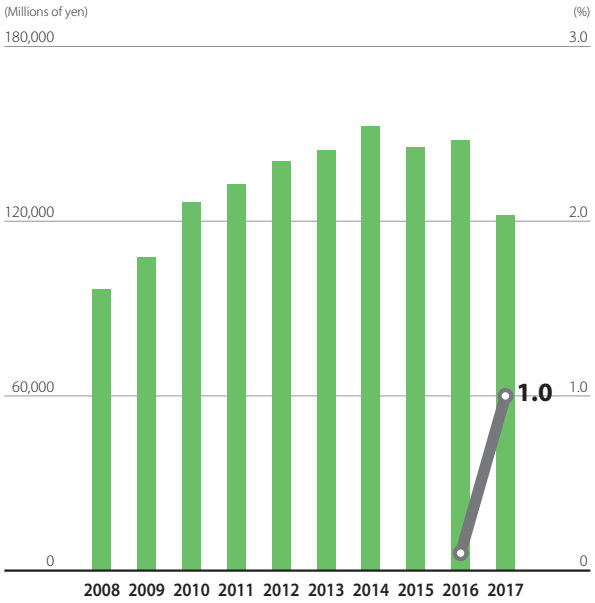
SGLT2 inhibitor

(*Lusefi*)



Topical anti-inflammatory analgesics; patches

(*LOQOA*)



*1 Copyright ©2017 IMS Health Source: Calculated based on JPM Apr. 2007 – Mar. 2017 MAT. Reprinted with permission.
*2 Market size represents total sales of the vitamin D agents (A11C2) alfacalcidol, calcitriol and eldecalcitol
*3 Market size represents total sales of bisphosphonates for osteoporosis and related diseases (M05B3), SERMS (G03J0), parathyroid hormones and related compounds (H04E0), calcitonin (H04A0), and other bone calcium regulators (M05B9)
*4 Systemic antibacterial agent (J01) market
*5 Market size represents total sales of alprostadil and argatroban

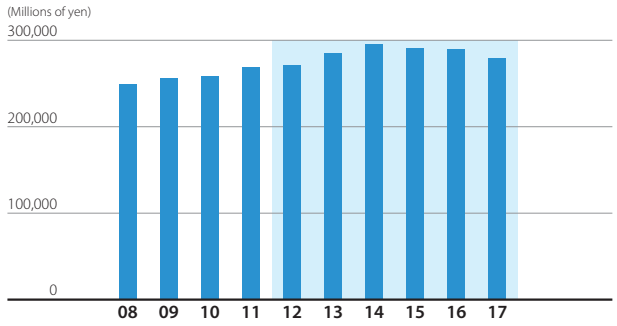
Consolidated Financial Highlights

Figures for the fiscal year ended March 31, 2011 and earlier are for Taisho Pharmaceutical.

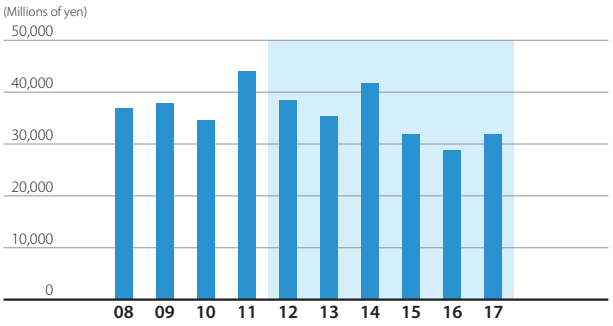
Fiscal years ended March 31	2008	2009	2010	2011
Net sales	249,655	256,213	258,441	268,632
Operating profit	36,952	37,935	34,686	44,082
Ordinary profit	41,896	39,902	36,671	54,077
Profit attributable to owners of parent	25,004	8,815	19,485	34,892
R&D expenses	24,745	27,523	28,118	23,677
Capital expenditures	5,765	5,814	21,132	7,870
Depreciation and amortization	12,618	11,014	11,533	11,725
Total assets	627,224	591,568	606,443	618,434
Current assets	249,463	215,872	215,686	233,170
Total net assets (Total shareholders' equity)	548,650	514,511	527,760	535,231
Free cash flow	15,682	23,252	50,719	45,701
Per share data (Yen)				
Profit attributable to owners of parent	84.01	30.01	67.98	124.90
Total net assets (Total shareholders' equity)	1,816.25	1,745.96	1,816.68	1,901.74
Cash flows*1	180.10	174.87	166.07	234.32
Dividends	27.00	27.00	27.00	27.00

Note: Calculated in accordance with corporate accounting standards for each fiscal year.
*1 Cash flows per share = (Profit before income taxes + Depreciation and amortization + Amortization of goodwill) / Average number of issued shares for the period
*2 The annual dividend of ¥90 per share for the fiscal year ended March 31, 2012 comprises the sum of ¥40 per share derived from the conversion of Taisho Pharmaceutical's interim dividend of ¥12 per share and the year-end dividend of Taisho Pharmaceutical Holdings of ¥50 per share.
*3 Includes the commemorative dividend for the 100th anniversary of the founding of Taisho Pharmaceutical.

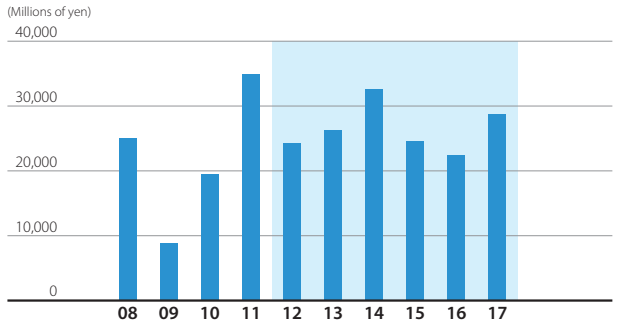
Net sales



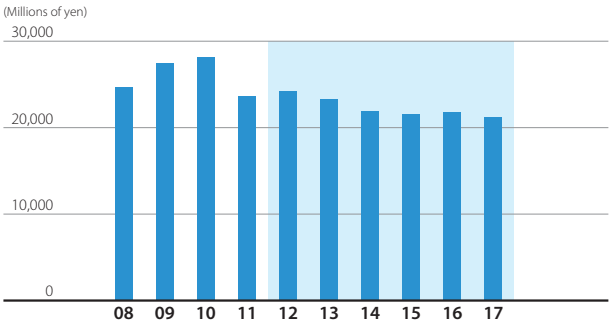
Operating profit



Profit attributable to owners of parent



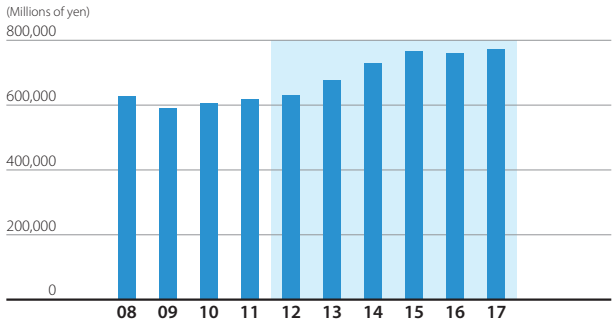
R&D expenses



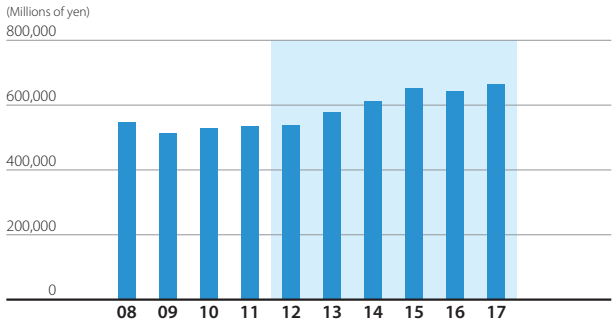
(Millions of yen)

	2012	2013	2014	2015	2016	2017
	271,230	285,168	295,957	290,498	290,135	**279,773**
	38,412	35,337	41,683	31,974	28,878	**31,966**
	46,201	44,173	51,244	39,576	36,775	**38,036**
	24,357	26,320	32,692	24,528	22,473	**28,781**
	24,231	23,331	21,874	21,554	21,768	**21,260**
	12,868	12,287	10,401	5,253	8,967	**7,011**
	11,242	10,951	11,042	11,561	11,117	**10,423**
	629,506	676,388	728,442	768,092	759,049	**771,222**
	234,782	254,326	281,045	289,081	319,670	**308,946**
	538,666	578,158	611,933	653,242	643,127	**665,088**
	(15,616)	31,933	38,235	15,552	31,396	**38,705**
	296.20	325.26	403.18	302.57	277.75	**360.18**
	6,560.67	6,975.94	7,401.61	7,892.19	7,870.04	**8,127.87**
	669.69	682.92	785.62	655.00	596.73	**671.09**
	90.00*2	120.00*3	110.00	110.00	100.00	**110.00**

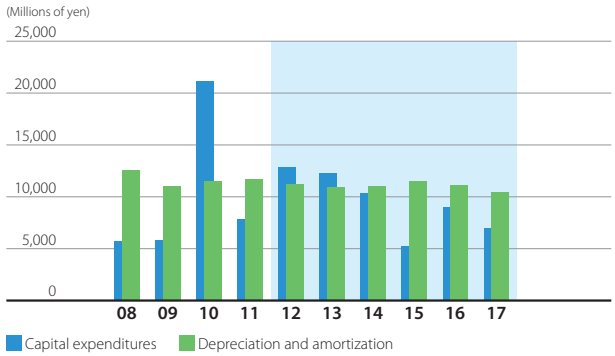
Total assets



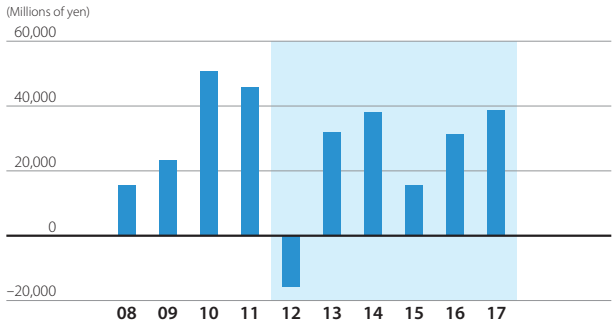
Total net assets (Total shareholders' equity)



Capital expenditures/Depreciation and amortization



Free cash flow



Consolidated Performance Indicators

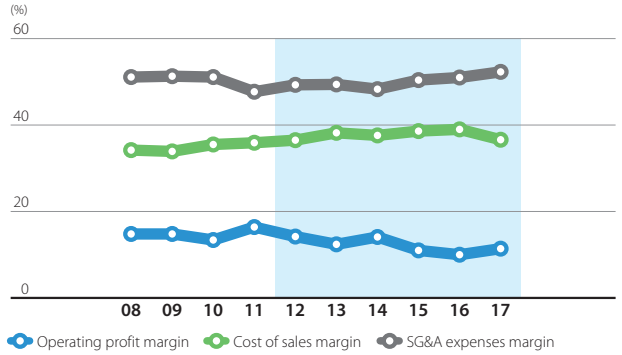
Figures for the fiscal year ended March 31, 2011 and earlier are for Taisho Pharmaceutical.

Fiscal years ended March 31	2008	2009	2010	2011
Profit indicators				
Operating profit margin (%)	14.8	14.8	13.4	16.4
Ordinary profit margin (%)	16.8	15.6	14.2	20.1
Profit attributable to owners of parent margin (%)	10.0	3.4	7.5	13.0
Cost of sales margin (%)	34.2	33.9	35.5	35.9
SG&A expenses margin (%)	51.1	51.3	51.1	47.7
Return on equity (ROE) (%)*1	4.6	1.7	3.8	6.7
Efficiency indicators				
Return on assets (ROA) (%)*2	4.0	1.4	3.3	5.7
Return on investment (ROI) (%)*3	4.6	1.6	3.6	6.3
Asset turnover (Times)*4	0.4	0.4	0.4	0.4
Tangible fixed assets turnover (Times)*5	2.6	2.7	2.8	3.0
Inventory turnover (Times)*6	10.6	11.1	11.3	11.5
Stability indicators				
Liquidity (%)*7	448.3	398.8	387.4	389.5
Equity ratio (%)	86.1	85.4	85.3	84.8
Debt/equity ratio (Times)*8	0.0024	0.0032	0.0024	0.0004
Interest coverage (Times)*9	3,278.6	1,248.5	1,451.4	6,282.8
Cash and deposits and marketable securities per share (Yen)*10	514.7	400.6	397.4	483.8
Valuation (Times)				
Price earning ratio (PER)	23.5	60.9	25.0	14.4
Price book-value ratio (PBR)	1.1	1.0	0.9	0.9
Price to cash flow ratio (PCFR)	11.0	10.5	10.2	7.7
Other indicators				
Cash flows (Millions of yen)	53,608	51,364	47,604	65,461
Capital expenditures as a percentage of cash flows (%)	10.8	11.3	44.4	12.0
R&D expenses as a percentage of net sales (%)	9.9	10.7	10.9	8.8
Working capital (Millions of yen)*11	193,820	161,742	160,006	173,311
Payout ratio (%) (Non-consolidated)	31.0	66.9	35.3	25.2

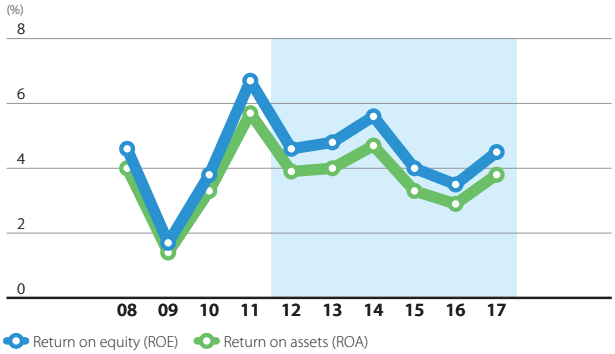
Note: Calculated in accordance with corporate accounting standards for each fiscal year.

*1 ROE = Profit attributable to owners of parent/Average total net assets
*2 ROA = Profit attributable to owners of parent/Average total assets
*3 ROI = Profit attributable to owners of parent/(Average total net assets + Average long-term liabilities)
*4 Asset turnover = Net sales/Average total assets
*5 Tangible fixed assets turnover = Net sales/Average tangible fixed assets
*6 Inventory turnover = Net sales/Average inventories
*7 Liquidity = Current assets/Current liabilities
*8 Debt/equity ratio = Interest-bearing debt/Total net assets
*9 Interest coverage = (Operating profit + Interest and dividend income)/Interest expense

Operating profit margin/Cost of sales margin/SG&A expenses margin



Return on equity (ROE)/Return on assets (ROA)

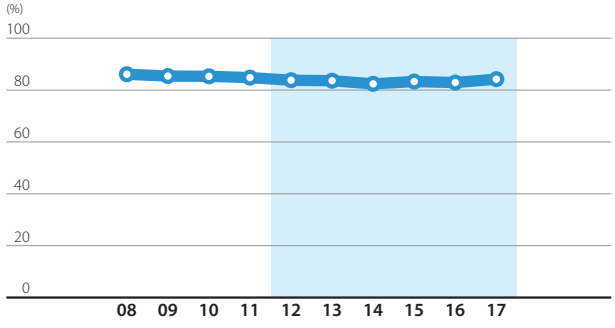


(Millions of yen)

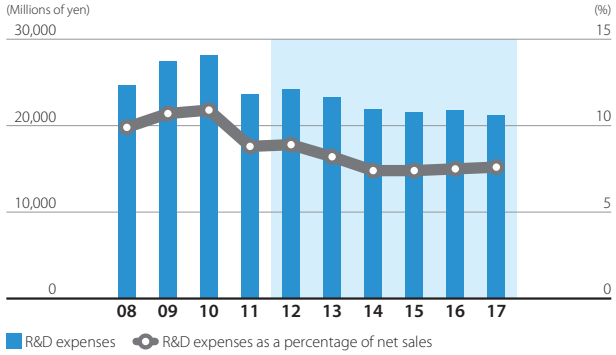
	2012	2013	2014	2015	2016	2017
	14.2	12.4	14.1	11.0	10.0	**11.4**
	17.0	15.5	17.4	13.6	12.7	**13.6**
	9.0	9.3	11.2	8.4	7.7	**10.3**
	36.5	38.2	37.6	38.6	39.0	**36.3**
	49.3	49.4	48.3	50.4	51.0	**52.3**
	4.6	4.8	5.6	4.0	3.5	**4.5**
	3.9	4.0	4.7	3.3	2.9	**3.8**
	4.3	4.7	5.5	3.9	3.5	**4.4**
	0.4	0.4	0.4	0.4	0.4	**0.4**
	3.0	2.9	2.9	2.8	2.9	**2.9**
	11.3	11.3	11.1	10.7	10.8	**10.3**
	370.9	404.8	369.6	450.1	479.7	**531.8**
	83.8	83.6	82.4	83.3	82.9	**84.2**
	0	0	0	0	0	**0**
	4,061.0	2,457.8	24,090.5	19,332.0	17,854.5	**32,156.4**
	1,414.8	1,624.4	1,966.1	2,092.5	2,583.6	**2,518.9**
	22.7	21.0	20.6	29.5	32.1	**25.1**
	1.0	1.0	1.1	1.1	1.1	**1.1**
	10.0	10.0	10.6	13.6	14.9	**13.5**
	55,070	55,262	63,703	53,100	48,282	**53,626**
	23.4	22.2	16.3	9.9	18.6	**13.1**
	8.9	8.2	7.4	7.4	7.5	**7.6**
	171,476	191,492	204,995	224,851	253,024	**250,849**
	30.4*12	36.9*12	27.3*12	36.4*12	36.0*12	**30.5*12**

*10 Cash and deposits and marketable securities per share =
(Cash and deposits + Marketable securities)/Outstanding shares (excluding treasury shares)
*11 Working capital = Current assets – Current liabilities
*12 Figures are presented on a consolidated basis.

Equity ratio



R&D expenses/R&D expenses as a percentage of net sales

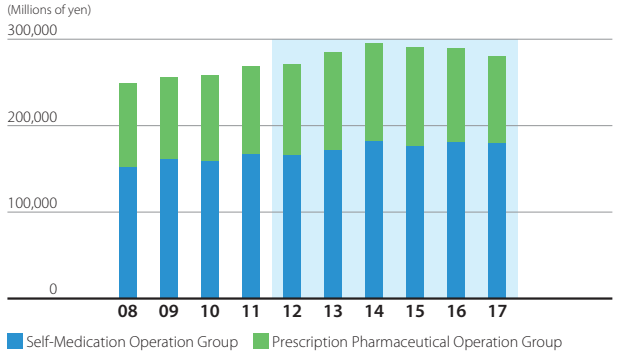


Consolidated Segment Information

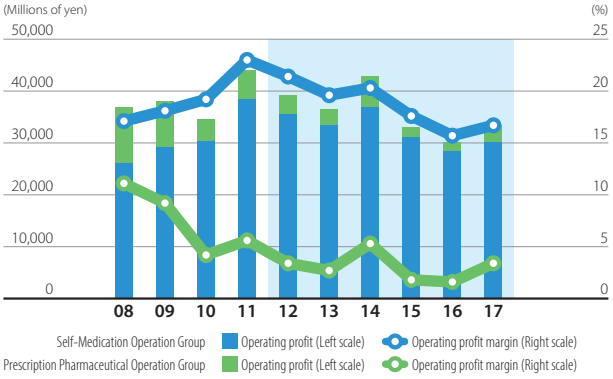
Figures for the fiscal year ended March 31, 2011 and earlier are for Taisho Pharmaceutical.

Fiscal years ended March 31	2008	2009	2010	2011
Net sales				
Companywide	249,655	256,213	258,441	268,632
Self-Medication Operation Group	152,678	161,141	158,851	167,195
Percent of net sales (%)	61.2	62.9	61.5	62.2
Prescription Pharmaceutical Operation Group	96,977	95,072	99,590	101,436
Percent of net sales (%)	38.8	37.1	38.5	37.8
Overseas sales	11,297	8,184	7,692	12,166
Percent of net sales (%)	4.5	3.2	3.0	4.5
Operating profit				
Companywide	36,952	37,935	34,686	44,082
Self-Medication Operation Group	26,170	29,227	30,458	38,385
Prescription Pharmaceutical Operation Group	10,781	8,707	4,227	5,696
Operating profit margin (%)				
Companywide	14.8	14.8	13.4	16.4
Self-Medication Operation Group	17.1	18.1	19.2	23.0
Prescription Pharmaceutical Operation Group	11.1	9.2	4.2	5.6
Identifiable assets				
Self-Medication Operation Group	210,212	189,376	215,667	249,088
Prescription Pharmaceutical Operation Group	133,260	151,623	149,874	161,222
R&D expenses				
Companywide	24,745	27,523	28,118	23,677
Self-Medication Operation Group	6,051	7,222	5,534	4,677
Percent of net sales (%)	4.0	4.5	3.5	2.8
Prescription Pharmaceutical Operation Group	18,693	20,300	22,583	19,000
Percent of net sales (%)	19.3	21.4	22.7	18.7
Depreciation and amortization				
Companywide	12,618	11,014	11,533	11,725
Self-Medication Operation Group	9,045	7,984	8,588	8,935
Prescription Pharmaceutical Operation Group	3,572	3,029	2,944	2,789

Net sales



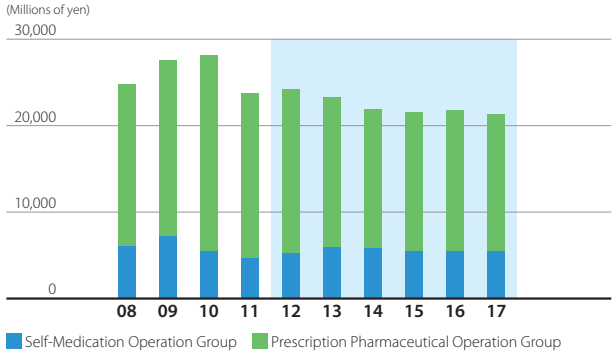
Operating profit/Operating profit margin



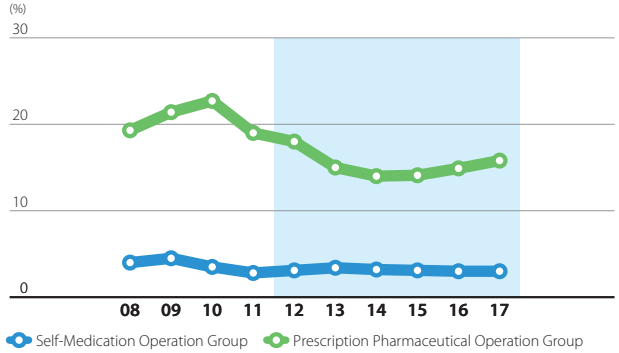
(Millions of yen)

	2012	2013	2014	2015	2016	2017
	271,230	285,168	295,957	290,498	290,135	**279,773**
	166,467	171,271	181,753	176,295	180,722	**179,992**
	61.4	60.1	61.4	60.7	62.3	**64.3**
	104,763	113,896	114,204	114,202	109,413	**99,781**
	38.6	39.9	38.6	39.3	37.7	**35.7**
	13,387	17,574	25,393	27,949	29,901	**27,529**
	4.9	6.2	8.6	9.6	10.3	**9.8**
	38,412	35,337	41,683	31,974	28,878	**31,966**
	35,565	33,510	36,865	31,060	28,393	**30,106**
	3,557	3,027	6,000	2,078	1,755	**3,352**
	14.2	12.4	14.1	11.0	10.0	**11.4**
	21.4	19.6	20.3	17.6	15.7	**16.7**
	3.4	2.7	5.3	1.8	1.6	**3.4**
	234,245	251,016	275,361	287,090	302,521	**319,520**
	153,947	156,989	161,332	171,256	175,302	**173,423**
	24,231	23,331	21,874	21,554	21,768	**21,260**
	5,239	5,908	5,790	5,502	5,497	**5,497**
	3.1	3.4	3.2	3.1	3.0	**3.1**
	18,992	17,423	16,084	16,051	16,270	**15,763**
	18.1	15.3	14.1	14.1	14.9	**15.8**
	11,242	10,951	11,042	11,561	11,117	**10,423**
	8,701	8,516	9,155	9,740	9,293	**8,710**
	2,540	2,435	1,887	1,821	1,824	**1,712**

R&D expenses



Segment R&D expenses as a percentage of net sales



Fiscal 2016 Operating Results

Net Sales

Consolidated net sales for fiscal 2016, the fiscal year ended March 31, 2017, decreased ¥10,362 million, or 3.6%, year on year to ¥279,773 million.

Gross Profit and Operating Profit

The cost of sales ratio decreased 2.7 percentage points year on year to 36.3%, due mainly to a change in the sales mix. As a result, gross profit increased ¥1,412 million, or 0.8%, compared with the previous fiscal year to ¥178,226 million.

Selling, general and administrative expenses decreased ¥1,675 million, or 1.1%, to ¥146,260 million, due mainly to decreased R&D expenses and sales promotion expenses, despite higher advertising expenses. Consequently, operating profit increased ¥3,088 million, or 10.7%, to ¥31,966 million. The operating profit margin increased 1.4 percentage points to 11.4%.

R&D Expenses

The Group conducts vigorous R&D activities centered on prescription pharmaceuticals. In fiscal 2016, R&D expenses decreased ¥507 million, or 2.3%, year on year to ¥21,260 million. R&D expenses as a percentage of net sales were 7.6%.

The Self-Medication Operation Group is working to develop new products that are safe and highly effective, based on the application of knowledge and technologies amassed through R&D activities in the field of lifestyle diseases, which includes health foods, as well as the fields of over-the-counter (OTC) drugs and energy drinks. Self-Medication Operation Group R&D expenses were essentially unchanged at ¥5,497 million.

The Prescription Pharmaceutical Operation Group aims to develop highly original new drugs. R&D expenses in the Prescription Pharmaceutical Operation Group decreased ¥507 million, or 3.1%, to ¥15,763 million.

Ordinary Profit and Profit Attributable to Owners of Parent

Non-operating income decreased ¥556 million, or 6.9%, year on year to ¥7,511 million, due mainly to a decrease in equity in earnings of entities accounted for using equity method. Non-operating expenses increased ¥1,271 million to ¥1,441 million, due mainly to the recording of equity in losses of entities accounted for using equity method and foreign exchange losses.

Consequently, ordinary profit increased ¥1,260 million, or 3.4%, to ¥38,036 million. The ratio of ordinary profit to net sales increased 0.9 of a percentage point to 13.6%.

Extraordinary income increased ¥4,118 million year on year to ¥4,138 million, due mainly to the recording of a gain on sales of investment securities. Extraordinary losses decreased ¥767 million to ¥217 million, due mainly to a decrease in impairment loss.

Consequently, profit before income taxes increased ¥6,147 million, or 17.2%, to ¥41,956 million. After adjusting for income taxes, profit attributable to owners of parent was ¥28,781 million, an increase of ¥6,307 million, or 28.1%.

Profit attributable to owners of parent per share was ¥360.18. Return on equity increased 1.0 percentage point to 4.5%.

Financial Position

The Group has a financial policy of maintaining appropriate liquidity, securing sufficient working capital for corporate business activities and ensuring a sound balance sheet.

Total assets as of March 31, 2017 increased ¥12,173 million from a year earlier to ¥771,222 million. Current assets decreased ¥10,724 million, or 3.4%, to ¥308,946 million. Total fixed assets increased ¥22,897 million, or 5.2%, to ¥462,276 million.

Marketable securities decreased ¥34,316 million while cash and deposits increased ¥29,133 million and investment securities increased ¥15,246 million.

In fixed assets, total tangible fixed assets decreased ¥1,667 million, or 1.7%, to ¥97,282 million from a year earlier. Total intangible fixed assets decreased ¥4,490 million, or 11.6%, to ¥34,372 million.

Total liabilities as of March 31, 2017 decreased ¥9,787 million from a year earlier to ¥106,134 million. Notes and accounts payable–trade and accounts payable decreased ¥3,755 million and ¥3,706 million, respectively.

Net assets as of March 31, 2017 increased ¥21,960 million from a year earlier to ¥665,088 million. The main factor increasing net assets was profit attributable to owners of parent of ¥28,781 million, while the main factors reducing net assets were a decrease in dividends of surplus of ¥7,997 million and a decrease in foreign currency translation adjustment of ¥2,702 million.

As a result, the equity ratio increased 1.3 percentage points from March 31, 2016 to 84.2%. Net assets per share were ¥8,127.87.

Cash Flows

Cash and cash equivalents as of March 31, 2017 increased ¥30.0 billion from a year earlier to ¥184.2 billion.

Cash flows during fiscal 2016 were as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥3.0 billion year on year to ¥40.1 billion. The main component was profit before income taxes of ¥42.0 billion.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥10.3 billion year on year to ¥1.4 billion. The primary use of cash was payments for purchase of investment securities of ¥20.8 billion, payment for purchase of shares of subsidiaries and affiliates of ¥12.3 billion, and payments for purchase of intangible fixed assets of ¥1.5 billion. Meanwhile, cash was mainly provided by proceeds from sales/redemption of marketable securities of ¥34.2 billion.

Cash Flows from Financing Activities

Net cash used in financing activities decreased ¥11.1 billion year on year to ¥8.4 billion. The primary use of cash was cash dividends paid of ¥8.0 billion.

Capital Expenditures

The Group made capital expenditures totaling ¥7,011 million during fiscal 2016 as part of ongoing efforts to expand its business operations. No sale, retirement or recognition of impairment of fixed assets had a material effect on production capacity.

Human Resources

The total number of employees as of March 31, 2017 decreased by 56 from a year earlier to 6,461.

Self-Medication Operation Group employees decreased by 24 to 3,133. Prescription Pharmaceutical Operation Group employees decreased by 31 to 1,854. Employees engaged in Companywide operations not allocable to any specific segment decreased by 1 to 1,474.

Basic Earnings Distribution Policy

The Company's basic earnings distribution policy is to maintain a stable dividend while ensuring sufficient internal reserves to build a stronger enterprise. Aiming to strengthen its competitiveness and expand and advance its business, the Company will use these internal reserves for R&D, capital investment, product in-licensing, capital and business alliances and investment in new business development. In addition, with due consideration given to the funds required for such investments, the Company plans to repurchase treasury stock in a flexible manner for the purposes of improving capital efficiency and implementing an agile financial policy.

The Company's dividend policy is to pay dividends largely in line with its consolidated business performance each fiscal year, while targeting a dividend payout ratio of 30% of net income excluding extraordinary income/losses. Barring special circumstances, the Company plans to maintain an annual dividend of at least ¥100 per share, even when the dividend payout ratio exceeds 30%.

For fiscal 2016, the Company paid an annual dividend of ¥110 per share.

For fiscal 2017, the Company plans to pay an annual dividend of ¥110 per share.

Business and Other Risks

The Taisho Pharmaceutical Group faces various risks in the course of business. The following are primary risks that could have a material impact on investors' decisions.

Forward-looking statements mentioned in this discussion of risks reflect management's beliefs and judgments as of March 31, 2017.

Legal and regulatory risks and risks related to healthcare policy

The Group's operations are subject to laws and regulations governing pharmaceutical affairs. A number of different approval and permission systems exist at each stage of pharmaceutical operations, including research, development, manufacturing, import and distribution. Consequently, there is a risk that the Group's products could fail to conform to regulations at one of these stages, or that a previously granted approval could be revoked. Among other risks, depending on trends in healthcare policy, health insurance systems and other changes, the Group may also face the risk of a decline in pharmaceutical prices.

Risks related to pharmaceutical quality, side effects and other issues

The Group does its utmost to guarantee the reliability and quality of its products. Nevertheless, unanticipated side effects, accidents and other factors could force the Group to recall or halt the sale of the products affected or cause the Group to incur claims for damages.

Risks related to pharmaceutical development and commercialization

The development of pharmaceuticals is a lengthy process and requires substantial investment in R&D. The success of newly launched products and businesses is uncertain.

Risks related to the proper protection of intellectual property rights

If the Group is not properly protected by its intellectual property rights, there is the risk that a third party might use the Group's technology and other intellectual property and undermine the Group's competitiveness in the market. Similarly, there is also the risk that the Group might encroach on the intellectual property rights of third parties.

Risks related to expiration of patents

Although the Group strives to extend product life cycles, sales could be negatively impacted, for example, by the emergence of generic drugs or the switch to OTC drugs produced following the expiration of patents.

Risks from lawsuits

The Group faces the possibility of lawsuits during the course of its business activities related to product liability, environmental issues and other matters.

Risks from fluctuations in foreign exchange rates

The Group conducts operations in many countries and regions. As such, the Group's operating results are exposed to fluctuations in foreign exchange rates.

Other risks

Sudden occurrence of natural disasters such as earthquakes and tsunami, deterioration in sociopolitical stability overseas, and other events could cause the Group to suffer damage, such as the destruction of overseas business sites or infrastructure, or downsizing or withdrawal from its businesses.

In addition, the Group is faced with various other risks, including risks related to the external procurement of raw materials and risks associated with dependency on licenses for products developed by other companies. The risks inherent in the Group's business activities are therefore not limited to the risks described above.

Consolidated Balance Sheets

Taisho Pharmaceutical Holdings Co., Ltd. and Its Consolidated Subsidiaries
As of March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2016**	**2017**	**2017**
Current assets:			
Cash and deposits (Notes 8 and 9)	¥ 172,143	**¥ 201,276**	**$ 1,794,060**
Notes and accounts receivable–trade (Note 9)	75,243	**69,536**	**619,803**
Marketable securities (Notes 8, 9 and 10)	34,317	**—**	**—**
Inventories	26,639	**27,501**	**245,129**
Deferred tax assets (Note 13)	6,128	**5,820**	**51,874**
Other (Note 15)	5,287	**4,900**	**43,673**
Allowance for doubtful accounts (Note 9)	(86)	**(85)**	**(762)**
Total current assets	319,670	**308,946**	**2,753,778**
Fixed assets:			
Tangible fixed assets:			
Buildings and structures	145,462	**152,312**	**1,357,622**
Machinery, equipment and vehicles	87,862	**88,471**	**788,586**
Land	37,474	**37,457**	**333,872**
Construction in progress	4,627	**177**	**1,579**
Other	32,965	**32,466**	**289,382**
Accumulated depreciation and impairment loss	(209,441)	**(213,600)**	**(1,903,917)**
Total tangible fixed assets	98,950	**97,283**	**867,124**
Intangible fixed assets:			
Goodwill	19,046	**16,769**	**149,468**
Sales rights	4,675	**4,068**	**36,262**
Trademarks	12,176	**9,966**	**88,835**
Other	2,967	**3,570**	**31,817**
Total intangible fixed assets	38,864	**34,373**	**306,382**
Investments and other assets:			
Investment securities (Notes 9 and 10)	237,214	**252,460**	**2,250,286**
Shares of subsidiaries and affiliates	54,591	**67,551**	**602,112**
Long-term prepaid expenses	647	**666**	**5,934**
Net defined benefit assets (Note 11)	569	**2,496**	**22,251**
Deferred tax assets (Note 13)	7,869	**6,783**	**60,462**
Other	929	**913**	**8,142**
Allowance for doubtful accounts	(253)	**(249)**	**(2,215)**
Total investments and other assets	301,565	**330,621**	**2,946,971**
Total fixed assets	439,379	**462,276**	**4,120,477**
Total assets (Note 14)	¥ 759,050	**¥ 771,223**	**$ 6,874,255**

LIABILITIES AND NET ASSETS	Millions of yen 2016	2017	Thousands of U.S. dollars (Note 1) 2017
Liabilities:			
Current liabilities:			
Notes and accounts payable–trade	¥ 27,083	**¥ 23,327**	**$ 207,926**
Accounts payable (Note 15)	16,753	**13,047**	**116,295**
Accrued income taxes (Note 13)	5,747	**5,775**	**51,474**
Accrued expenses	10,821	**9,997**	**89,112**
Provision for sales returns	711	**750**	**6,686**
Provision for bonuses	3,855	**3,854**	**34,354**
Other	1,676	**1,347**	**12,007**
Total current liabilities	66,646	**58,098**	**517,853**
Long-term liabilities:			
Provision for directors' retirement benefits	1,197	**983**	**8,764**
Net defined benefit liabilities (Note 11)	23,714	**23,505**	**209,514**
Deferred tax liabilities (Note 13)	16,333	**16,131**	**143,779**
Other	8,031	**7,417**	**66,113**
Total long-term liabilities	49,276	**48,036**	**428,170**
Total liabilities	115,922	**106,134**	**946,023**
Net Assets:			
Shareholders' equity:			
Common stock (Note 7)			
Authorized—			
2016: 360,000 thousand shares			
2017: 360,000 thousand shares			
Issued—			
2016: 90,139 thousand shares			
2017: 90,139 thousand shares	30,000	**30,000**	**267,404**
Capital surplus	15,271	**15,272**	**136,128**
Retained earnings	623,255	**644,039**	**5,740,607**
Treasury stock (Note 7)			
(2016: 10,230 thousand shares, 2017: 10,234 thousand shares)	(67,664)	**(67,728)**	**(603,686)**
Total shareholders' equity	600,863	**621,583**	**5,540,453**
Accumulated other comprehensive income:			
Valuation difference on securities	35,736	**36,234**	**322,973**
Deferred gains or losses on hedges	(0)	**0**	**1**
Foreign currency translation adjustment	507	**(2,196)**	**(19,574)**
Remeasurements of defined benefit plans	(8,213)	**(6,163)**	**(54,931)**
Total accumulated other comprehensive income	28,030	**27,876**	**248,469**
Subscription rights to shares	357	**478**	**4,264**
Non-controlling interests	13,878	**15,151**	**135,046**
Total net assets	643,127	**665,088**	**5,928,232**
Total liabilities and net assets	¥759,050	**¥771,223**	**$6,874,255**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

Taisho Pharmaceutical Holdings Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Net sales (Note 14)	¥290,136	**¥279,774**	**$2,493,751**
Cost of sales	113,323	**101,548**	**905,140**
Gross profit	176,813	**178,226**	**1,588,610**
Selling, general and administrative expenses (Note 5)	147,935	**146,260**	**1,303,682**
Operating profit (Note 14)	28,878	**31,966**	**284,929**
Non-operating income:			
Interest income	5,392	**5,134**	**45,764**
Dividend income	1,440	**1,605**	**14,305**
Equity in earnings of entities accounted for using equity method	382	**—**	**—**
Other	854	**773**	**6,887**
	8,068	**7,512**	**66,956**
Non-operating expenses:			
Interest expenses	2	**1**	**11**
Equity in losses of entities accounted for using equity method	—	**601**	**5,359**
Foreign exchange losses	—	**672**	**5,994**
Commission fee	106	**91**	**815**
Other	62	**76**	**674**
	171	**1,442**	**12,853**
Ordinary profit	36,776	**38,036**	**339,032**
Extraordinary income:			
Gain on sales of fixed assets (Note 5)	19	**14**	**127**
Gain on sales of investment securities	—	**4,124**	**36,757**
	19	**4,138**	**36,884**
Extraordinary losses:			
Loss on disposal of fixed assets (Note 5)	135	**184**	**1,641**
Loss on sales of investment securities	—	**33**	**295**
Impairment loss (Note 5)	850	**—**	**—**
	985	**217**	**1,936**
Profit before income taxes	35,810	**41,957**	**373,980**
Income taxes (Note 13)**:**			
Current	11,828	**11,495**	**102,460**
Deferred	100	**256**	**2,281**
	11,928	**11,751**	**104,741**
Profit	23,882	**30,206**	**269,240**
Profit attributable to non-controlling interests	1,409	**1,425**	**12,700**
Profit attributable to owners of parent (Note 16)	¥ 22,473	**¥ 28,781**	**$ 256,539**

The accompanying notes are an integral part of these financial statements.

Financial Section

Consolidated Statements of Comprehensive Income

Taisho Pharmaceutical Holdings Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Profit	¥ 23,882	**¥30,206**	**$269,240**
Other comprehensive income:			
Valuation difference on securities	(4,150)	**472**	**4,203**
Foreign currency translation adjustment	(5,327)	**(4,064)**	**(36,226)**
Remeasurements of defined benefit plans	(4,999)	**2,139**	**19,070**
Share of other comprehensive income of entities accounted for using equity method	(346)	**1,431**	**12,759**
Total other comprehensive income	(14,822)	**(22)**	**(194)**
Comprehensive income	¥ 9,060	**¥30,184**	**$269,046**
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of parent	¥ 8,078	**¥28,627**	**$255,167**
Comprehensive income attributable to non-controlling interests	981	**1,557**	**13,879**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

Taisho Pharmaceutical Holdings Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2015	¥30,000	¥15,270	¥609,707	¥(57,644)	¥597,333
Changes during the period					
Purchase of treasury stock				(10,097)	(10,097)
Disposal of treasury stock		2		74	76
Change in ownership interest of parent due to transactions with non-controlling shareholders		(1)			(1)
Dividends of surplus			(8,925)		(8,925)
Profit attributable to owners of parent			22,473		22,473
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method				3	3
Changes in other than shareholders' equity during the period, net					
Total changes during the period	—	1	13,549	(10,021)	3,530
Balance as of March 31, 2016	¥30,000	¥15,271	¥623,255	¥(67,664)	¥600,863
Changes during the period					
Purchase of treasury stock				**(101)**	**(101)**
Disposal of treasury stock		**1**		**36**	**37**
Change in ownership interest of parent due to transactions with non-controlling shareholders		**(0)**			**(0)**
Dividends of surplus			**(7,998)**		**(7,998)**
Profit attributable to owners of parent			**28,781**		**28,781**
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method				**1**	**1**
Changes in other than shareholders' equity during the period, net					
Total changes during the period	**—**	**1**	**20,783**	**(63)**	**20,721**
Balance as of March 31, 2017	**¥30,000**	**¥15,272**	**¥644,039**	**¥(67,728)**	**¥621,583**

Millions of yen

	Accumulated other comprehensive income							
	Valuation difference on securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of April 1, 2015	¥40,054	¥(1)	¥ 5,745	¥(3,374)	¥ 42,425	¥299	¥13,186	¥653,243
Changes during the period								
Purchase of treasury stock								(10,097)
Disposal of treasury stock								76
Change in ownership interest of parent due to transactions with non-controlling shareholders								(1)
Dividends of surplus								(8,925)
Profit attributable to owners of parent								22,473
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method								3
Changes in other than shareholders' equity during the period, net	(4,318)	0	(5,238)	(4,839)	(14,395)	58	692	(13,645)
Total changes during the period	(4,318)	0	(5,238)	(4,839)	(14,395)	58	692	(10,115)
Balance as of March 31, 2016	¥35,736	¥(0)	¥ 507	¥(8,213)	¥ 28,030	¥357	¥13,878	¥643,127
Changes during the period								
Purchase of treasury stock								**(100)**
Disposal of treasury stock								**37**
Change in ownership interest of parent due to transactions with non-controlling shareholders								**(0)**
Dividends of surplus								**(7,998)**
Profit attributable to owners of parent								**28,781**
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method								**1**
Changes in other than shareholders' equity during the period, net	**498**	**0**	**(2,703)**	**2,051**	**(154)**	**121**	**1,273**	**1,240**
Total changes during the period	**498**	**0**	**(2,703)**	**2,051**	**(154)**	**121**	**1,273**	**21,961**
Balance as of March 31, 2017	**¥36,234**	**¥ 0**	**¥(2,196)**	**¥(6,163)**	**¥ 27,876**	**¥478**	**¥15,151**	**¥665,088**

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2016	$267,404	$136,119	$5,555,357	$(603,121)	$5,355,758
Changes during the period					
Purchase of treasury stock				**(897)**	**(897)**
Disposal of treasury stock		**10**		**324**	**334**
Change in ownership interest of parent due to transactions with non-controlling shareholders		**(1)**			**(1)**
Dividends of surplus			**(71,289)**		**(71,289)**
Profit attributable to owners of parent			**256,539**		**256,539**
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method				**8**	**8**
Changes in other than shareholders' equity during the period, net					
Total changes during the period	**—**	**9**	**185,250**	**(565)**	**184,695**
Balance as of March 31, 2017	**$267,404**	**$136,128**	**$5,740,607**	**$(603,686)**	**$5,540,453**

	Thousands of U.S. dollars (Note 1)							
	Accumulated other comprehensive income							
	Valuation difference on securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance as of March 31, 2016	$318,534	$(4)	$ 4,519	$(73,209)	$249,841	$3,182	$123,702	$5,732,484
Changes during the period								
Purchase of treasury stock								**(897)**
Disposal of treasury stock								**334**
Change in ownership interest of parent due to transactions with non-controlling shareholders								**(1)**
Dividends of surplus								**(71,289)**
Profit attributable to owners of parent								**256,539**
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method								**8**
Changes in other than shareholders' equity during the period, net	**4,439**	**4**	**(24,093)**	**18,277**	**(1,372)**	**1,082**	**11,343**	**11,053**
Total changes during the period	**4,439**	**4**	**(24,093)**	**18,277**	**(1,372)**	**1,082**	**11,343**	**195,748**
Balance as of March 31, 2017	**$322,973**	**$ 1**	**$(19,574)**	**$(54,931)**	**$248,469**	**$4,264**	**$135,046**	**$5,928,232**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Taisho Pharmaceutical Holdings Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 35,810	**¥ 41,957**	**$ 373,980**
Adjustments:			
Depreciation and amortization (Note 14)	11,117	**10,423**	**92,905**
Amortization of goodwill	1,356	**1,248**	**11,122**
Loss (gain) on sales of fixed assets (Note 5)	(19)	**(14)**	**(127)**
Loss (gain) on disposal of fixed assets (Note 5)	135	**184**	**1,641**
Loss (gain) on sales of investment securities	—	**(4,091)**	**(36,462)**
Impairment loss (Note 5)	850	**—**	**—**
Interest and dividend income	(6,832)	**(6,739)**	**(60,069)**
Interest expenses	2	**1**	**11**
Equity in losses (earnings) of entities accounted for using equity method	(382)	**601**	**5,359**
Increase (decrease) in allowance for doubtful accounts	(23)	**(1)**	**(10)**
Increase (decrease) in net defined benefit liabilities	1,357	**(184)**	**(1,639)**
Decrease (increase) in net defined benefit assets	6,435	**(1,928)**	**(17,182)**
Increase (decrease) in provision for directors' retirement benefits	(165)	**(214)**	**(1,908)**
Increase (decrease) in provision for bonuses	(78)	**4**	**39**
Decrease (increase) in notes and accounts receivable–trade	4,250	**5,366**	**47,826**
Decrease (increase) in inventories	465	**(1,025)**	**(9,137)**
Increase (decrease) in notes and accounts payable–trade	(1,766)	**(3,656)**	**(32,586)**
Increase (decrease) in long-term accounts payable–other	(150)	**(81)**	**(721)**
Other	(7,046)	**2,603**	**23,199**
Subtotal	45,318	**44,454**	**396,241**
Interest and dividend income received	6,924	**6,954**	**61,987**
Interest expenses paid	(2)	**(1)**	**(11)**
Income taxes paid	(9,285)	**(11,436)**	**(101,931)**
Income taxes refund	104	**95**	**849**
Net cash provided by operating activities	43,058	**40,067**	**357,134**
Cash flows from investing activities:			
Decrease (increase) in time deposits	(2,165)	**136**	**1,208**
Proceeds from sales/redemption of marketable securities	10,000	**34,200**	**304,840**
Payments for purchase of tangible fixed assets	(6,924)	**(7,323)**	**(65,270)**
Proceeds from sales of tangible fixed assets	33	**39**	**351**
Payments for purchase of intangible fixed assets	(1,291)	**(1,508)**	**(13,445)**
Proceeds from sales of intangible fixed assets	0	**—**	**—**
Payments for purchase of investment securities	(11,148)	**(20,828)**	**(185,651)**
Proceeds from sales/redemption of investment securities	—	**6,555**	**58,425**
Payment for purchase of shares of subsidiaries and affiliates	—	**(12,262)**	**(109,296)**
Payments for purchase of long-term prepaid expenses	(295)	**(380)**	**(3,387)**
Other	127	**10**	**89**
Net cash used in investing activities	(11,663)	**(1,362)**	**(12,136)**
Cash flows from financing activities:			
Increase in short-term loans payable	180	**291**	**2,589**
Decrease in short-term loans payable	(305)	**(232)**	**(2,068)**
Repayments of finance lease obligations	(111)	**(104)**	**(924)**
Payments for purchase of treasury stock	(10,097)	**(100)**	**(894)**
Cash dividends paid	(8,903)	**(7,974)**	**(71,077)**
Dividend paid to non-controlling interests	(288)	**(285)**	**(2,537)**
Net cash used in financing activities	(19,525)	**(8,404)**	**(74,911)**
Effect of exchange rate changes on cash and cash equivalents	(640)	**(349)**	**(3,108)**
Net increase (decrease) in cash and cash equivalents	11,229	**29,953**	**266,980**
Cash and cash equivalents at the beginning of period	143,039	**154,269**	**1,375,065**
Cash and cash equivalents at the end of period (Note 8)	¥154,269	**¥184,221**	**$1,642,045**

The accompanying notes are an integral part of these financial statements.

Financial Section

Notes to Consolidated Financial Statements

Taisho Pharmaceutical Holdings Co., Ltd. and Its Consolidated Subsidiaries

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Taisho Pharmaceutical Holdings Co., Ltd. (the "Company") and its domestic and foreign subsidiaries (together, the "Companies") are basically English versions of those which have been filed with the Ministry of Finance and prepared in accordance with accounting principles and practices generally accepted in Japan, which differ in certain respects to the application and disclosure requirements of International Financial Reporting Standards. The preparation of these financial statements requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as reported amounts of revenues and expenses during the reporting periods.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan.

The figures shown in the consolidated financial statements have been rounded to the nearest million yen.

The U.S. dollar amounts are included solely for convenience and have been translated at the rate of ¥112.19 = U.S. $1, the approximate exchange rate prevailing in the Japanese foreign exchange market as at March 31, 2017. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that rate.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

a) Consolidated subsidiaries as of March 31, 2017:

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (33 companies at March 31, 2017). Main subsidiaries are as follows:

Taisho Pharmaceutical Co., Ltd.
Taisho Toyama Pharmaceutical Co., Ltd.
Biofermin Pharmaceutical Co., Ltd.
Osotspa Taisho Pharmaceutical Co., Ltd.
PT. Taisho Pharmaceutical Indonesia Tbk

b) Non-consolidated subsidiaries as of March 31, 2017:

PT. Taisho Indonesia

This non-consolidated subsidiary has a small scale of operations, and its total assets, net sales, profit (corresponding to equity share), retained earnings (corresponding to equity share) and other accounts have no material impact on the consolidated financial statements. Accordingly, this company has been excluded from the scope of consolidation.

c) Equity-method affiliates:

Investments in all affiliates (four affiliates at March 31, 2017) where shareholdings are more than 20% and where the Company has significant influence over operations, finance and management, are accounted for using the equity method.

Main affiliates are Toyama Chemical Co., Ltd., Yomeishu Seizo Co., Ltd., and DHG Pharmaceutical JSC.

d) Unconsolidated subsidiaries and affiliates that are not accounted for using the equity method:

PT. Taisho Indonesia

This non-consolidated subsidiary has a small scale of operations, and its profit (corresponding to equity share) and retained earnings (corresponding to equity share) have no material impact on the consolidated financial statements. Accordingly, this company has been excluded from the scope of consolidation.

e) Account closing dates:

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. The results of consolidated subsidiaries, except for Taisho Pharmaceutical Co., Ltd., Taisho Toyama Pharmaceutical Co., Ltd., Biofermin Pharmaceutical Co., Ltd. and four other companies, are included in the consolidated accounts for the fiscal year ended December 31, 2016, while the accounts of the seven subsidiaries listed above are consolidated using their results for the fiscal year ended March 31, 2017. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-ends are appropriately adjusted for on consolidation.

(2) Valuation standards and valuation methods for major assets

a) Securities:

1) Held-to-maturity debt securities are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.
2) Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount. Other securities for which market quotations are unavailable are stated at cost determined by the moving average method.

When the fair value of held-to-maturity debt securities or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

Debt securities due within one year are presented as "marketable securities" and all other securities are presented as "investment securities."

b) Derivatives:
All derivatives are stated at fair value, with changes in fair value included in profit or loss in the period in which they arise, except for derivatives that are designated as "hedging instruments."

c) Inventories:
Merchandise, finished goods and work-in-process are stated at the lower of cost or net realizable value, which is determined by the weighted average method. Raw materials are stated at the lower of cost or net realizable value, which is determined by the moving average method. Supplies are stated at the lower of cost or net realizable value, which is determined by applying the last purchase price method. However, sales promotion items are stated at the lower of cost or net realizable value, which is determined by the moving average method.

(3) Depreciation and amortization of major assets

a) Tangible fixed assets (except for lease assets):
Depreciation is computed primarily using the declining-balance method for domestic consolidated subsidiaries and the straight-line method for foreign consolidated subsidiaries.

However, buildings acquired by domestic consolidated subsidiaries on or after April 1, 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

The useful lives are determined based on the useful economic life.

b) Intangible fixed assets (except for lease assets):
The straight-line method is adopted. Sales rights and trademark rights are amortized based on the straight-line method over the expected useful economic life. Software for in-house use is amortized based on the straight-line method over the expected useful economic life of 5 years.

c) Lease assets:
The straight-line method is adopted over the lease term with no residual value.

(4) Basis of provision

a) Allowance for doubtful accounts:
An allowance for doubtful accounts is provided for estimated future losses based on past experience, and based on assessment of the collectability of individual receivables.

b) Provision for sales returns:
Provision for sales returns is provided for the expected returns of sales at the end of the fiscal year.

c) Provision for bonuses:
Accrued bonuses are provided for the expected payments of employees' bonuses at the end of the fiscal year.

d) Provision for directors' retirement benefits:
Provision for directors' retirement benefits are provided for retirement payments to directors, executive officers and others in the amount of the expected payments at the end of the fiscal year based on internal regulations.

(5) Retirement benefits

a) Method of attributing the projected benefits to periods of service:
In calculating retirement benefit obligations, the projected retirement benefits are attributed to the periods of service through the end of the fiscal year based on the benefit formula method.

b) Method of amortizing actuarial gain/loss and prior service cost:
Prior service cost is amortized on a straight-line basis over a certain number of years within the average remaining service period of employees when incurred.

Actuarial gain/loss is amortized on a straight-line basis over a certain number of years within the average remaining service period of employees for each fiscal year in which they arise, from the beginning of the subsequent fiscal year.

(6) Foreign currency translation

Foreign currency transactions are translated using foreign exchange rates prevailing at the transaction dates.

All monetary assets and liabilities denominated in foreign currencies, whether they are long or short term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of foreign subsidiaries and affiliates are translated at current rates at the respective balance sheet dates and all the income and expense accounts are translated at average rates for respective periods. Translation differences are included in foreign currency translation adjustments and non-controlling interests under net assets.

(7) Hedge accounting

Gains or losses arising from changes in the fair value of derivatives designated as "hedging instruments" are deferred as a component of net assets and included in profit or loss in the same period in which the gains or losses on the hedged items or transactions are recognized.

Derivatives designated as "hedging instruments" by the Company are principally currency forward contracts and interest rate swaps. A hedged item is an asset, liability, firm commitment, or forecasted future transaction that exposes the enterprise to the risk of changes in fair value or changes in future cash flows and that, for hedge accounting purposes, is designated as being hedged.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of exchange and interest rate fluctuations. Thus, the Company's purchase of hedging instruments is limited to, at maximum, the amount of the items to be hedged.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(8) Amortization of goodwill

Goodwill is amortized equally over the effective periods.

(9) Cash and cash equivalents in consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows comprise cash on hand, demand deposits and short-term investments that are readily convertible into cash, are exposed to negligible risk of a change in value, and mature within three months or less.

(10) Consumption tax

The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in revenue and cost or expense items, in the accompanying consolidated statements of income.

3. Changes in Accounting Policies

Changes in Accounting Policies

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the fiscal year under review, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight line method.

The amount of impact from this application on operating profit, ordinary profit and profit before income taxes for the fiscal year under review is immaterial.

Additional Information

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year under review, the Company has applied the "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

4. Notes to Consolidated Balance Sheets

Investments in non-consolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
As of March 31	2016	2017	2017
Shares of subsidiaries and affiliates	¥54,591	**¥67,551**	**$602,112**

5. Notes to Consolidated Statements of Income

(1) Selling, general and administrative expenses

The major components of "Selling, general and administrative expenses" are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the year ended March 31	2016	2017	2017
Freight charges	¥ 7,613	**¥ 7,442**	**$ 66,335**
Advertisement expenses	21,366	**22,087**	**196,874**
Sales promotion expenses	31,775	**30,080**	**268,115**
Salaries and bonuses	25,206	**24,493**	**218,320**
Provisions for bonuses	2,173	**2,131**	**18,993**
Retirement benefit expenses	2,311	**2,633**	**23,466**
Research and development expenses	21,768	**21,261**	**189,507**

(2) Research and development expenses

Research and development expenses are recognized when incurred, and are included in selling, general and administrative expenses as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the year ended March 31	2016	2017	2017
Research and development expenses	¥21,768	**¥21,261**	**$189,507**

(3) Breakdown of gain on sales and loss on disposal of fixed assets

The gain on sales of fixed assets is broken down as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the year ended March 31	2016	2017	2017
Buildings and structures	¥ 4	**¥—**	**$ —**
Machinery, equipment and vehicles	12	**14**	**123**
Land	4	**—**	**—**
Other fixed assets	0	**0**	**4**
Total	¥19	**¥14**	**$127**

The loss on disposal of fixed assets is broken down as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the year ended March 31	2016	2017	2017
Buildings and structures	¥123	**¥ 82**	**$ 734**
Machinery, equipment and vehicles	9	**4**	**34**
Land	0	**—**	**—**
Construction in progress	—	**90**	**802**
Other fixed assets	2	**8**	**69**
Software	0	**0**	**2**
Total	¥135	**¥184**	**$1,641**

6. Notes to Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects relating to other comprehensive income for the fiscal years ended March 31, 2016 and 2017 are as follows:

For the year ended March 31	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Valuation difference on securities:			
Amount arising during the period	¥ (7,084)	**¥ 4,726**	**$ 42,127**
Reclassification adjustment	—	**(4,091)**	**(36,462)**
Before tax effect adjustment	(7,084)	**635**	**5,664**
Tax effect	2,933	**(164)**	**(1,461)**
Valuation difference on securities	(4,150)	**472**	**4,203**
Foreign currency translation adjustment:			
Amount arising during the period	(5,327)	**(4,064)**	**(36,226)**
Reclassification adjustment	—	**—**	**—**
Before tax effect adjustment	(5,327)	**(4,064)**	**(36,226)**
Tax effect	—	**—**	**—**
Foreign currency translation adjustment	(5,327)	**(4,064)**	**(36,226)**
Remeasurements of defined benefit plans:			
Amount arising during the period	(7,572)	**2,066**	**18,412**
Reclassification adjustment	495	**1,013**	**9,027**
Before tax effect adjustment	(7,077)	**3,078**	**27,439**
Tax effect	2,078	**(939)**	**(8,369)**
Remeasurements of defined benefit plans	(4,999)	**2,139**	**19,070**
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the period	(371)	**1,405**	**12,520**
Reclassification adjustment	25	**27**	**240**
Share of other comprehensive income of entities accounted for using equity method	(346)	**1,431**	**12,759**
Total other comprehensive income	¥(14,822)	**¥ (22)**	**$ (194)**

7. Notes to Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2016

(1) Matters related to type and total number of shares issued and treasury stock

Shares issued

Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	90,139	—	—	90,139

Treasury stock

Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	9,077	1,164*1	12*2	10,230

*1 The increase of 1,152 thousand shares was attributable to the repurchase of treasury stock in accordance with the resolution of the Board of Directors, and the increase of 12 thousand shares was attributable to the purchase of shares of less than one trading unit.

*2 The decrease in shares attributable to the exercise of stock options was 11 thousand shares, and a decrease of 0 thousand shares comprising shares attributable to the Company among the Parent company shares (shares of the Company) held by an equity-method affiliate.

(2) Matters related to subscription rights to shares and treasury subscription rights to shares

Category	Type of Subscription rights to shares	Type of Shares to be granted upon the exercise of subscription rights to shares	No. of shares to be granted upon the exercise of subscription rights to shares (shares): Start of fiscal year	Increase during fiscal year	Decrease during fiscal year	End of fiscal year	Fiscal year-end balance (¥ million)
Reporting company (Parent company)	Subscription rights to shares as stock options	—	—	—	—	—	¥331
Consolidated subsidiaries	Subscription rights to shares as stock options	—	—	—	—	—	26
	Total	—	—	—	—	—	¥357

(3) Matters related to dividends

a) Amount of dividends paid:

Resolution	Type of stock	Total amount of dividends (millions of yen)	Dividends per share (yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 26, 2015	Common stock	¥4,868	¥60	March 31, 2015	June 29, 2015
Meeting of Board of Directors held on October 30, 2015	Common stock	¥4,057	¥50	September 30, 2015	December 4, 2015

b) Of the dividends for which the date of record is in the fiscal year ended March 31, 2016, those dividends with effective date in the following consolidated fiscal year are as follows:

Resolution	Type of stock	Total amount of dividends (millions of yen)	Dividends per share (yen)	Date of record	Effective date	Fiscal resource of dividends
Ordinary general meeting of shareholders held on June 29, 2016	Common stock	¥3,999	¥50	March 31, 2016	June 30, 2016	Retained earnings

For the year ended March 31, 2017

(1) Matters related to type and total number of shares issued and treasury stock

Shares issued

Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	**90,139**	**—**	**—**	**90,139**

Treasury stock

Share type	Previous fiscal year-end (thousand shares)	Increase (thousand shares)	Decrease (thousand shares)	Subject fiscal year-end (thousand shares)
Common stock	**10,230**	**10*1**	**5*2**	**10,234**

*1 The increase of 10 thousand shares was attributable to the purchase of shares of less than one trading unit.

*2 The decrease in shares attributable to the exercise of stock options was 5 thousand shares, and a decrease of 0 thousand shares comprising shares attributable to the Company among the Parent company shares (shares of the Company) held by an equity-method affiliate.

(2) Matters related to subscription rights to shares and treasury subscription rights to shares

Category	Type of Subscription rights to shares	Type of Shares to be granted upon the exercise of subscription rights to shares	No. of shares to be granted upon the exercise of subscription rights to shares (shares)				Fiscal year-end balance (¥ million)
			Start of fiscal year	Increase during fiscal year	Decrease during fiscal year	End of fiscal year	
Reporting company (Parent company)	Subscription rights to shares as stock options	—	—	—	—	—	**¥432**
Consolidated subsidiaries	Subscription rights to shares as stock options	—	—	—	—	—	**46**
Total		—	—	—	—	—	**¥478**

Category	Type of Subscription rights to shares	Type of Shares to be granted upon the exercise of subscription rights to shares	No. of shares to be granted upon the exercise of subscription rights to shares (shares)				Fiscal year-end balance ($ thousand)
			Start of fiscal year	Increase during fiscal year	Decrease during fiscal year	End of fiscal year	
Reporting company (Parent company)	Subscription rights to shares as stock options	—	—	—	—	—	**$3,853**
Consolidated subsidiaries	Subscription rights to shares as stock options	—	—	—	—	—	**412**
Total		—	—	—	—	—	**$4,264**

(3) Matters related to dividends

a) Amount of dividends paid:

Resolution	Type of stock	Total amount of dividends (millions of yen)	Dividends per share (yen)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2016	Common stock	**¥3,999**	**¥50**	March 31, 2016	June 30, 2016
Meeting of Board of Directors held on October 31, 2016	Common stock	**¥3,999**	**¥50**	September 30, 2016	December 5, 2016

Resolution	Type of stock	Total amount of dividends (thousands of U.S. dollars) (Note 1)	Dividends per share (U.S. dollars) (Note 1)	Date of record	Effective date
Ordinary general meeting of shareholders held on June 29, 2016	Common stock	**$35,644**	**$0.45**	March 31, 2016	June 30, 2016
Meeting of Board of Directors held on October 31, 2016	Common stock	**$35,644**	**$0.45**	September 30, 2016	December 5, 2016

b) Of the dividends for which the date of record is in the fiscal year ended March 31, 2017, those dividends with effective date in the following consolidated fiscal year are as follows:

Resolution	Type of stock	Total amount of dividends (millions of yen)	Dividends per share (yen)	Date of record	Effective date	Fiscal resource of dividends
Ordinary general meeting of shareholders held on June 29, 2017	Common stock	**¥4,798**	**¥60**	March 31, 2017	June 30, 2017	Retained earnings

Resolution	Type of stock	Total amount of dividends (thousands of U.S. dollars) (Note 1)	Dividends per share (U.S. dollars) (Note 1)	Date of record	Effective date	Fiscal resource of dividends
Ordinary general meeting of shareholders held on June 29, 2017	Common stock	**$42,771**	**$0.53**	March 31, 2017	June 30, 2017	Retained earnings

8. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at March 31, 2016 and 2017 comprise the following:

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Cash and deposits	¥172,143	**¥201,276**	**$1,794,060**
Marketable securities	34,317	**—**	**—**
Sub total	206,459	**201,276**	**1,794,060**
Time deposits with original maturity of more than three months	(17,874)	**(17,055)**	**(152,015)**
Marketable securities with original maturity of more than three months	(34,317)	**—**	**—**
Cash and cash equivalents	¥154,269	**¥184,221**	**$1,642,045**

9. Financial Instruments

(1) Status of financial instruments

a) Policy related to financial instruments:

The Company and consolidated subsidiaries invest only in short-term deposits and highly secure financial assets in accordance with the internal guideline for fund management. The Companies raise funds through borrowings from financial institutions including banks. The Companies do not enter into derivative transactions for speculative purposes.

b) Details of financial instruments, risks and risk management system:

Notes and accounts receivable-trade are exposed to customer credit risk. In order to mitigate the risk, the balances and status of these receivables are monitored and managed in accordance with the internal management regulations for credit risk. Marketable securities and investment securities mainly consist of equity securities, corporate bonds and preferred equity securities. While these securities are exposed to market price fluctuation risk, the Company monitors market prices of these securities and financial conditions of the issuers periodically.

c) Supplementary explanation regarding the fair values of financial instruments:

The fair value of financial instruments is based on market values as well as reasonably determined values in situations where the market value is unavailable.

(2) Fair value of financial instruments

Amounts carried on the consolidated balance sheets, their fair values and the differences between them are as follows:

	Millions of yen		
As of March 31, 2016	Carrying amount	Fair value	Variance
a) Cash and deposits	¥172,143	¥172,143	¥ —
b) Notes and accounts receivable—trade	75,243		
Allowance for doubtful accounts	(86)		
	75,157	75,157	—
c) Marketable securities			
Available-for-sale securities	34,317	34,317	—
d) Investment securities			
Available-for-sale securities	236,751	236,751	—
e) Shares of subsidiaries and affiliates	10,980	6,524	(4,456)

	Millions of yen		
As of March 31, 2017	Carrying amount	Fair value	Variance
a) Cash and deposits	**¥201,276**	**¥201,276**	**¥ —**
b) Notes and accounts receivable—trade	**69,536**		
Allowance for doubtful accounts	**(85)**		
	69,450	**69,450**	**—**
c) Marketable securities			
Available-for-sale securities	**—**	**—**	**—**
d) Investment securities			
Available-for-sale securities	**251,997**	**251,997**	**—**
e) Shares of subsidiaries and affiliates	**25,192**	**21,368**	**(3,825)**

	Thousands of U.S. dollars (Note 1)		
As of March 31, 2017	Carrying amount	Fair value	Variance
a) Cash and deposits	**$1,794,060**	**$1,794,060**	**$ —**
b) Notes and accounts receivable—trade	**619,803**		
Allowance for doubtful accounts	**(762)**		
	619,041	**619,041**	**—**
c) Marketable securities			
Available-for-sale securities	**—**	**—**	**—**
d) Investment securities			
Available-for-sale securities	**2,246,164**	**2,246,164**	**—**
e) Shares of subsidiaries and affiliates	**224,550**	**190,460**	**(34,091)**

1. Method of calculating fair value of financial instruments and matters regarding securities

a) Cash and deposits and b) Notes and accounts receivable—trade (after deduction of amounts for allowance for doubtful accounts)

As these instruments are settled within a short term and their fair values and carrying amounts are similar, their carrying amounts are assumed as their fair value.

c) Marketable securities, d) Investment securities and e) Shares of subsidiaries and affiliates

The fair values of equity securities are determined by their market prices on stock exchanges. The fair values of bonds are determined according to market prices indicated on bond exchanges or the values indicated by financial institutions handling these transactions.

2. Financial instruments for which fair value is not readily determinable

As of March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
Category	2016	2017	2017
Unlisted equity securities	¥ 463	**¥ 463**	**$ 4,123**
Equity securities in unlisted affiliates	43,611	**42,359**	**377,561**

These instruments are not in the scope of fair value recognition because they have no available market value, their future cash flows cannot be estimated, and their fair value is not readily determinable.

3. Redemption schedule for monetary assets and expected maturity values of securities

	Millions of yen			
As of March 31, 2016	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	¥ 26,627	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	75,243	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Corporate bonds)	34,200	118,712	23,000	3,000
Total	¥136,070	¥118,712	¥23,000	¥3,000

As of March 31, 2017	Millions of yen			
	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	¥26,203	¥ —	¥ —	¥—
Notes and accounts receivable—trade	69,536	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Corporate bonds)	—	120,889	40,500	—
Total	¥95,739	¥120,889	¥40,500	¥—

As of March 31, 2017	Thousands of U.S. dollars (Note 1)			
	Due within one year	Due after one year within five years	Due after five years within ten years	Due after ten years
Cash and deposits	$233,560	$ —	$ —	$—
Notes and accounts receivable—trade	619,803	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Corporate bonds)	—	1,077,538	360,995	—
Total	$853,363	$1,077,538	$360,995	$—

10. Marketable and Investment Securities

The following information relates to the aggregate carrying amounts and fair value of securities at March 31, 2016 and 2017.

(1) Available-for-sale securities

Available-for-sale securities whose fair value is readily determinable are recorded at fair value on the consolidated balance sheets as of March 31, 2016 and 2017.

As of March 31, 2016	Millions of yen		
	Market value (=Carrying amount)	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts on the consolidated balance sheets exceed their acquisition costs			
(1) Equity securities	¥ 76,705	¥ 34,806	¥41,899
(2) Corporate bonds	63,160	61,325	1,835
(3) Others	79,041	70,000	9,041
Sub total	218,905	166,131	52,774
Securities whose carrying amounts on the consolidated balance sheets do not exceed their acquisition costs			
(1) Equity securities	5,851	6,708	(857)
(2) Corporate bonds	46,311	47,669	(1,358)
(3) Others	—	—	—
Sub total	52,163	54,377	(2,215)
Total	¥271,068	¥220,508	¥50,559

As of March 31, 2017	Millions of yen		
	Market value (=Carrying amount)	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts on the consolidated balance sheets exceed their acquisition costs			
(1) Equity securities	¥ 82,058	¥ 38,043	¥44,015
(2) Corporate bonds	59,790	58,052	1,738
(3) Others	76,276	70,000	6,276
Sub total	218,124	166,096	52,028
Securities whose carrying amounts on the consolidated balance sheets do not exceed their acquisition costs			
(1) Equity securities	998	1,007	(9)
(2) Corporate bonds	32,875	33,700	(825)
(3) Others	—	—	—
Sub total	33,873	34,707	(834)
Total	¥251,997	¥200,802	¥51,195

As of March 31, 2017	Thousands of U.S. dollars (Note 1)		
	Market value (=Carrying amount)	Acquisition cost	Unrealized gains (losses)
Securities whose carrying amounts on the consolidated balance sheets exceed their acquisition costs			
(1) Equity securities	$ 731,423	$ 339,097	$392,326
(2) Corporate bonds	532,936	517,447	15,489
(3) Others	679,880	623,942	55,938
Sub total	1,944,239	1,480,486	463,753
Securities whose carrying amounts on the consolidated balance sheets do not exceed their acquisition costs			
(1) Equity securities	8,891	8,972	(81)
(2) Corporate bonds	293,033	300,383	(7,350)
(3) Others	—	—	—
Sub total	301,925	309,356	(7,431)
Total	$2,246,164	$1,789,841	$456,322

Unlisted equity securities (carrying amount on the consolidated balance sheet: ¥463 million) are not included in "Securities" in the above table as they have no quoted market value, and their fair value is not readily determinable given that future cash flows and other factors cannot be reliably estimated.

(2) Available-for-sale securities sold

For the year ended March 31, 2016

Not applicable.

For the year ended March 31, 2017

Category	Millions of yen		
	Proceeds from sales	Total gain on sales	Total losses on sales
Equity securities	¥6,555	¥4,124	¥33
Corporate bonds	—	—	—
Others	—	—	—
Total	¥6,555	¥4,124	¥33

Category	Thousands of U.S. dollars (Note 1) Proceeds from sales	Total gain on sales	Total losses on sales
Equity securities	**$58,425**	**$36,757**	**$295**
Corporate bonds	—	—	—
Others	—	—	—
Total	**$58,425**	**$36,757**	**$295**

11. Pension and Severance Plans

(1) Overview of the Group's retirement benefit plan

The Group has a lump-sum retirement benefit plan, which is a defined benefit plan, and a corporate pension fund plan.

In addition to these, Taisho Pharmaceutical Co., Ltd. and Taisho Toyama Pharmaceutical Co., Ltd. also have a defined contribution plan.

Certain consolidated subsidiaries use the simplified method to calculate retirement benefit obligations.

The amounts presented below included portions relating to multi-employer plans.

(2) Defined benefit plans

a) Reconciliation of retirement benefit obligations at the beginning and end of the period (excluding amounts in c) below):

For the year ended March 31	Millions of yen 2016	2017	Thousands of U.S. dollars (Note 1) 2017
Retirement benefit obligation at the beginning of period	¥61,239	**¥68,431**	**$609,952**
Service costs	2,663	**2,948**	**26,277**
Interest costs	648	**362**	**3,228**
Actuarial gain/loss incurred	5,910	**(1,598)**	**(14,248)**
Payments for retirement benefits	(2,029)	**(2,269)**	**(20,226)**
Retirement benefit obligations at the end of period	¥68,431	**¥67,873**	**$604,982**

b) Reconciliation of plan assets at the beginning and end of the period (excluding amounts in c) below):

For the year ended March 31	Millions of yen 2016	2017	Thousands of U.S. dollars (Note 1) 2017
Plan assets at the beginning of period	¥46,650	**¥46,145**	**$411,309**
Expected return on plan assets	933	**923**	**8,226**
Actuarial gain/loss incurred	(1,662)	**467**	**4,163**
Employer contributions	1,297	**1,278**	**11,391**
Payments for retirement benefits	(1,072)	**(1,081)**	**(9,639)**
Plan assets at the end of period	¥46,145	**¥47,731**	**$425,451**

c) Reconciliation of net defined benefit liabilities at the beginning and end of the period, for plans using the simplified method:

For the year ended March 31	Millions of yen 2016	2017	Thousands of U.S. dollars (Note 1) 2017
Net defined benefit liabilities at the beginning of period	¥793	**¥860**	**$7,662**
Retirement benefit expenses	166	**77**	**689**
Payments for retirement benefits	(61)	**(35)**	**(313)**
Contributions to plan	(10)	**(10)**	**(87)**
Others	(28)	**(25)**	**(219)**
Net defined benefit liabilities at the end of period	¥860	**¥867**	**$7,732**

d) Reconciliation of defined benefit obligations and plan assets at the end of the period with net defined benefit liabilities and net defined benefit assets on the consolidated balance sheets:

As of March 31	Millions of yen 2016	2017	Thousands of U.S. dollars (Note 1) 2017
Defined benefit obligations for funded plans	¥ 45,723	**¥ 45,365**	**$ 404,362**
Plan assets	(46,291)	**(47,862)**	**(426,613)**
	(569)	**(2,496)**	**(22,251)**
Defined benefit obligations for unfunded plans	23,714	**23,505**	**209,514**
Net amount of defined benefit liabilities and defined benefit assets on the consolidated balance sheets	¥ 23,145	**¥ 21,009**	**$ 187,264**
Net defined benefit liabilities	¥ 23,714	**¥ 23,505**	**$ 209,514**
Net defined benefit assets	(569)	**(2,496)**	**(22,251)**
Net amount of defined benefit liabilities and defined benefit assets on the consolidated balance sheets	¥ 23,145	**¥ 21,009**	**$ 187,264**

e) Components of net retirement benefit costs:

As of March 31	Millions of yen 2016	2017	Thousands of U.S. dollars (Note 1) 2017
Service cost	¥2,663	**¥2,948**	**$26,277**
Interest cost	648	**362**	**3,228**
Expected return on plan assets	(933)	**(923)**	**(8,226)**
Amortization of actuarial gain/loss	814	**1,323**	**11,791**
Amortization of prior service cost	(319)	**(310)**	**(2,764)**
Net retirement benefit cost calculated using simplified method	166	**77**	**689**
Net retirement benefit cost for defined benefit plans	¥3,039	**¥3,477**	**$30,994**

f) Remeasurements of defined benefit plans

The remeasurements of defined benefit plans (prior to income tax effects) are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the year ended March 31	2016	2017	2017
Unrecognized prior service cost	¥ (319)	**¥ (310)**	**$ (2,764)**
Unrecognized actuarial gain/loss	(6,758)	**3,388**	**30,202**
Total	¥(7,077)	**¥3,078**	**$27,439**

g) Cumulative remeasurements of defined benefit plans

The cumulative remeasurements of defined benefit plans (prior to income tax effects) are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
As of March 31	2016	2017	2017
Unrecognized prior service costs	¥ 1,216	**¥ 906**	**$ 8,074**
Unrecognized actuarial differences	(13,372)	**(9,983)**	**(88,987)**
Total	¥(12,156)	**¥(9,078)**	**$(80,913)**

h) Matters related to plan assets

1) Main components of plan assets

The constitution ratios of main asset categories to total plan assets are as follows:

As of March 31	2016	2017
Bonds	61%	**60%**
Equity securities	20	**26**
General account	15	**14**
Other	4	**—**
Total	100%	**100%**

2) Method of establishing long-term expected rate of return

To determine the long-term expected rate of return on plan assets, the Company takes into account the current and projected distribution of plan assets and the current and projected future long-term expected rate of return on a wide range of assets comprising the plan assets.

i) Matters relating to the basis for calculating actuarial gain/loss

Basis for calculating primary actuarial gain/loss (weighted average rate):

As of March 31	2016	2017
Discount rate	0.2%–0.7%	**0.3%–0.9%**
Long-term expected rate of return	2.0%	**2.0%**

(3) Defined contribution plans

Contributions to the defined contribution plans of the Company and its consolidated subsidiaries were as follows:

2016 ¥548 million

2017 ¥537 million ($ 4,783 thousand)

12. Stock Options and Related Matters

Reporting company

(1) Costs and other items recorded with respect to stock options

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the year ended March 31	2016	2017	2017
Selling, general and administrative expenses	¥ 109	**¥138**	**$1,233**

(2) Description, amount and changes in stock options

a) Description of stock options:

	2012 Stock options	2013 Stock options
Type and number of recipients	Directors of the Company (excluding outside directors) 9 individuals	Directors of the Company (excluding outside directors) 8 individuals
		Executive officers and others of the Company 6 individuals
	Directors of Taisho Pharmaceutical Co., Ltd. (excluding outside directors) 8 individuals	Directors of Taisho Pharmaceutical Co., Ltd. (excluding outside directors) 7 individuals
	Other officers of Taisho Pharmaceutical Co., Ltd. 19 individuals	Other officers of Taisho Pharmaceutical Co., Ltd. 16 individuals
Total number of stock options by type of shares*	15,100 shares of common stock	14,800 shares of common stock
Grant date	August 1, 2012	August 1, 2013
Vesting conditions	No vesting conditions are attached.	No vesting conditions are attached.
Applicable period of service	No applicable period of service is specified.	No applicable period of service is specified.
Exercise period	From August 2, 2012 to August 1, 2062	From August 2, 2013 to August 1, 2063

* Converted into the number of shares.

	2014 Stock options	2015 Stock options
Type and number of recipients	Directors of the Company (excluding outside directors) 8 individuals	Directors of the Company (excluding outside directors) 7 individuals
	Executive officers and others of the Company 5 individuals	Executive officers and others of the Company 2 individuals
	Directors of Taisho Pharmaceutical Co., Ltd. (excluding outside directors) 7 individuals	Directors of Taisho Pharmaceutical Co., Ltd. (excluding outside directors) 8 individuals
	Other officers of Taisho Pharmaceutical Co., Ltd. 20 individuals	Other officers of Taisho Pharmaceutical Co., Ltd. 14 individuals
Total number of stock options by type of shares*	17,500 shares of common stock	13,500 shares of common stock
Grant date	August 1, 2014	August 3, 2015
Vesting conditions	No vesting conditions are attached.	No vesting conditions are attached.
Applicable period of service	No applicable period of service is specified.	No applicable period of service is specified.
Exercise period	From August 2, 2014 to August 1, 2064	From August 4, 2015 to August 3, 2065

* Converted into the number of shares.

	2016 Stock options
Type and number of recipients	Directors of the Company (excluding outside directors) 7 individuals
	Executive officers and others of the Company 1 individual
	Directors of Taisho Pharmaceutical Co., Ltd. (excluding outside directors) 7 individuals
	Other officers of Taisho Pharmaceutical Co., Ltd. 17 individuals
Total number of stock options by type of shares*	12,700 shares of common stock
Grant date	August 2, 2016
Vesting conditions	No vesting conditions are attached.
Applicable period of service	No applicable period of service is specified.
Exercise period	From August 3, 2016 to August 2, 2066

* Converted into the number of shares.

b) Amount of stock options and changes:

The following covers stock options in force in the year ended March 31, 2017. The number of stock options has been converted into the number of shares.

Number of stock options

	2012 stock options	2013 stock options
Before vesting (shares)		
Balance at March 31, 2016	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Unvested balance as of March 31, 2017	—	—
After vesting (shares)		
Balance as of March 31, 2016	10,300	10,500
Vested	—	—
Exercised	1,400	1,500
Forfeited	—	—
Unexercised balance as of March 31, 2017	8,900	9,000

	2014 stock options	2015 stock options
Before vesting (shares)		
Balance at March 31, 2016	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Unvested balance as of March 31, 2017	—	—
After vesting (shares)		
Balance as of March 31, 2016	13,300	13,500
Vested	—	—
Exercised	1,500	1,100
Forfeited	—	—
Unexercised balance as of March 31, 2017	11,800	12,400

	2016 stock options
Before vesting (shares)	
Balance at March 31, 2016	—
Granted	**12,700**
Forfeited	—
Vested	**12,700**
Unvested balance as of March 31, 2017	—
After vesting (shares)	
Balance as of March 31, 2016	—
Vested	**12,700**
Exercised	—
Forfeited	—
Unexercised balance as of March 31, 2017	**12,700**

Per share information

	Yen		
	2012 stock options	2013 stock options	2014 stock options
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price upon exercise	10,648	10,552	10,552
Fair value at grant date	6,086	6,460	6,936

	Yen	
	2015 stock options	2016 stock options
Exercise price	¥ 1	**¥ 1**
Average stock price upon exercise	10,453	—
Fair value at grant date	8,049	**10,890**

c) Estimation method for fair value of stock options:

The estimation method for the fair price of the 2016 stock options granted in the fiscal year ended March 31, 2017 was as follows:

Valuation model used Black-Scholes model

Main basic assumptions and estimation methods

	2016 stock options
Stock price volatility*1	**24.15%**
Estimated remaining service period*2	**4.17 years**
Dividend forecast*3	**¥100 per share**
Risk-free interest rate*4	**(0.226)%**

*1. Calculated based on the historical stock price performance over 4 years from June 2, 2012 to August 2, 2016.

*2. The estimated remaining service period has been determined by the period of average services years of directors and other officers in past minus their services years of current directors and officers currently served in the Board.

*3. Based on the dividend performance in the fiscal year ended March 31, 2016.

*4. Refers to the yield of Japanese government bonds during the estimated remaining service period.

d) Estimation method for the number of vested stock options:

Given that it is difficult to rationally estimate the number of forfeitures in the future, the Company has adopted the method of reflecting only the number of forfeitures based on past experience.

Consolidated subsidiary (Biofermin Pharmaceutical Co., Ltd.)

(1) Costs and other items recorded with respect to stock options

For the year ended March 31	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Selling, general and administrative expenses	¥26	**¥21**	**$183**

(2) Description, amount and changes in stock options

a) Description of stock options:

	2015 Stock options	2016 Stock options
Type and number of recipients	Directors of Biofermin Pharmaceutical Co., Ltd. (excluding outside directors) 6 individuals	**Directors of Biofermin Pharmaceutical Co., Ltd. (excluding outside directors) 5 individuals**
Total number of stock options by type of shares*	10,300 shares of common stock	**10,100 shares of common stock**
Grant date	August 17, 2015	**July 13, 2016**
Vesting conditions	No vesting conditions are attached.	**No vesting conditions are attached.**
Applicable period of service	No applicable period of service is specified.	**No applicable period of service is specified.**
Exercise period	From August 18, 2015 to August 17, 2045	**From July 14, 2016 to July 13, 2046**

* Converted into the number of shares.

b) Amount of stock options and changes:

The following covers stock options in force in the year ended March 31, 2017. The number of stock options has been converted into the number of shares.

Number of stock options

	2015 stock options	2016 stock options
Before vesting (shares)		
Balance at March 31, 2016	—	—
Granted	—	**10,100**
Forfeited	—	—
Vested	—	**10,100**
Unvested balance as of March 31, 2017	—	—
After vesting (shares)		
Balance as of March 31, 2016	10,300	—
Vested	—	**10,100**
Exercised	—	—
Forfeited	—	—
Unexercised balance as of March 31, 2017	10,300	**10,100**

Per share information

	Yen 2015 stock options	Yen 2016 stock options
Exercise price	¥ 1	**¥ 1**
Average stock price upon exercise	—	—
Fair value at grant date	2,487	**2,035**

c) Estimation method for fair value of stock options:

The estimation method for the fair price of the 2016 stock options granted in the fiscal year ended March 31, 2017 was as follows:

Valuation model used Black-Scholes model

Main basic assumptions and estimation methods

	2016 stock options
Stock price volatility*1	**25.377%**
Estimated remaining service period*2	**15 years**
Dividend forecast*3	**¥60 per share**
Risk-free interest rate*4	**(0.130)%**

*1. Calculated based on the historical stock price performance over 15 years from July 13, 2001 to July 13, 2016.

*2. As a rational projection is not possible due to an insufficient accumulation of data, an estimate has been determined on the assumption of stock options being exercised at the interim point of the exercise period.

*3. Based on the dividend performance in the fiscal year ended March 31, 2016.

*4. Refers to the yield of Japanese government bonds during the estimated remaining service period.

d) Estimation method for the number of vested stock options:

Given that it is difficult to rationally estimate the number of forfeitures in the future, the Company has adopted the method of reflecting only the number of forfeitures based on past experience.

13. Income Taxes

(1) The significant components of deferred tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

As of March 31	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Deferred tax assets:			
Enterprise taxes	¥ 431	¥ 327	**$ 2,913**
Accrued expenses	2,598	2,346	**20,908**
Research expenses, etc.	988	1,317	**11,740**
Provision for bonuses	1,147	1,148	**10,234**
Net defined benefit liabilities	6,983	6,897	**61,478**
Provision for directors' retirement benefits	397	329	**2,931**
Prepaid research expenses	818	638	**5,689**
Evaluation loss on investment securities	1,876	1,686	**15,030**
Unrealized loss on securities	167	252	**2,249**
Operating loss carry forwards for tax purposes	72	497	**4,430**
Others	4,840	3,438	**30,641**
Gross deferred tax assets	20,317	18,875	**168,243**
Less: Valuation allowance	(3,142)	(2,451)	**(21,843)**
Total deferred tax assets	17,176	16,425	**146,399**
Deferred tax liabilities:			
Unrealized gains on securities	(14,409)	(14,596)	**(130,098)**
Deferred gain on sales of real property	(2,136)	(2,100)	**(18,718)**
Net defined benefits assets	(158)	(731)	**(6,512)**
Undistributed earnings of overseas subsidiaries and affiliates	(982)	(1,059)	**(9,440)**
Others	(1,827)	(1,467)	**(13,075)**
Total deferred tax liabilities	(19,512)	(19,952)	**(177,842)**
Net deferred tax assets (liabilities)	¥ (2,336)	¥ (3,528)	**$ (31,443)**

(2) Reconciliation of the main differences between the statutory tax rate and the effective tax rate after application of deferred tax accounting

As of March 31 2016		2017
The difference between the statutory tax rate and the effective tax rate after application of deferred tax accounting was less than 5% of the statutory tax rate. Accordingly, the reconciliation of differences has been omitted.	Statutory tax rate (Reconciliation)	**30.9%**
	Entertainment expenses	**1.1**
	Dividend income	**(0.1)**
	Amortization of goodwill	**0.9**
	Research expenses	**(3.2)**
	Equity in earnings/losses of entities accounted for using equity method	**0.4**
	Less: Valuation allowance	**(1.3)**
	Others	**(0.7)**
	Effective income tax rate	**28.0%**

14. Segment Information

(1) Outline of reportable segments

The Taisho Pharmaceutical Holdings Group's reportable segments are the components of the Group about which separate financial information is available. These segments are subject to periodic examinations to enable the Company's Board of Directors to decide how to allocate resources and assess performance.

The Group's reportable segments are the Self-Medication Operation Group and the Prescription Pharmaceutical Operation Group. This classification is based on the differences in sales methods for over-the-counter (OTC) drugs and ethical drugs and the difference in the degree of business risk associated with the R&D expense burden in each segment.

The Self-Medication Operation Group conducts R&D, manufacturing and sales of OTC drugs, quasi-drugs, food, and general medical and hygiene supplies.

The Prescription Pharmaceutical Operation Group conducts R&D, manufacturing and sales of ethical drugs.

Real estate leasing and facility management, and hotel management operations are included in the Self-Medication Operation Group due to their insignificance.

(2) Method for calculating sales, income and loss, assets and liabilities, and other items by reportable segment

The total amounts for each line item of the reportable segments correspond to the amounts reported on the consolidated balance sheets and consolidated statements of income.

The accounting treatment methods for the reportable segments are consistent with the accounting treatment methods described in the Notes of "Summary of Significant Accounting Policies."

Segment profit for each reportable segment is presented on an operating profit basis.

(3) Information on sales, income and loss, assets and liabilities, and other items by reportable segment

For the year ended March 31, 2016	Millions of yen				
	Self-medication	Pharma-ceutical	Total	Other*1	Consoli-dated
Net sales:					
(1) Outside customers	¥180,722	¥109,414	¥290,136	¥ —	¥290,136
(2) Inter-segment	—	—	—	—	—
Total	180,722	109,414	290,136	—	290,136
Segment profit*2	28,394	1,756	30,150	(1,272)	28,878
Segment assets	302,521	175,302	477,824	281,226	759,050
Other items					
Depreciation*3	9,293	1,824	11,117	—	11,117
Amortization of goodwill	1,356	—	1,356	—	1,356
Impairment loss	850	—	850	—	850
Investment in equity method affiliates	11,012	41,770	52,782	—	52,782
Increase in tangible and intangible fixed assets*4	6,879	2,294	9,173	—	9,173

*1. The Other segment is a business segment that is not affiliated with any reportable segment, and primarily consists of the Company's (pure holding company) operations.
*2. Segment profit matches operating profit in the consolidated financial statements.
*3. Depreciation includes amortization of long-term prepaid expenses.
*4. The increase in tangible and intangible fixed assets includes the increase in long-term prepaid expenses.

For the year ended March 31, 2017	Millions of yen				
	Self-medication	Pharma-ceutical	Total	Other*1	Consoli-dated
Net sales:					
(1) Outside customers	**¥179,993**	**¥ 99,781**	**¥279,774**	**¥ —**	**¥279,774**
(2) Inter-segment	**—**	**—**	**—**	**—**	**—**
Total	**179,993**	**99,781**	**279,774**	**—**	**279,774**
Segment profit*2	**30,107**	**3,352**	**33,459**	**(1,493)**	**31,966**
Segment assets	**319,520**	**173,423**	**492,944**	**278,279**	**771,223**
Other items					
Depreciation*3	**8,711**	**1,712**	**10,423**	**—**	**10,423**
Amortization of goodwill	**1,248**	**—**	**1,248**	**—**	**1,248**
Impairment loss	**—**	**—**	**—**	**—**	**—**
Investment in equity method affiliates	**25,224**	**40,518**	**65,742**	**—**	**65,742**
Increase in tangible and intangible fixed assets*4	**5,990**	**1,860**	**7,851**	**—**	**7,851**

For the year ended March 31, 2017	Thousands of U.S. dollars (Note 1)				
	Self-medication	Pharma-ceutical	Total	Other*1	Consoli-dated
Net sales:					
(1) Outside customers	**$1,604,355**	**$ 889,396**	**$2,493,751**	**$ —**	**$2,493,751**
(2) Inter-segment	**—**	**—**	**—**	**—**	**—**
Total	**1,604,355**	**889,396**	**2,493,751**	**—**	**2,493,751**
Segment profit*2	**268,353**	**29,880**	**298,233**	**(13,304)**	**284,929**
Segment assets	**2,848,028**	**1,545,801**	**4,393,829**	**2,480,425**	**6,874,255**
Other items					
Depreciation*3	**77,642**	**15,263**	**92,905**	**—**	**92,905**
Amortization of goodwill	**11,122**	**—**	**11,122**	**—**	**11,122**
Impairment loss	**—**	**—**	**—**	**—**	**—**
Investment in equity method affiliates	**224,830**	**361,155**	**585,985**	**—**	**585,985**
Increase in tangible and intangible fixed assets*4	**53,394**	**16,582**	**69,976**	**—**	**69,976**

*1. The Other segment is a business segment that is not affiliated with any reportable segment, and primarily consists of the Company's (pure holding company) operations.
*2. Segment profit matches operating profit in the consolidated financial statements.
*3. Depreciation includes amortization of long-term prepaid expenses.
*4. The increase in tangible and intangible fixed assets includes the increase in long-term prepaid expenses.

[Related information]

For the year ended March 31, 2016

(1) Information by product and service

Information by product and service has been omitted as it is the same as the reportable segments.

(2) Information by geographic region

a) Sales:

	Millions of yen
Japan	¥260,235
Asia	26,798
Other	3,103
Total	¥290,136

Sales figures are calculated by country or region based on the locations of the customers.

b) Tangible fixed assets:

The Company has omitted disclosure here because tangible fixed assets in Japan account for more than 90% of the amount of tangible fixed assets reported on the consolidated balance sheets.

(3) Information by major customer

Information by major customer has been omitted as sales to any specific external customer are less than 10% of net sales reported on the consolidated statements of income.

For the year ended March 31, 2017

(1) Information by product and service

Information by product and service has been omitted as it is same as the reportable segments.

(2) Information by geographic region

a) Sales:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Japan	**¥252,244**	**$2,248,368**
Asia	**25,135**	**224,038**
Other	**2,395**	**21,345**
Total	**¥279,774**	**$2,493,751**

Sales figures are calculated by country or region based on the locations of the customers.

b) Tangible fixed assets:

The Company has omitted disclosure here because tangible fixed assets in Japan account for more than 90% of the amount of tangible fixed assets reported on the consolidated balance sheets.

(3) Information by major customer

Information by major customer has been omitted as sales to any specific external customer are less than 10% of net sales reported on the consolidated statements of income.

[Information on impairment loss on fixed assets by reportable segments]

For the year ended March 31, 2016

	Millions of yen			
	Self-medication	Pharmaceutical	Other	Total
Impairment loss	¥850	¥—	¥—	¥850

For the year ended March 31, 2017

Not applicable.

[Information on amortization and unamortized balance of goodwill by reportable segment]

	Millions of yen			
For the year ended March 31, 2016	Self-medication	Pharmaceutical	Other	Total
Goodwill amortization	¥ 1,356	¥—	¥—	¥ 1,356
Unamortized balance of goodwill	19,046	—	—	19,046

	Millions of yen			
For the year ended March 31, 2017	Self-medication	Pharmaceutical	Other	Total
Goodwill amortization	**¥ 1,248**	**¥—**	**¥—**	**¥ 1,248**
Unamortized balance of goodwill	**16,769**	**—**	**—**	**16,769**

	Thousands of U.S. dollars (Note 1)			
For the year ended March 31, 2017	Self-medication	Pharmaceutical	Other	Total
Goodwill amortization	**$ 11,122**	**$—**	**$—**	**$ 11,122**
Unamortized balance of goodwill	**149,468**	**—**	**—**	**149,468**

[Information on gains on negative goodwill by reportable segment]

Not applicable.

15. Related Party Transactions

[Transactions with consolidated subsidiaries and related parties]

(1) Related transaction with the non-consolidated subsidiaries and affiliates

For the year ended March 31, 2016

Name	Location	Capital	Shares with voting rights owned by Company in related party/ (owned by related party in Company)	Transactions	Amounts Millions of yen	Closing balances in	Amounts Millions of yen
Toyama Chemical Co., Ltd.	Shinjuku ward, Tokyo	¥10,000 million	34.0%	Product purchases	¥31,958	Accounts payable	¥13,945

For the year ended March 31, 2017

Name	Location	Capital	Shares with voting rights owned by Company in related party/ (owned by related party in Company)	Transac-tions	Amounts Millions of yen	Amounts Thousands of U.S. dollars (Note 1)	Closing balances in	Amounts Millions of yen	Amounts Thousands of U.S. dollars (Note 1)
Toyama Chemical Co., Ltd.	Shinjuku ward, Tokyo	¥10,000 million	34.0%	Product purchases	**¥22,807**	**$203,285**	Accounts payable	**¥9,965**	**$88,818**

(2) Related transaction with directors and individual shareholders

For the year ended March 31, 2016

Name	Location	Capital	Shares with voting rights owned by Company in related party/ (owned by related party in Company)	Transactions	Amounts Millions of yen	Closing balances in	Amounts Millions of yen
Taisei Co., Ltd.*3	Toshima ward, Tokyo	¥100 million	(1.48%)	Outsourced administra-tive work	¥16	Current assets other	¥1

For the year ended March 31, 2017

Name	Location	Capital	Shares with voting rights owned by Company in related party/ (owned by related party in Company)	Transactions	Amounts Millions of yen	Amounts Thousands of U.S. dollars (Note 1)	Closing balances in	Amounts Millions of yen	Amounts Thousands of U.S. dollars (Note 1)
Taisei Co., Ltd.*3	Toshima ward, Tokyo	¥100 million	(1.48%)	Outsourced administrative work	**¥16**	**$145**	Current assets other	**¥ 0**	**$ 2**
Shoji Uehara	—	—	(9.92%)	Acquisition of tangible fixed assets (transfer of assets free of charge)*4	**¥47**	**$422**	—	—	—

*1. Of the amounts (1) and (2) shown above, consumption taxes are excluded from transaction amounts, but are included in the closing balances.

*2. Transaction conditions and policy on determination of transaction conditions

(a) Purchase prices for products are determined with reference to third-party selling prices.

(b) Price and other transaction conditions for outsourced administrative work are determined through negotiations for each transaction, taking into account prevailing market prices.

*3. Akira Uehara, a corporate officer of Taisho Pharmaceutical Holdings Co., Ltd. and his close relatives directly own 100% of the shares with voting rights.

*4. Although the transaction was a transfer of assets free of charge, the transaction amount for the tangible fixed assets (¥47 million) is shown as the appraisal value as determined by a specialist fine arts company.

16. Per Share Information

Year ended March 31	Yen 2016	Yen 2017	U.S. dollars (Note 1) 2017
Net assets per share	¥7,870.04	**¥8,127.87**	**$72.45**
Basic earnings per share	277.75	**360.18**	**3.21**
Diluted earnings per share	277.59	**359.92**	**3.21**

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

Basic earnings per share

Year ended March 31	Yen 2016	Yen 2017	U.S. dollars (Note 1) 2017
Profit attributable to owners of parent	¥22,473	**¥28,781**	**$256,539**
Profit attributable to owners of parent available to common shareholders	22,473	**28,781**	**256,539**
Weighted-average number of shares outstanding (Thousand shares)	80,911	**79,908**	

Diluted earnings per share

Year ended March 31	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017
Adjustments to profit attributable to owners of parent	¥ (0)	**¥ (2)**	**$(16)**
(Adjustments of dilutive shares of consolidated subsidiaries)	(0)	**(2)**	**(16)**
Increase in number of common stock (Thousands shares)	45	**51**	
(Including subscription rights to shares (Thousands shares))	45	**51**	

17. Significant Subsequent Events

Not applicable.

18. Schedule of Borrowings

For the year ended March 31	Millions of yen 2016	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2017	Average interest rate (%)	Due date of payment
Short-term loans	¥ 50	**¥109**	**$ 967**	0.93%	—
Current portion of long-term loans	—	**—**	**—**	—	—
Current portion of lease obligations	104	**104**	**929**	—	—
Long-term loans (without current portion)	—	**—**	**—**	—	—
Lease obligations (without current portion)	248	**146**	**1,300**	—	From 2018 to 2023
Total	¥401	**¥359**	**$3,196**	—	

*1. "Average interest rate" represents the weighted average interest rate against the term-end balance of borrowings.

*2. As interest is included in the lease payment, the average interest rate of lease obligations is omitted.

*3. The lease obligations (excluding debt scheduled to be repaid within one year) within five years after the consolidated balance sheet date (i.e. March 31, 2017) is as follows:

Year ended March 31	Due after one year, within two years	Due after two years within three years	Due after three years within four years	Due after four years, within five years
Lease obligations (Millions of yen)	**¥103**	**¥ 22**	**¥ 6**	**¥ 6**
Lease obligations (Thousands of U.S. dollars (Note 1))	**$915**	**$194**	**$52**	**$52**

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Independent Auditor's Report

To the Board of Directors of Taisho Pharmaceutical Holdings Co., Ltd.

We have audited the accompanying consolidated financial statements of Taisho Pharmaceutical Holdings Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata LLC

August 10, 2017

PricewaterhouseCoopers Aarata LLC
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Major Subsidiaries and Affiliates

(As of April 1, 2017)

Group Business Network

Taisho Pharmaceutical Holdings Co., Ltd. (Holding company)

Self-Medication Operation Group

Japan

- **Taisho Pharmaceutical Co., Ltd.**
  Research, development, manufacture and sales of OTC drugs, quasi-drugs, foods and other products
- **Taisho Okinawa Co., Ltd.**
  Sales of Taisho Pharmaceutical products in Okinawa Prefecture
- **Taisho M.T.C. Co., Ltd.**
  Manufacture and sales of raw materials for medicines and quasi-drugs
- **Taisho Pharmaceutical Logistics Co., Ltd.**
  Management and operation of transport services for Taisho Pharmaceutical Group
- **MEJIRO KOSAN Co., Ltd.**
  Leasing, management, possession and operation of real estate, and provision of employee welfare and benefit services, etc.
- **TAISHO ACTIVE HEALTH Co., Ltd.**
  Supply of health foods, quasi-drugs and skin care products
- **Biofermin Pharmaceutical Co., Ltd.**
  Development, manufacture and sales of OTC drugs and other products
- **TOKUHON Corporation**
  Development, manufacture and sales of OTC drugs and other products
- **Dr. Program Co., Ltd.**
  Production and sales of skincare products, pharmaceuticals and cosmetic materials
- ○ **Yomeishu Seizo Co., Ltd.**
  Manufacture and sales of herbal liqueurs and other products

Other 1 Consolidated subsidiary

Overseas

- **Taisho Pharmaceutical (Taiwan) Co., Ltd.**
  Manufacture (commissioned) and sales of OTC drugs, energy drinks and other products
- **Taisho Pharmaceutical California Inc.**
  Manufacture (commissioned) and sales of energy drinks and other products
- **Taisho Pharmaceuticals (Philippines), Inc.**
  Manufacture (commissioned) and sales of OTC drugs, energy drinks and other products
- **Taisho Co., Ltd. Shanghai**
  Manufacture and sales of energy drinks and other products
- **Taisho Vietnam Co., Ltd.**
  Manufacture and sales of energy drinks and other products
- **Taisho Pharmaceutical (H.K.) Ltd.**
  Sales of energy drinks and other products
- **Osotspa Taisho Pharmaceutical Co., Ltd.**
  Sales of OTC drugs, energy drinks and other products
- **PT. Taisho Pharmaceutical Indonesia Tbk**
  Manufacture and sales of OTC drugs and manufacture (commissioned) and sales of energy drinks and other products
- **Taisho Pharmaceutical Singapore Private Limited**
  Administration of OTC drug business in the ASEAN region
- **Hoepharma Holdings Sdn. Bhd.**
  Management of a subsidiary that conducts pharmaceutical business, mainly in Malaysia
- **Compañía Internacional de Comercio, S.A.P.I. de C.V. (CICSA)**
  Manufacture and sales of OTC drugs and other products and sales of energy drinks and other products
- ○ **Duoc Hau Giang Pharmaceutical JSC**
  Manufacture and sales of OTC drugs and other products

Other 10 Consolidated subsidiaries
1 Non-consolidated subsidiary
1 Affiliate accounted for using the equity method

Prescription Pharmaceutical Operation Group

Japan

- **Taisho Pharmaceutical Co., Ltd.**
  Research, development, manufacture and sales of prescription pharmaceuticals
- **Taisho Toyama Pharmaceutical Co., Ltd.**
  Sales of prescription pharmaceuticals
- **Biofermin Pharmaceutical Co., Ltd.**
  Development, manufacture and sales of prescription pharmaceuticals
- **TOKUHON Corporation**
  Development, manufacture and sales of prescription pharmaceuticals
- ○ **Toyama Chemical Co., Ltd.**
  Research, development, manufacture and sales of prescription pharmaceuticals and other products

Other 1 Consolidated subsidiary

Overseas

- **Taisho Pharmaceutical R&D Inc.**
  Development of prescription pharmaceuticals

Note: Taisho Pharmaceutical Co., Ltd., Biofermin Pharmaceutical Co., Ltd. and TOKUHON Corporation are engaged in both the self-medication business and the prescription pharmaceutical business, and so are listed in both businesses.

●● Consolidated subsidiary
○○ Affiliate accounted for using the equity method

Corporate Data/Investor Information

(As of March 31, 2017)

Company Name	Taisho Pharmaceutical Holdings Co., Ltd.
Date of Foundation	October 3, 2011
Paid-in Capital	¥30,000 million
Number of Employees	6,461 (consolidated, as of March 31, 2017)
URL	http://www.taisho-holdings.co.jp/en/

Number of Shares Authorized	360,000,000 common shares
Number of Shares Issued	90,139,653 common shares
Stock Trading Unit	100 shares
General Meeting of Shareholders	Held annually in June
Listing	Tokyo Stock Exchange
Ticker Symbol Number	4581
Shareholder Registry Administrator and Special Account Management Institution	Mitsubishi UFJ Trust and Banking Corporation
Contact Address*	Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation 1-1, Nikko-cho, Fuchu-shi, Tokyo 183-0044, Japan Tel: 0120-232-711 (Toll-free in Japan) Postal address: c/o Shin-Tokyo Post Office, P.O. Box No. 29, Tokyo 137-8081, Japan Securities Agency Department, Mitsubishi UFJ Trust and Banking Corporation

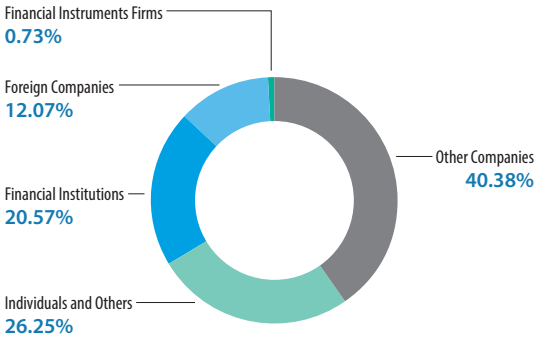
* The above information changed on August 14, 2017, in conjunction with the relocation of the administrative base of the shareholder registry administrator and special account administrative authority.

Major Shareholders

Shareholder	Number of Voting Rights (Thousands)	Percentage of Voting Rights (%)
The Uehara Memorial Foundation	15,000	18.76%
Shoji Uehara	7,874	9.85%
Uehara Museum	3,900	4.88%
Sumitomo Mitsui Banking Corp.	3,000	3.75%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,000	3.75%
Akira Uehara	2,143	2.68%
Sumitomo Chemical Co., Ltd.	1,779	2.23%
Kajima Corporation	1,650	2.06%
Japan Trustee Services Bank, Ltd. (Trust account)	1,567	1.96%
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited Retrust Account/Sumitomo Chemical Company, Limited Employee Pension Trust Account)	1,530	1.91%

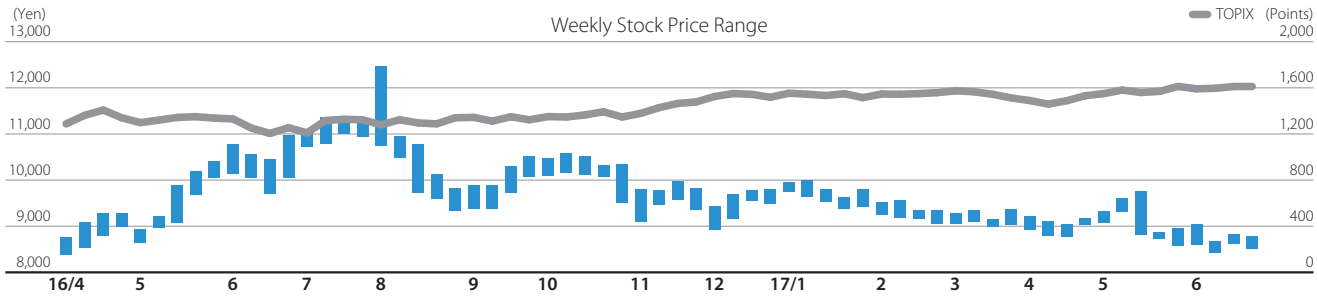
Note: Number of voting rights (shares) is rounded down to the nearest thousand.
Percentage of voting rights is calculated excluding treasury stock of 10,165 thousand shares and rounded to two decimal points.

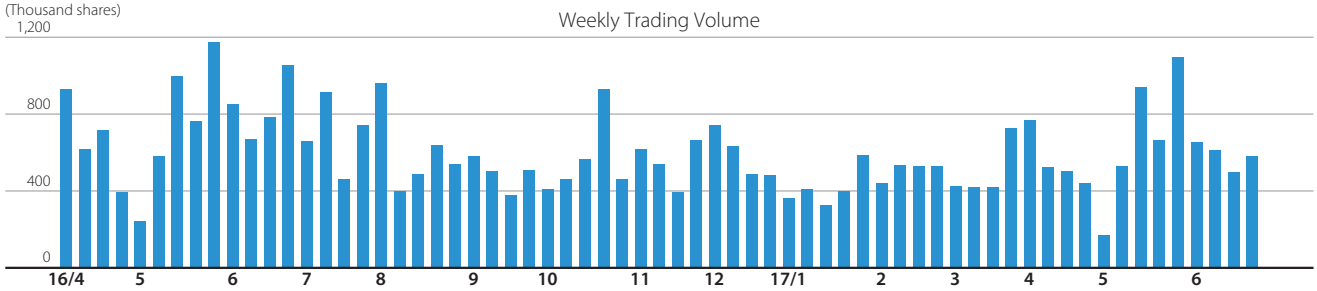
Distribution of Shareholders



* Percentage of voting rights is calculated excluding treasury stock of 10,165 thousand shares and rounded to two decimal points.

Stock Data (TSE) (April 2016–July 2017)





TAISHO PHARMACEUTICAL HOLDINGS CO., LTD.

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