

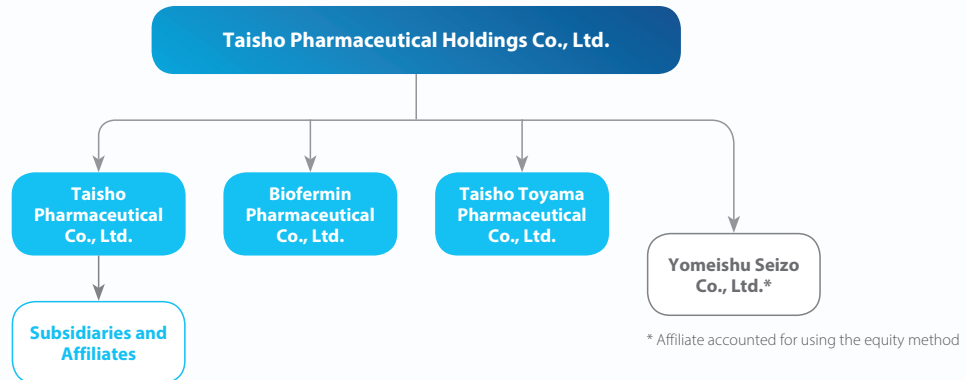
Annual Report 2018

Fiscal year ended March 31, 2018



Profile

Under the leadership of Taisho Pharmaceutical Holdings Co., Ltd., the Taisho Pharmaceutical 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.



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

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<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, 2017 to March 31, 2018
(includes some information from prior and subsequent periods)



Please refer to the corporate website for detailed reports

Corporate website

<https://www.taisho-holdings.co.jp/en/>

Financial information

<https://www.taisho-holdings.co.jp/en/ir/>

CSR

<https://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.

▶ 1912–1944

1912: Taisho Seiyakusho was founded.



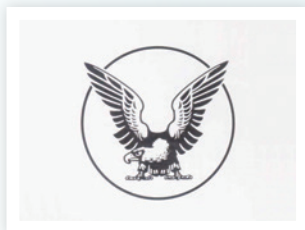
1927: Pabron was launched.



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

▶ 1945–1960

1955: Eagle trademark was adopted.



1957: The first ethical drug of our company, Psorion was launched.



▶ 1973–1981

1974: Research Center was constructed.

1978: Taisho Kanpo Ichoyaku (Herbal Stomach Remedy) was launched.



▶ 1961–1972

1962: Energy drink Lipovitan D was launched.



1963: Omiya Factory was constructed.

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

▶ 1992–2001

1999: *Lipovitan D* switched to quasi-drug product line due to relaxation of regulations on the sales of pharmaceutical products.

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



▶ 1982–1991

1990: Antipyretic analgesics *NARON Ace* was launched.

1991: Macrolide antibiotic *Clarith* was launched.



▶ 2002–

2006: Taisho Pharmaceutical Direct was released.

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

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

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

2016: Transdermal anti-inflammatory analgesic patch *LOQQA* was launched.



Net Sales

Fiscal year ended March 31, 2018

**¥280.1
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

Please refer to page 18 onward for details of overseas activities.

Financial and Non-Financial Highlights

Fiscal years ended March 31

	(Millions of yen)				
	2014	2015	2016	2017	2018
Net sales	295,957	290,498	290,135	279,773	280,092
Self-Medication Operation Group	181,753	176,295	180,722	179,992	183,996
Prescription Pharmaceutical Operation Group	114,204	114,202	109,413	99,781	96,096
Gross profit* ¹	184,693	178,248	176,813	178,226	182,984
Selling, general and administrative expenses	143,009	146,273	147,935	146,260	146,007
Percentage of net sales (%)	48.3	50.4	51.0	52.3	52.1
R&D expenses	21,874	21,554	21,768	21,260	21,150
Advertising expenses	16,960	19,169	21,366	22,087	22,579
Sales promotion expenses	31,159	32,355	31,775	30,079	28,636
Operating profit	41,683	31,974	28,878	31,966	36,977
Percentage of net sales (%)	14.1	11.0	10.0	11.4	13.2
Profit attributable to owners of parent	32,692	24,528	22,473	28,781	31,679
Free cash flow	38,235	15,552	31,396	38,705	19,944
Total assets	728,442	768,092	759,049	771,222	800,157
Net assets	611,933	653,242	643,127	665,088	691,318
Equity ratio (%)	82.4	83.3	82.9	84.2	84.3
ROE (Return on equity) (%)	5.6	4.0	3.5	4.5	4.8
ROA (Return on assets) (%)	4.7	3.3	2.9	3.8	4.0
Dividend per share (Yen)	110.00	110.00	100.00	110.00	110.00
Dividend payout ratio (%)	27.3	36.4	36.0	30.5	27.7
Number of employees	6,381	6,609	6,517	6,461	6,340
Female manager ratio (%) ^{*2}	9.5	10.8	11.4	12.0	11.9
Total waste generated (Tons) ^{*3}	6,208	5,378	6,277	5,743	5,428

*1 After provision/reversal of reserve for returned unsold goods

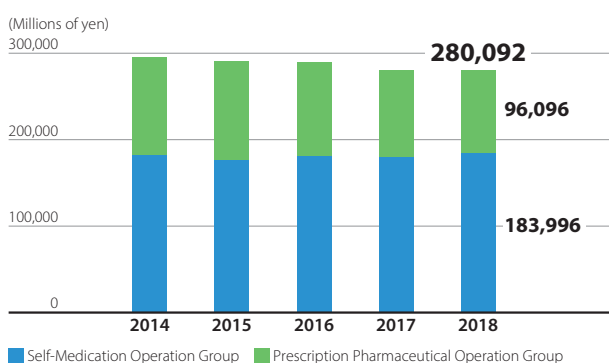
*2 Employees of Taisho Pharmaceutical Holdings Co., Ltd., Taisho Pharmaceutical Co., Ltd., and Taisho Toyama Pharmaceutical Co., Ltd.

*3 Data from Taisho Pharmaceutical Holdings Co., Ltd., Taisho Pharmaceutical Co., Ltd., and Taisho Toyama Pharmaceutical Co., Ltd.

Net sales

Consolidated net sales increased ¥0.3 billion, or 0.1%, compared with the previous fiscal year to ¥280.1 billion.

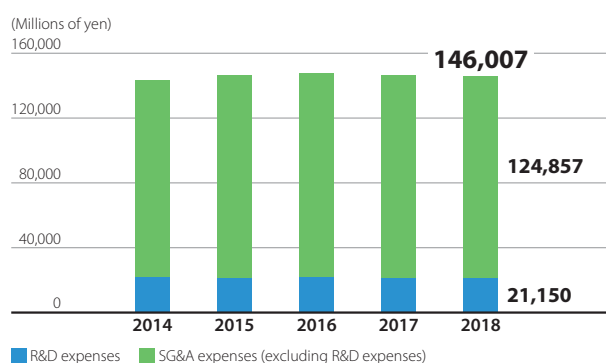
Segment net sales for the Self-Medication Operation Group increased ¥4.0 billion, or 2.2%, compared with the previous fiscal year to ¥184.0 billion. Segment net sales for the Prescription Pharmaceutical Operation Group decreased ¥3.7 billion, or 3.7%, compared with the previous fiscal year to ¥96.1 billion.



Selling, general and administrative expenses

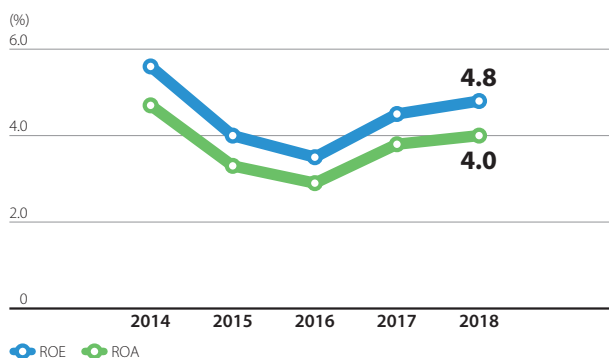
SG&A expenses decreased ¥0.3 billion, or 0.2%, to ¥146.0 billion. Of these, R&D expenses decreased by ¥0.1 billion, or 0.5%, to ¥21.2 billion, and the percentage of net sales was 7.6%.

R&D expenses in the Self-Medication Operation Group increased by ¥0.5 billion from the previous fiscal year to ¥6.0 billion. R&D expenses in the Prescription Pharmaceutical Operation Group decreased ¥0.6 billion compared with the previous fiscal year to ¥15.2 billion.



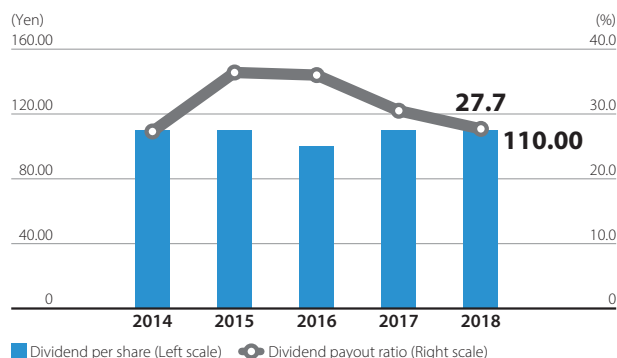
ROE (Return on equity)/ROA (Return on assets)

ROE increased 0.3 percentage point to 4.8%. ROA increased 0.2 of a percentage point to 4.0%.



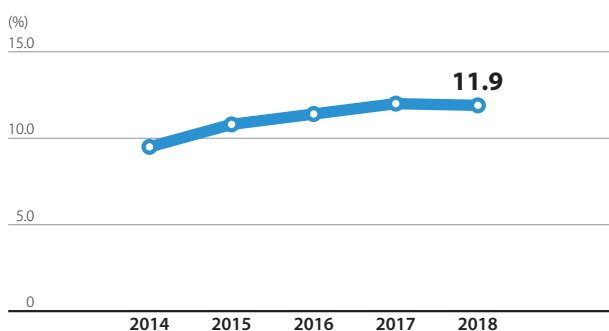
Dividend per share/Dividend payout ratio

The annual dividend per share was ¥110 and the dividend payout ratio was 27.7%.



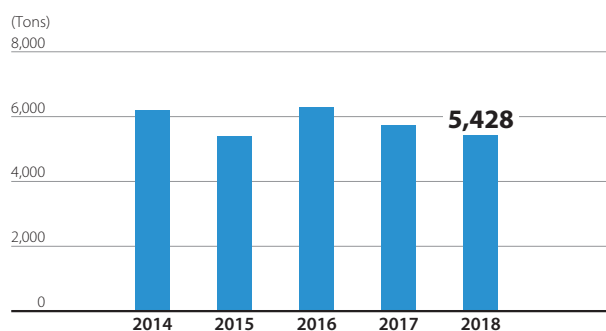
Female manager ratio

The female manager ratio decreased 0.1 of a percentage point to 11.9% but the Company is moving ahead to achieve a female manager ratio of 15% by the fiscal year ending March 31, 2021.



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.

Chief Executive Officer **Akira Uehara**

Changes in conditions affecting the healthcare industry

Major changes are currently occurring in the worlds of politics and business globally. Many industries are being forced to revise their business models. We see three major factors driving this pressure for reform.

(1) Progress of globalization

Fewer undeveloped markets are left as the economic gap between advanced and developing countries shrinks.

(2) Social security costs increase in aging societies with long life expectancies

Intergenerational, wealth and educational inequality is a growing issue.

(3) An age where the consumer is king

Consumers are increasingly making the decisions in politics, business and other sectors due to technological change affecting information, transport and logistics.

Adaptation to these changes is expected to foster the creation of new markets, based on the fruits of the Third Industrial Revolution that was driven by the global wave of technological innovation from the mid-20th century onwards. These reforms herald the long-awaited Fourth Industrial Revolution, bringing us advances across many sectors, including iPS stem cell therapies, AI, robots, renewable energy, and electric vehicles.

Amid these changes in business conditions across a wide range of industries, companies are seeking to satisfy consumer desires by changing their strategies to focus on developing technologically innovative products and building brands.

In the healthcare sector, the importance of self-medication has grown due to the increasing fiscal burden imposed by healthcare costs as society ages rapidly.

■ National Health Expenditures and Percentage of Nominal GDP

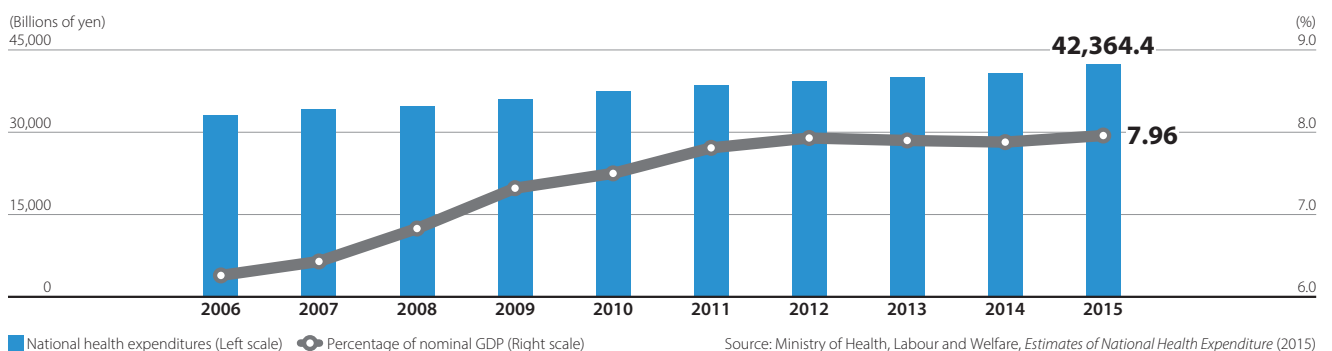


Figure 1 provides a simple illustration of the concept of a self-medication mindset that one is responsible for protecting one's own health.

Rather than relying on a primary care physician to treat all one's illnesses, it is important to adopt a self-medication mindset to maintain everyday health. In this analogy, the mindset acts as the front wheel of the bicycle to keep it on the road. Good steering is essential so that veering off the path due to a slight illness does not lead to a more serious accident (here, falling off the cliff) that requires lengthy recovery. Controlling the front wheel through proper self-medication is vital to ensuring the bicycle does not leave the path so that one can enjoy a lifetime of good health. I see our corporate mission as adopting this consumer-oriented perspective and servicing people's related needs.

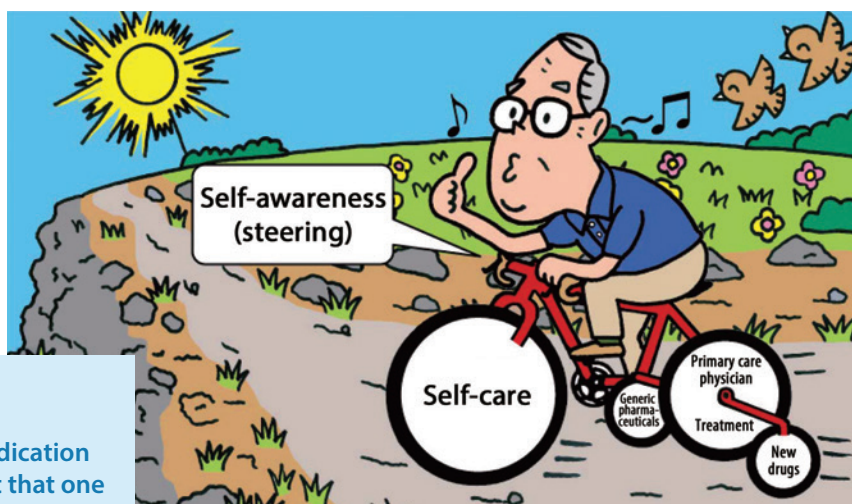


Figure 1
Self-medication mindset that one is responsible for protecting one's own health

Policies on shareholder returns

The Company's policy is to maintain a stable dividend while ensuring sufficient internal reserves to help strengthen competitiveness while expanding and advancing the business. 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 2017, the Company paid an annual dividend of ¥110 per share (including an interim dividend of ¥50 and year-end dividend of ¥60). For fiscal 2018, the Company plans to pay an annual dividend of ¥110 per share (interim ¥50, year-end ¥60).

■ Dividend for fiscal 2018 and fiscal 2019

	Dividends per share		
	Interim	Year-end	Total
Fiscal year ended March 31, 2018	¥50	¥60	¥110
Fiscal year ending March 31, 2019 (planned)	¥50	¥60	¥110

Taisho Pharmaceutical Group Initiatives

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, mainly in Southeast Asia, to achieve sustained growth.

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**





Value Creation Process of the Taisho Pharmaceutical Group

Mission Statement

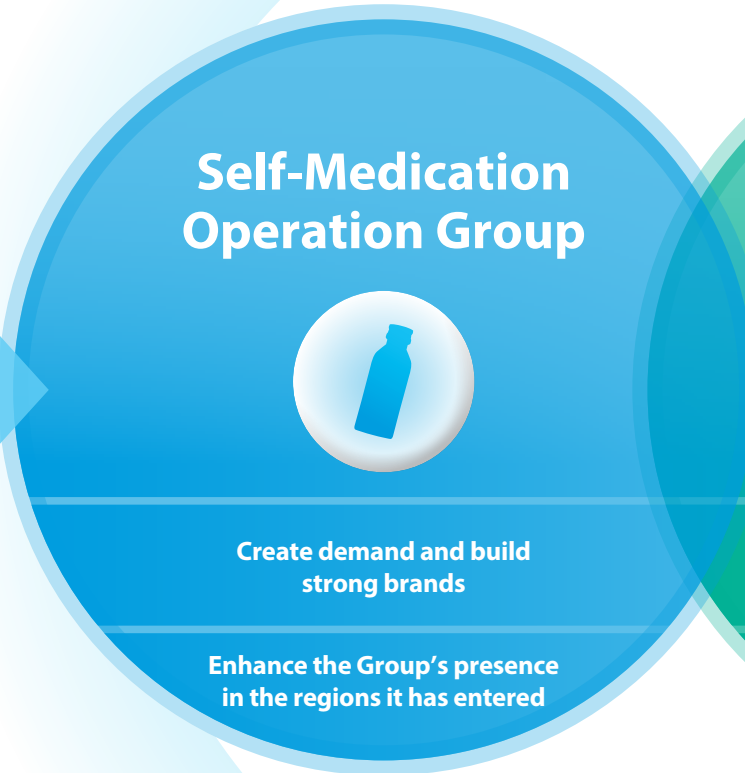
The Company's mission is to contribute to society by creating and offering superior pharmaceuticals and health-related products as well as healthcare-related information and services in socially responsible ways that enrich people's lives by improving health and beauty

INPUT

<Social issues>

- Aging society
- Increase in social security costs
- Diversifying needs of healthcare and medical care

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital



- ✓ Corporate Governance
- ✓ Risk Management
- ✓ Environmental Activity
- ✓ Quality Assurance

The Taisho Pharmaceutical Group operates business based on its management philosophy. Reusing some value created by these operations reconnects to each type of capital and continues to meet the expectations of many stakeholders.

Prescription Pharmaceutical Operation Group



Enhance product value and
maximize sales of new deals

Continuously launch new drugs
on the market

- Compliance
- Social Activity

OUTPUT

Local society



- Actively engaged in the community as a corporate citizen
- Environmental preservation
- Mutually beneficial relationships

Shareholders



- Disclose proper information in a fair and timely manner
- Returning profits to shareholders

Consumers



Realizing healthier
and more enriched
lives

Employees



- Respect the human rights and dignity of each individual
- Secure employment

Business customers Business partners



- Establish and maintain fair and reasonable relationships

Continued improvement of corporate value



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.



Market Environment

During the fiscal year ended March 31, 2018, 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 and sales were lackluster in major categories such as energy drinks and hair-care products. In terms of the business environment for OTC products, self-medication continues to grow in importance as social insurance costs rise in Japan's rapidly aging society. 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 available to consumers. Revisions were also made to the manufacturing and marketing approval standards for health supplements containing vitamins.

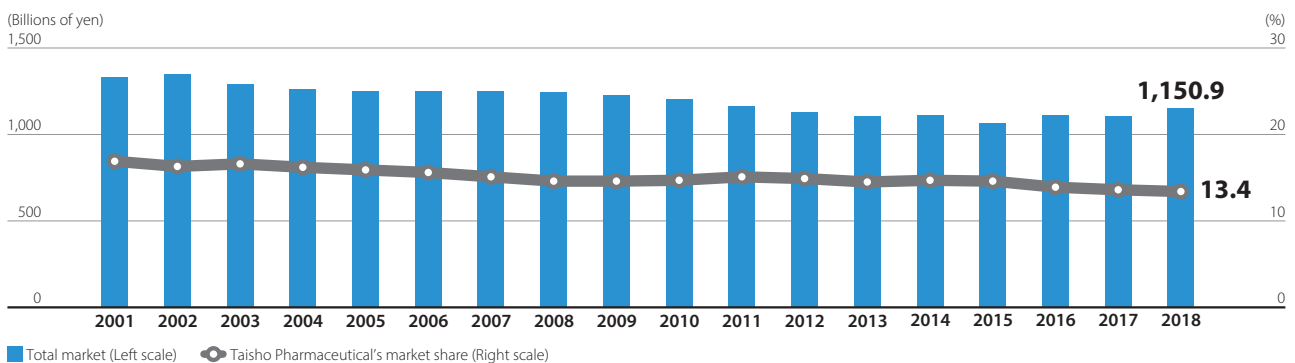
Initiatives in Japan

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 promoting products development that satisfy 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. For example, we have launched several limited-edition bottles for *Lipovitan D* in a bid to give the product a more familiar appeal.

The *Biofermin* series, the top brand in Japan's intestinal remedy field, has changed to being sold in packaging with an eagle

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



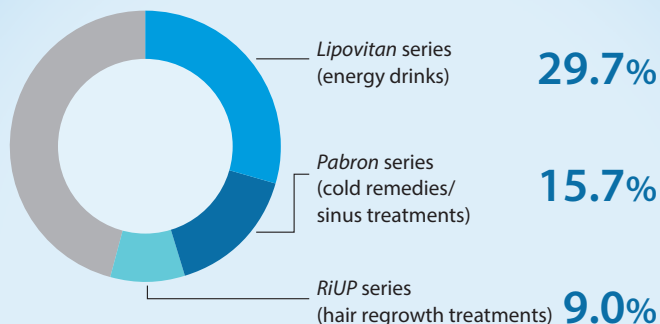
Source: INTAGE Inc. Note: Includes quasi-drug energy drinks and mini-drinks in the drug category (Taisho's estimates based on INTAGE SDI/SRI data).



■ Sales of Main Brands* (Fiscal year ended March 31, 2018)

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

Net sales.....¥184.0 billion



■ Main Brands

Lipovitan series



Pabron series



RiUP series



logo design. Looking ahead, Taisho will work to further solidify the position of the *Biofermin* brand by directly distributing *Biofermin* products to business partners. At the same time, Taisho will work to maximize the value of the *Biofermin* brand by implementing measures that take full advantage of its brand power, including strengthening the product lineup. In addition, Taisho will strive to enhance direct communication with consumers by expanding new channels such as a mail order system.

Biofermin series



TOPICS

Sold via Taisho Pharmaceutical Direct, a mail order and direct sales service

Responding to the growing diversity in consumer purchasing styles, Taisho Pharmaceutical launched the Taisho Pharmaceutical Direct online shopping service in March 2006 to develop a strong sales channel for this emerging business domain.

Taking advantage of the benefits of direct communication with consumers afforded by the Taisho Pharmaceutical Direct website, we are looking to provide consumers with useful and readily accessible information on product characteristics, based on scientific data.

Products available through the online store in recent years include Foods for Specified Health Use and health supplements such as *Barley Grass Aojiru <Chitosan>* and *Taisho Glucosamine*, limited-edition bottles of *Lipovitan D*, the diet support drink *COBARASAPŌTO* series for controlling hunger on an empty stomach, and the *RiUP Energy* line of scalp care products. The range of merchandise is geared to meet the needs of consumers.



Taisho Pharmaceutical Direct website

Please refer to the Taisho Pharmaceutical Direct website (Japanese)
<https://www.taisho-direct.jp/>

■ Main products



New products

Pabron brand range of cold medications extended with new Pabron Ace Pro and Pabron Medical series

Pabron Ace Pro: Further evolution of Pabron cold medications

The cold medication combines up to a maximum 600 mg* of ibuprofen, an analgesic and antipyretic for relieving fever or a sore throat, with ambroxol hydrochloride and L-carbocysteine for unblocking and repairing mucus-blocked airways. *Pabron Ace Pro Tablets* are available in a highly portable blister pack, while *Pabron Ace Pro Fine Granules* has a proprietary formulation in which the individual granules are coated to make the medicine less bitter. Restricted to use by adults aged 15 years and above, both products are highly effective in relieving cold symptoms such as sore throat, cough, runny nose and fever.

* Based on the daily dosage of the Pabron series of cold medications

<Self-medication tax system-eligible>
Designated Category 2 medicine



Pabron Medical: A new series of cold medications for treating specific symptoms

Pabron Medical T, *Pabron Medical C* and *Pabron Medical N* are cold medications that can be selected according to the user's most acute symptoms, targeting throat, cough and nasal symptoms.

Pabron Medical T is designed to help relieve colds with a sore throat by soothing and healing local inflammation.

Pabron Medical C helps to relieve colds with a bad cough by acting on the source of the cough.

Pabron Medical N helps improve three symptoms of nasal colds (sneezing, runny nose, and nasal blockage).

Restricted to use by adults aged 15 years and above, each product is available in a convenient blister pack for portability.

<Self-medication tax system-eligible> Designated Category 2 medicine



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)



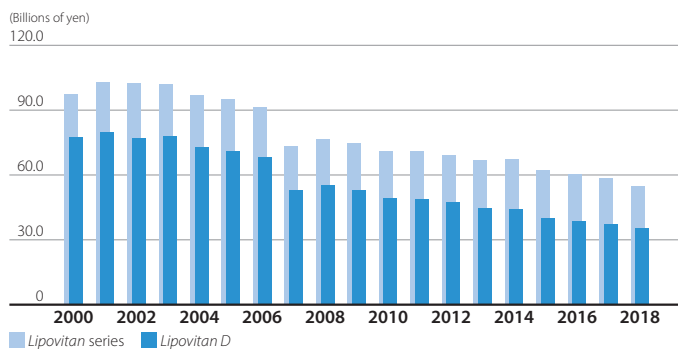
Sales of Main Brands and Composition of Sales (Fiscal year ended March 31, 2018)

Product Name	Sales (Billions of yen)	% of Total	Product Name	Sales (Billions of yen)	% of Total
Lipovitan series	54.7	29.7	Gastrointestinal treatment series	3.9	2.1
<i>Lipovitan D</i>	35.3	19.2	<i>Livita</i> series	3.5	1.9
<i>Pabron</i> series	28.9	15.7	<i>Colac</i> series	3.3	1.8
<i>RiUP</i> series	16.5	9.0	<i>NARON</i> series	3.2	1.7
<i>Biofermin</i> series	8.6	4.7	Overseas energy drinks	10.8	5.9
<i>VICKS</i> series	4.0	2.2	Overseas OTC drugs, etc.	18.6	10.1

Lipovitan series/ Lipovitan D



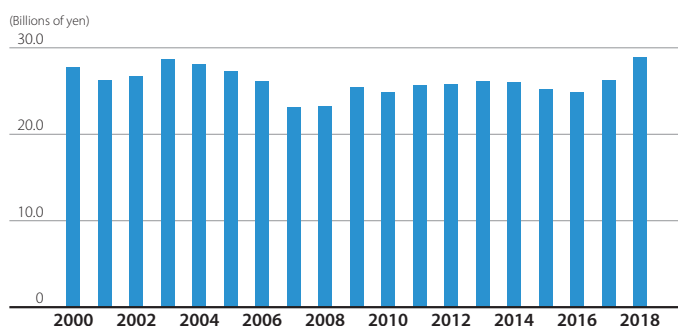
As a result of deregulation in 1999, sales channels were expanded beyond pharmacies and drugstores to include other outlets such as supermarkets and convenience stores. Taisho is rolling out products that meet a diverse range of consumer needs.



Pabron series



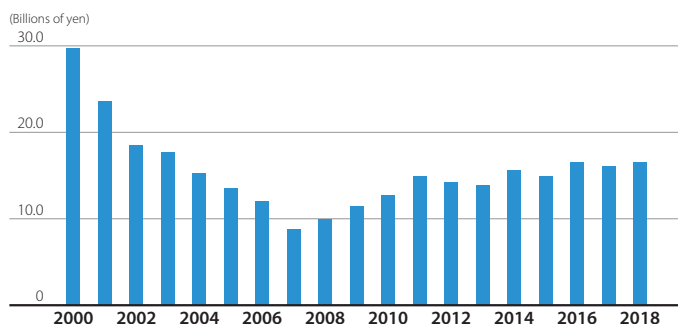
This series comprises a broad range of products, including cold remedies, sinus treatments, and important anti-cold products such as gargles, hand-washing treatments, and face masks.



RiUP series



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



Overseas development of the Taisho Pharmaceutical Group

Market overview/Activities until now

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 Southeast Asia, which has 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.

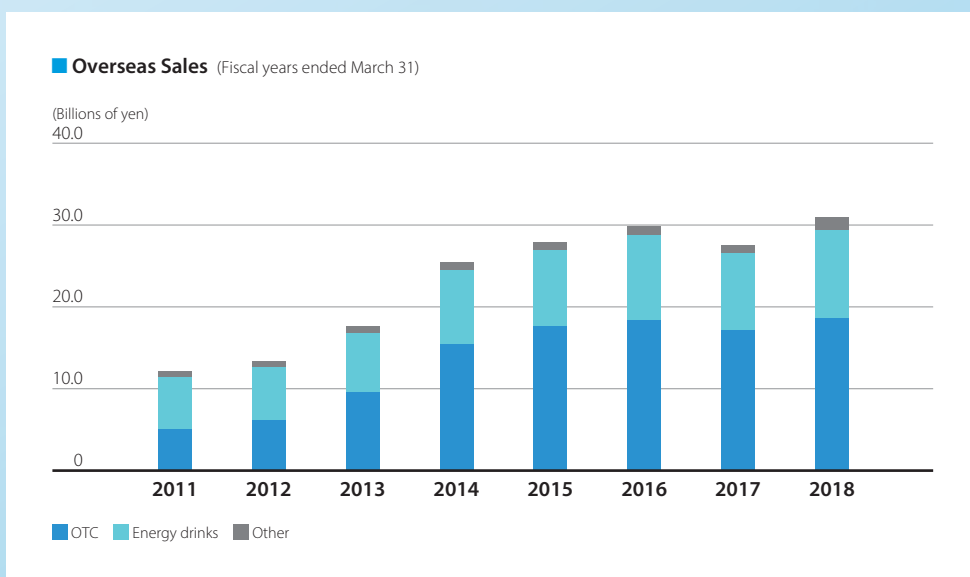
1963

Lipovitan was launched in Taiwan

2009

Acquired commercial rights to OTC products in Asia from Bristol-Myers Squibb Company, along with shares in PT Bristol-Myers Squibb Indonesia Tbk (converted to consolidated subsidiary, renamed PT. Taisho Pharmaceutical Indonesia Tbk)

2011



2016

Acquisition of 24.50% equity stake in Duoc Hau Giang
Pharmaceutical JSC with execution of alliance agreement

2014

Acquired brand assets including trademarks for the anti-inflammatory
analgesic *Flanax*[®] in the Philippines from the Roche Group

2012

Acquired four Mexican pharmaceutical companies, including CICSA

2012

Merged OTC operations in Thailand with Osotspa Co., Ltd.
to establish Osotspa Taisho Pharmaceutical Co., Ltd.

Acquired 100% of the shares of Hoepharm Holdings, Sdn. Bhd.,
a pharmaceutical company in Malaysia

to the World

We are committed to helping consumers worldwide
in their quest to improve health and beauty.





Counterpain
Topical anti-inflammatory analgesic



Tempra
Antipyretic analgesic

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

Initiatives Overseas

Overseas, the Self-Medication Operation Group is developing OTC drug and energy drink franchises, mainly targeting Southeast Asia, which is expected to be an expanding market due to population and economic growth. Overseas sales exceeded ¥30 billion for the first time in the fiscal year ended March 31, 2018, generating 11% of consolidated net sales. We remain focused on increasing the Taisho Pharmaceutical Group's presence in Southeast Asia and other overseas growth markets by building the business around OTC drugs to realize sustained growth. We are looking to broaden the user base by developing new products in therapeutic areas where we have high brand recognition such as the topical anti-inflammatory analgesic *Counterpain* and antipyretic analgesic *Tempra*. Alongside this, we are also seeking to leverage the Group's resources to develop operations in new countries and regions and in new sectors outside of OTC drugs.

In addition, to build a stronger foundation for medium- to long-term growth, including capital tie-ups with powerful companies in countries where Taisho does business.

Brand development in main countries where Taisho entered business

Thailand

Main brands

- Counterpain
- Botan
- Ezerra
- Tempra
- Banner
- Ellgy Plus

Malaysia

Main brands

- Counterpain
- Ellgy Plus
- Ezerra
- Pabron

Vitacilina/ Derman
Dermatological treatment/Athlete's foot treatment



**Bonamine/
Dramamine**
Treatment for
motion sickness



**Ezerra/
Elly Plus**
Dermatological
treatments



 **Taiwan**


Main brands

- Biofermin
- Pabron

 **Philippines**

Main brands

- Tempra
- Bonamine
- Flanax

 **Mexico**

Main brands

- Vitacilina
- Derman

 **Indonesia**

Main brands

- Counterpain
- Dramamine
- Elly Plus
- Tempra
- Ezerra

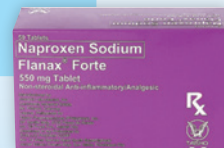
Biofermin
Intestinal remedy



Banner
Supplement



Flanax
Anti-inflammatory
analgesic



Prescription Pharmaceutical Operation Group

Besides maximizing sales of new prescription drugs in Japan, 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.

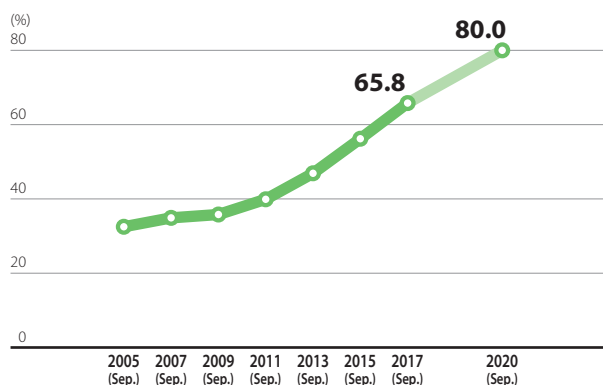


Market Environment

The Japanese prescription drug market was broadly flat in the fiscal year ended March 31, 2018, rising 0.8% on an NHI reimbursement price basis to around ¥10.5 trillion. Sales declined due to the negative year-on-year comparison related to the introduction of new hepatitis C treatments.

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.

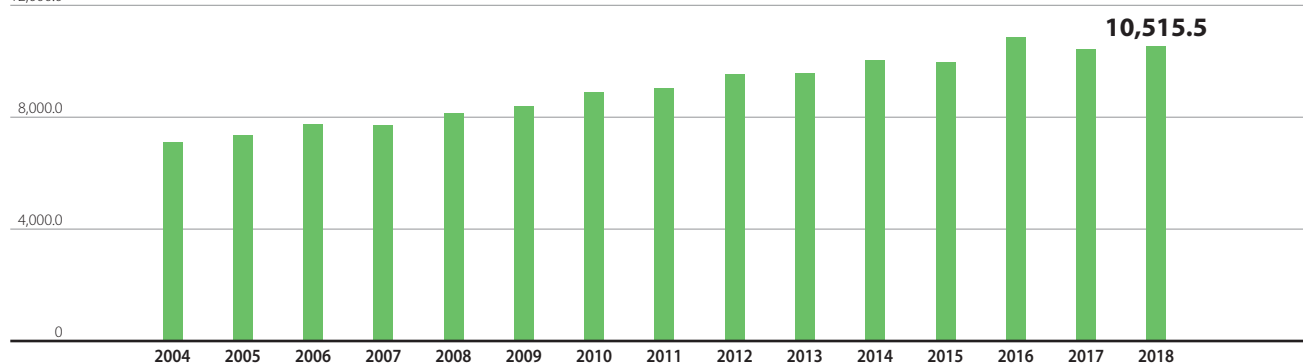
Ratio of Generic Drug Use* and Target in Japan (Volume Basis)



Note: Ratio of drug use represents the ratio of use of generic drugs, where original drugs that have generic drugs and generic drugs are combined as the denominator
Source: Survey by the Ministry of Health, Labour and Welfare

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

(Billions of yen)
12,000.0



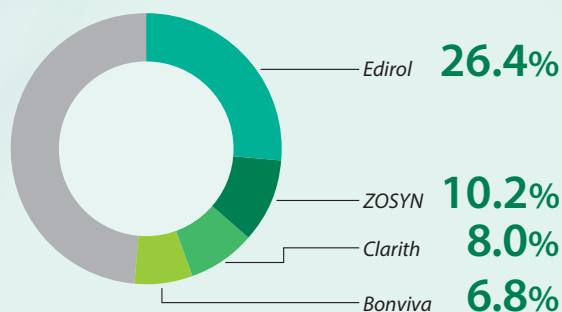
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■ Sales of Main Brands* (Fiscal year ended March 31, 2018)

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

Net sales ¥96.1 billion



Prescription Pharmaceutical Business Initiatives

Amid difficulties in discovering new drugs, business conditions remain challenging in the prescription drug sector due to the government's various measures to constrain medical spending. Under such conditions, our core focus is to maximize sales of new drugs while working to generate a stream of original products.

On the marketing front, we are trying to maximize sales to boost the value of the products *Lusefi* and *LOQQA* by providing health professionals with more detailed information.

Within R&D, Taisho Pharmaceutical has designated infectious

diseases, orthopedic disorders, central nervous system (CNS) diseases and metabolic diseases as four therapeutic priority areas. While targeting early regulatory approval of pipeline products such as TS-152 (preliminary indication: rheumatoid arthritis), we are working with companies around the world to in-license promising novel drug candidates. To create innovative new drugs, we are also actively collaborating with external research institutions and other companies to acquire and develop new technologies by establishing academic-industrial consortia.

■ Taisho Pharmaceutical's Pipeline

(As of August 1, 2018)

	Name	Formulation	Plan applicable diseases, patients	Development	Description	Remarks
Filed for application	Taurine powder 98% "Taisho"	Oral	Preventing recurrence of stroke-like episodes in MELAS* (additional indication)	In-house		* MELAS: Mitochondrial myopathy, Encephalopathy, Lactic Acidosis and Stroke-like episode
Japan	Phase 3	TS-152	Injection	Rheumatoid arthritis	In-house	Anti-TNFα (tumor necrosis factor-α) antibody Generic name: Ozoralizumab (in-licensed from Ablynx)
	Phase 2	TS-091	Oral	Central disorders of hypersomnolence	In-house	
		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: <i>Lusefi</i>)
		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, 2018)

Product Name	Description	Launch	Sales (Billions of yen)	% of Total
<i>Edirol</i>	Active vitamin D ₃ osteoporosis agent	April 2011	25.4	26.4
<i>ZOSYN</i>	Combination antibiotic with a beta-lactamase inhibitor	October 2008	9.8	10.2
<i>Clarith</i>	Macrolide antibiotic	June 1991	7.7	8.0
<i>Bonviva</i>	Bisphosphonate antiresorptive agent	August 2013	6.5	6.8
<i>Lusefi</i>	Type 2 diabetes mellitus agent (selective SGLT2 inhibitor)	May 2014	5.0	5.2
<i>Palux</i>	Prostaglandin E ₁ preparation (peripheral vasodilator)	October 1988	4.9	5.1
<i>Geninax</i>	Quinolone antibacterial	October 2007	4.4	4.6
<i>Biofermin</i>	Live lactobacillus preparation	—	4.0	4.2
<i>OZEX</i>	New quinolone antibacterial	April 1990	3.6	3.7
<i>LOQOA</i>	Transdermal anti-inflammatory analgesic	January 2016	3.1	3.2

Sales of Main Products

(Billions of yen)

Fiscal years ended March 31	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>Edirol</i>	—	—	—	1.8	8.8	14.1	17.2	19.8	22.6	25.4
<i>ZOSYN</i>	4.0	10.7	14.8	17.6	21.5	25.4	26.9	27.3	15.5	9.8
<i>Clarith</i>	24.0	23.3	22.9	21.6	19.0	16.4	13.5	12.0	9.3	7.7
<i>Bonviva</i>	—	—	—	—	—	1.2	3.6	4.9	5.9	6.5
<i>Lusefi</i>	—	—	—	—	—	—	2.4	0.9	2.9	5.0
<i>Palux</i>	11.2	10.8	10.2	9.4	8.5	7.9	7.0	6.2	5.4	4.9
<i>LOQOA</i>	—	—	—	—	—	—	—	0.4	1.8	3.1

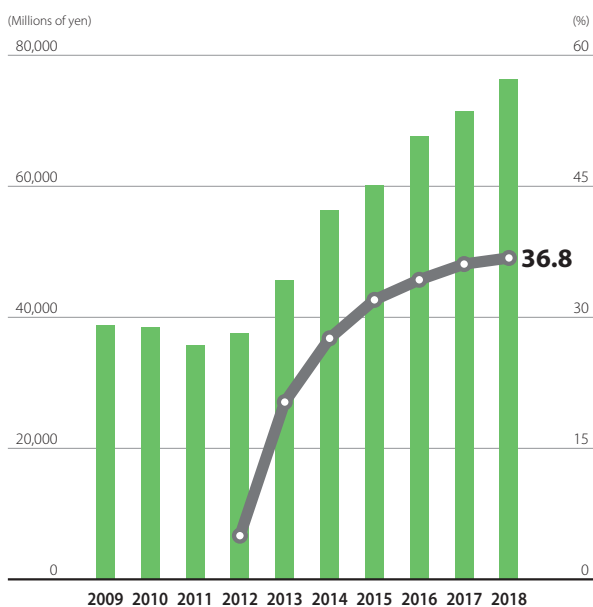
Market Share of Taisho Toyama Pharmaceutical's Main Brands

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

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

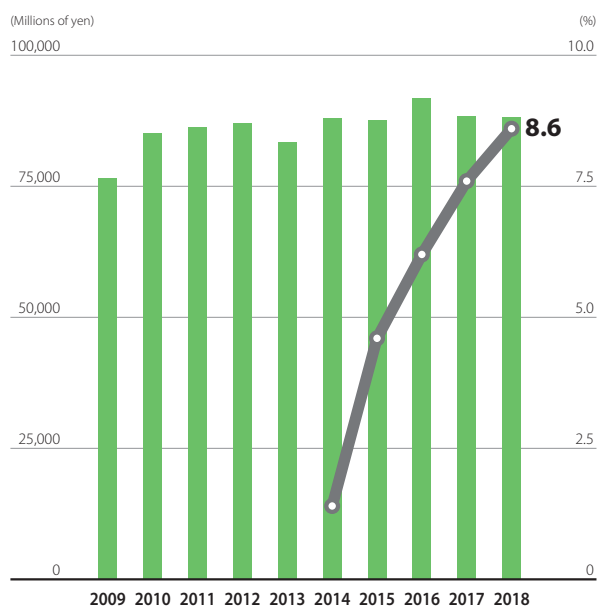
Active vitamin D₃ derivatives*2

(*Edirol*)



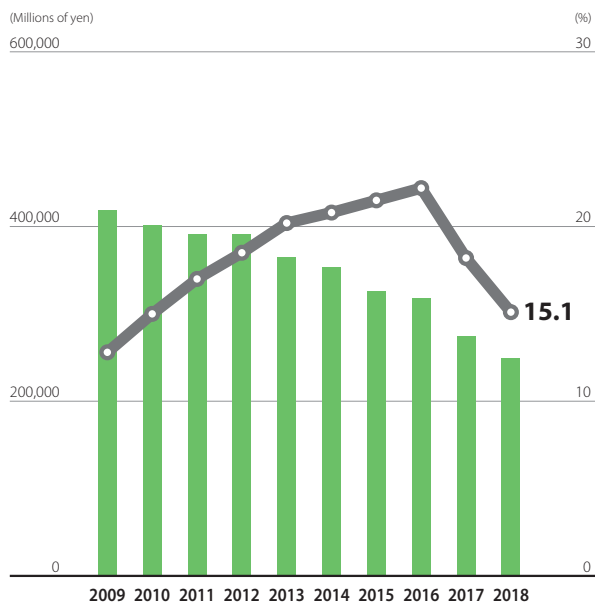
Bisphosphonate agents for osteoporosis and related diseases*3

(*Bonviva*)



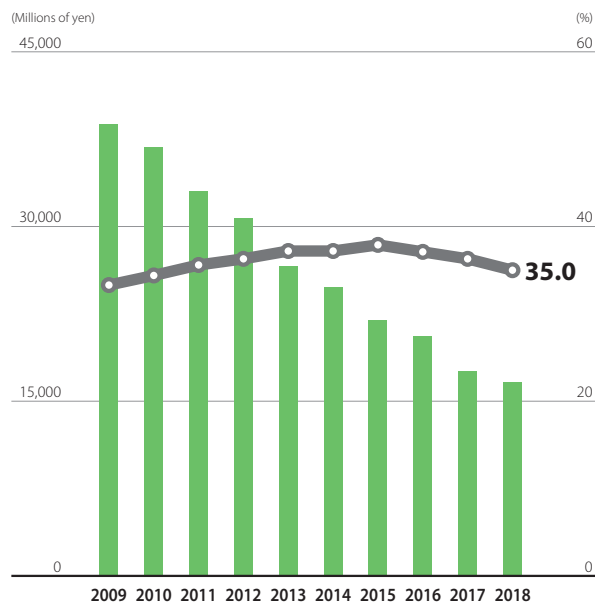
Antibacterial products*4

(ZOSYN, Clarith, OZEX, Geninax and others)



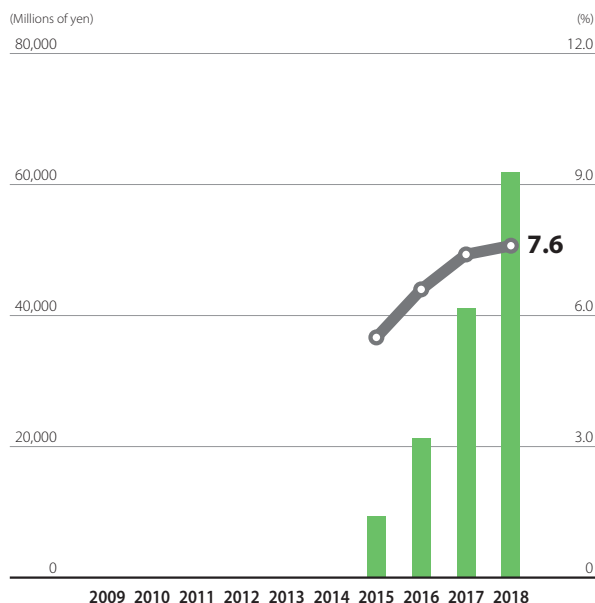
Peripheral vasodilator agent; injections*5

(Palux)



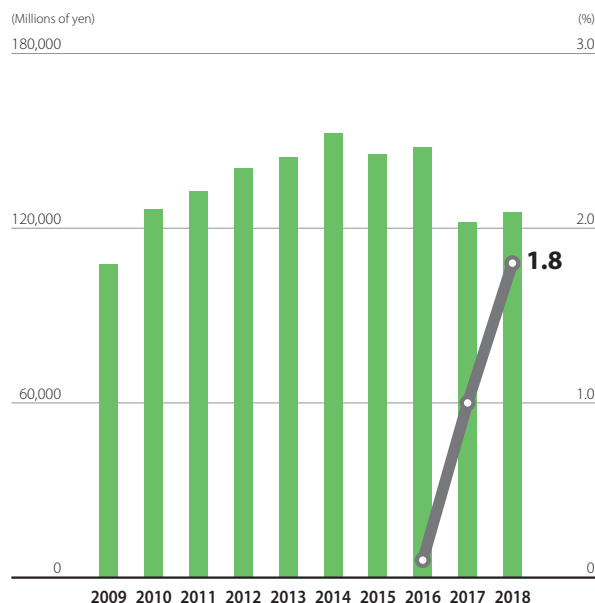
SGLT2 inhibitor

(Lusefi)



Topical anti-inflammatory analgesics; patches

(LOQOA)



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*2 Market size represents total sales of the vitamin D agents (A11C2) alfacalcidol, calcitriol and eldcalcitol

*3 Market size represents total sales of bisphosphonates for osteoporosis and related diseases (M05B3)

*4 Systemic antibacterial agent (J01) market

*5 Market size represents total sales of alprostadil, alprostadil alfadex and argatroban

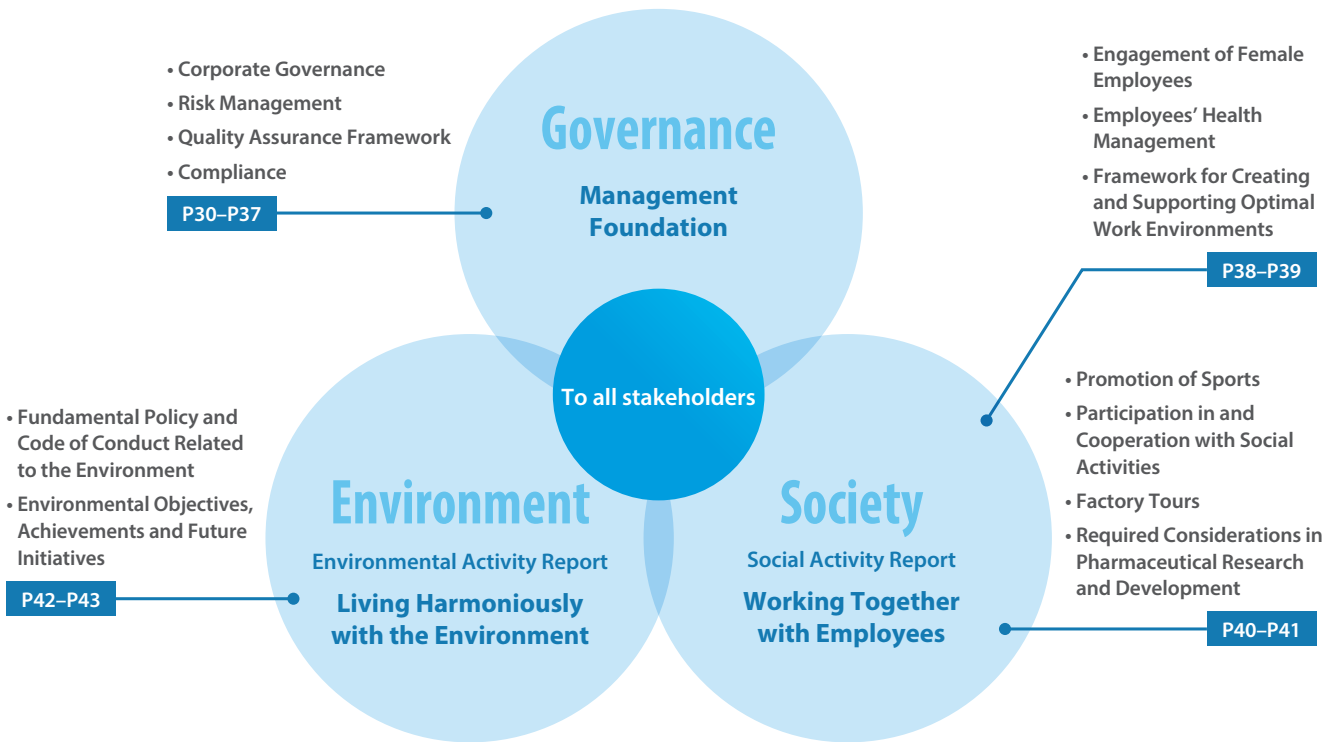
Declaration of Corporate Conduct of the Taisho Pharmaceutical Group

In keeping with our long-held tradition of *shinsho**, we abide with by laws, ordinances, regulations, social standards and business practices; are disciplined in maintaining a highly ethical approach; and pursue our business in accordance with the general principles outlined below.

* *Shinsho* (literally translated as “gentlemanly business”) in Japanese means 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.

1. We will continue to remain honest and sincere with and strive to gain the trust of the consumers of Taisho products and services.
2. We handle all information gathered in the course of our business with the utmost care and take all possible measures to ensure the protection of personal information, customer data and confidential information.
3. We conduct business transactions on fair terms and conditions, and take a fair approach in the course of our dealings with our many business partners and customers to foster a sense of co-existence and co-prosperity.
4. We respect the human rights, personality, individuality and diversity of each of our employees; establish an appropriate evaluation system and strive to create a healthy and safe workplace, which employees find rewarding.
5. We comply with capital market rules; disclose accurate information in a fair and timely manner to and maintain healthy working relationships with shareholders and investors.
6. We compete in a fair, transparent and open manner and work as a “good corporate citizen” by engaging in an open dialogue with members of society.
7. We reject demands from antisocial influences or groups involved in activities that may threaten the order and safety of civil society.
8. We recognize environmental problems to be an issue shared by humanity and recognize that business activities have a major impact on the environment; we therefore work proactively in a voluntary fashion to pursue environmentally friendly business practices.
9. We respect the unique cultures and practices of each country where we operate our international business by adherence to international laws and applicable regulations, and manage our business to contribute to the development of each country.
10. All executives at Taisho Pharmaceutical, from the most senior levels down, are aware of their personal responsibility to implement this Declaration of Corporate Conduct; they will set an example for others to follow, and will work to ensure that this Declaration is fully understood by Taisho employees and Group companies.

ESG Initiatives



Goal 3: Health and welfare to all the people



Ensure healthy lives and promote well-being for all at all ages

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD



Sustainable Development Goals (SDGs) are 17 goals comprising 169 targets to be achieved by 2030 that were adopted by the 2015 UN Summit and seek resolution to problems confronting the world, such as poverty, the environment and social justice. Our CSR activities as a pharmaceutical company include actions within the scope of the SDGs, particularly “Goal 3: Ensure healthy lives and promote well-being for all at all ages.” We contribute to achieving the goals of the SDGs based on our corporate philosophy “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 Foundation

Members of the Board

(As of June 28, 2018)

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)
 Apr. 2015 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 of Taisho Pharmaceutical Co., Ltd. (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 of Taisho Pharmaceutical Co., Ltd. (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 kamon*)
 Mar. 2005 Emeritus Advisor (*meiyo kamon*) (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 Marine & 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 Advisor (*meiyo kamon*) 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: Oku, Katayama, Sato Law Office) (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
 Jun. 2009 Member of the Board (Outside) of Nikki Co., Ltd. (present)
 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	13/14	—	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	14/14	—	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	14/14	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	14/14	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.

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 fulfills its corporate mission in accordance with its Management Policy and 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.

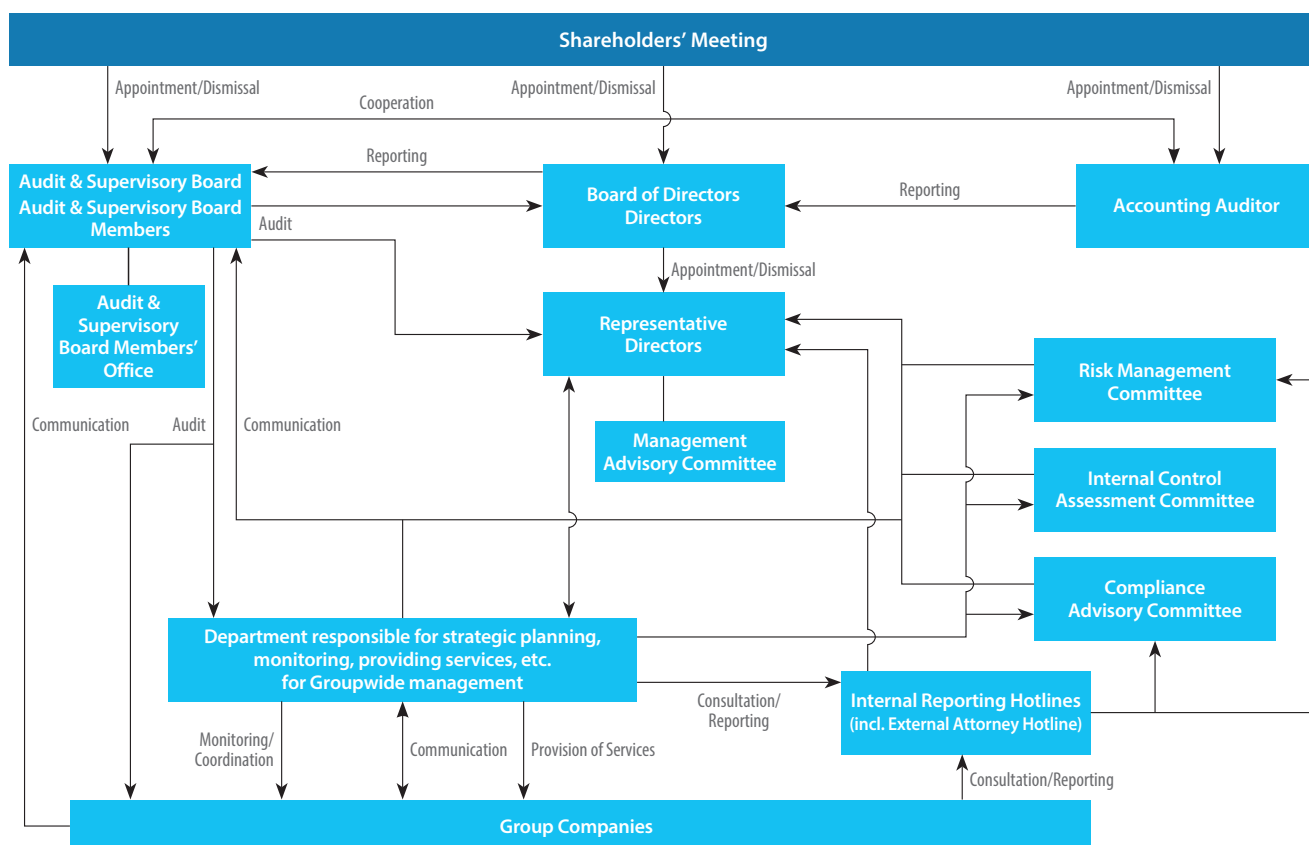
Accordingly, the Company has established an appropriate Groupwide management framework for properly monitoring

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 28, 2018, the Company has nine directors, two of whom are outside directors, and four Audit & Supervisory Board members, two of whom are outside members.

■ Corporate Governance Structure



● 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 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.

● 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 communicate 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 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.

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 eight staff members as of June 28, 2018, 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.

Outside Directors and Outside Audit & Supervisory Board Members

As of June 28, 2018, there are two outside directors and two outside audit & supervisory board members (Please refer to page 29). Outside directors take an independent stance without direct involvement in the execution of duties and perform the role of supervising and auditing the appropriateness of duties, based on their broad experience, specialist knowledge and advanced insight into management. There are no personal or capital relationships between the Company and any of the outside directors and outside Audit & Supervisory Board members.

The Secretariat to the Board of Directors and related departments collaborate to provide support for outside directors and outside Audit & Supervisory Board members.

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.

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.

Response to the Corporate Governance Code

Regarding the Company's compliance status on the principles of the Corporate Governance Code, please refer to the corporate governance report.

<https://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)	236	205	31	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.

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.

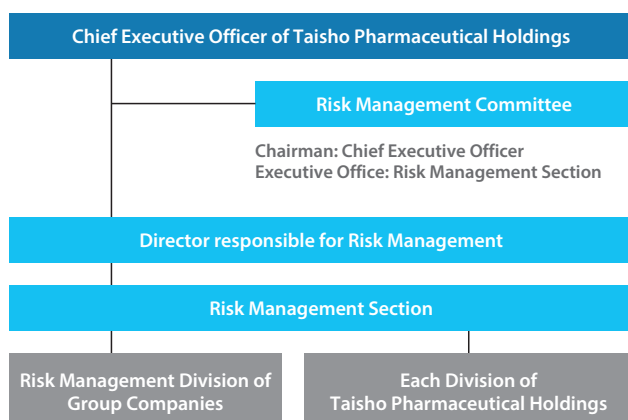
The Group, centered on operating company Taisho Pharmaceutical Co., Ltd., has formulated and consistently upgrades a business continuity plan (BCP) that serves as a guideline focused on ensuring the continuous supply of products which it has a large social obligation to supply and that are highly significant 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.

■ Risk Management System of Taisho Pharmaceutical Holdings



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

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.

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 promptly deliver to all consumers and medical professionals information regarding the proper use of our products and safety information, 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. Taisho Pharmaceutical, 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.

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.

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
	Product Quality Assurance Division	Quality assurance for products including pharmaceuticals, quasi-drugs, cosmetics, medical equipment and food
Taisho Pharmaceutical's Quality Assurance Headquarters	Prescription Drug Pharmacovigilance Division	Safety management for ethical drugs and investigational new drugs
	Postmarketing Surveillance Division	Management of postmarketing surveillance for ethical drugs, 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

* Good Clinical Practice: quality standards for clinical trials

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 revitalizes the organization to allow several departments working cooperatively to proceed in their tasks.

For this purpose, 1 to 3 above 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 promote quality assurance and safety management at a high level at Group companies both in Japan and overseas, we built a management system centered on the Head Office. 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>

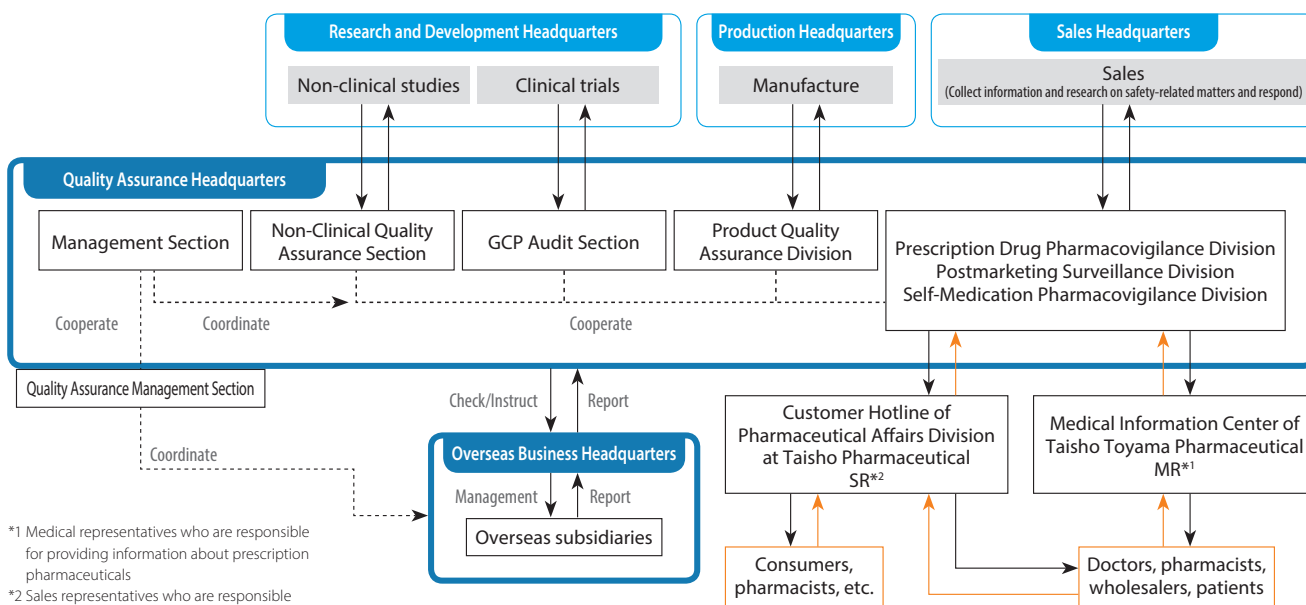
1. Stance: We will listen to consumers' opinions and meet their expectations.
2. Technology: We will constantly aim for the most advanced technology, adopting a global perspective.
3. Management: We will constantly work on self-management activities that ensure the reliability of our activities.

<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

→ Flow of information → Inquiries, requests, etc.



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 (Please refer to page 26).

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

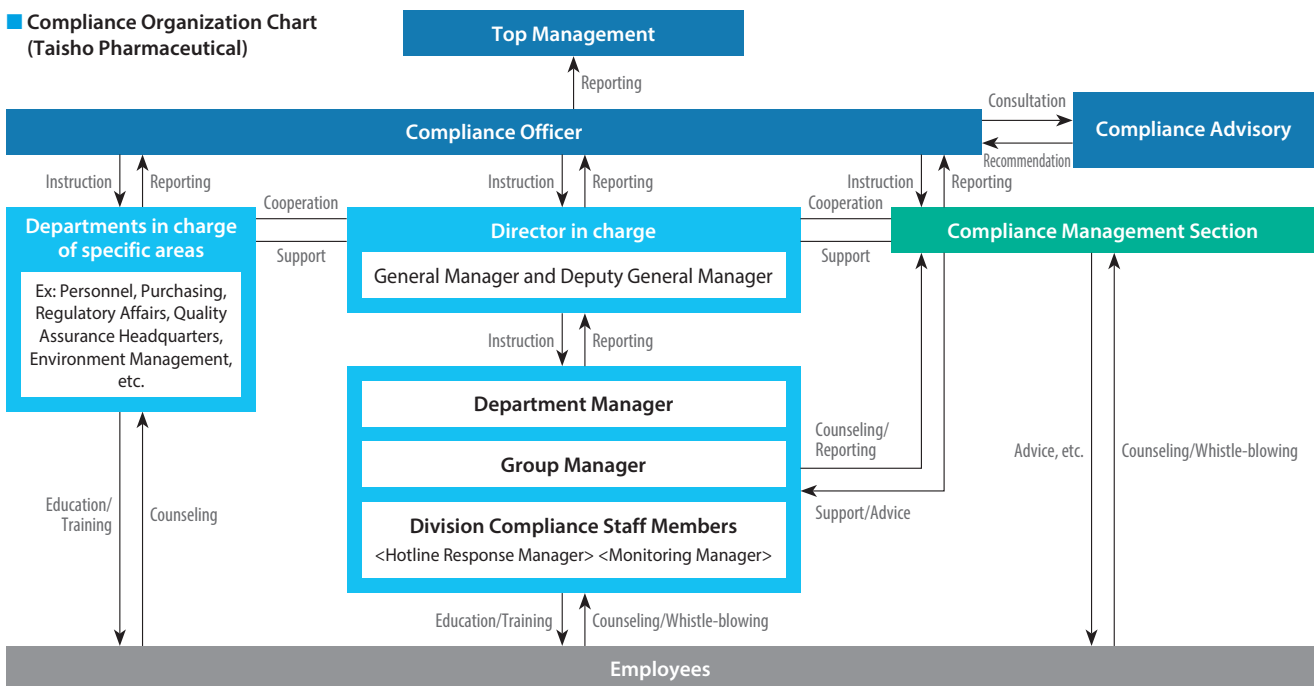


The Compliance Guide Booklet

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
<https://www.taisho-holdings.co.jp/en/about/compliance/declaration.html>
- The Taisho Pharmaceutical Group's Code of Conduct
<https://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 2018 Spring
Supplier Meeting workshops
Scenes from the workshop

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 by leading the life they wish.

Employment and Employee Development Beliefs

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.

Key words

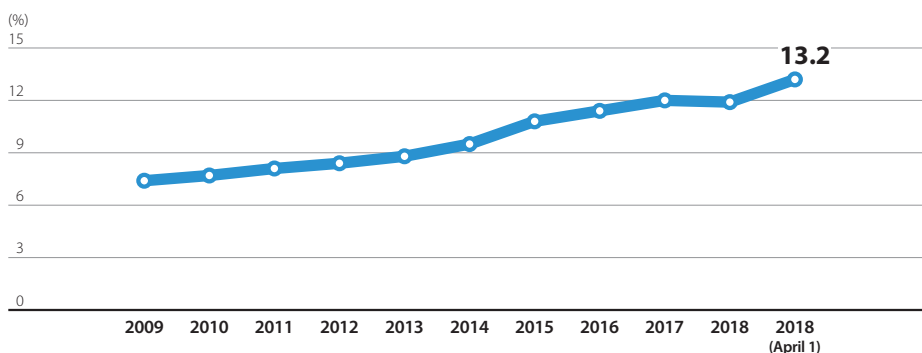
- Engagement of female employees
- Employees' health management
- Framework for creating and supporting optimal work environments

Engagement of Female Employees

The Group, in line with 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 2018, the proportion of

female employees in the Group was 25.4%, while the proportion of female managers was 13.2%, with a relatively high 25.1% in R&D divisions. As of April 2016, one female officer was appointed as a director. Looking ahead, 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.

■ Female Manager Ratio (Fiscal years ended March 31)



Targeted female manager ratio (section chief equivalent or higher)

15.0%

Female manager ratio

13.2%

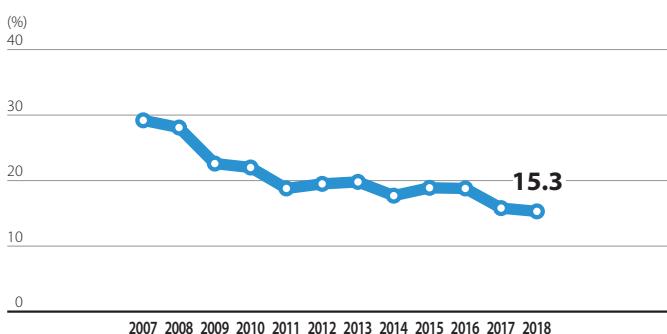
Employees' Health Management

Health Promotion

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 actively promoting all employees to undergo periodic medical examinations and any necessary follow-up care, as well as specific health examinations and family health examinations including for employees' spouses. As a measure to prevent the onset of diabetes, which has become a social issue in recent years, we have increased the number of locations with measuring instruments for hemoglobin A1c.

We are also focusing on promoting anti-smoking action, with the rate of smokers in fiscal 2017 at 15.3%. We will aim to further lower this ratio until the number of smokers falls to zero. As a member of the health-related industry, we constantly and aggressively implement policies for health.

■ Smoking Rate (Fiscal years ended March 31)



Mental Healthcare

We have established a site on the Company intranet exclusively for providing all kinds of mental health information, and through an outside counseling company and multiple in-house hotlines, have created an environment where any employee can undergo consultation at any time. Additionally, we are working on early prevention of mental health disorders by having a system in place at each workplace that leads to swift improvement if and when an issue arises based on an analysis of stress checks. In addition, to create pleasant working environments, we are conducting organized efforts in collaboration with the personnel department to strengthen time management to cut down on long working hours at each workplace and to raise productivity.



Rate of spouse health examinations

76.7%



Smoking rate

15.3%



Framework for Creating and Supporting Optimal Work Environments

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.



Number of users of the reduced working hour childcare system

155



Number of users of the flex work childcare system

68



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.

One of these 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 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 supporting the restoration of employees' family homes damaged in the 2016 Kumamoto Earthquakes.

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. Moreover, Taisho Pharmaceutical has also decided to take part in the 2019™ Rugby World Cup as an official sponsor, continuing our various activities aimed toward the development of Japanese rugby.



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.



27th World Children's Baseball Fair in Yokohama, International Exchange Games ©WCBF, 2017

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.

Factory Tours

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

security and safety from a manufacturing site as an effort to share understanding of our quality control and environmental preservation activities.

Required Considerations in Pharmaceutical Research and Development

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, execution, reporting and relevant self-monitoring of testing details by the Animal Testing Committee 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 samples and information

*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

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 9,200 grants and other forms of assistance totaling ¥28.2 billion.

● The Uehara Prize and Grant Presentation Ceremony

In March 2018, the Uehara Prize presentation ceremony was held at Uehara Memorial Hall in the Second Building of the Taisho Pharmaceutical headquarters. The winner was Kunihiro Matsumoto (Emeritus Professor Graduate School of Science, Nagoya University) for his research on the theme of "Signal transduction mechanisms regulating development and differentiation in animals." The joint award went to Atsushi Miyawaki (Deputy Director, RIKEN Brain Science Institute) for his research on the theme of "Technological innovation in bioimaging for medical research."

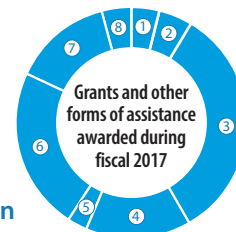


● Symposiums

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 2017

¥1,505.0 million



① Uehara Prize	¥60.0 million
② Designated research grants	¥70.0 million
③ Research grants	¥500.0 million
④ Research incentive grants	¥220.0 million
⑤ Special incentive grants to promote research	¥40.0 million
⑥ Overseas research fellowships	¥343.0 million
⑦ Overseas postdoctoral fellowships	¥210.3 million
⑧ Other	¥61.7 million

Uehara Museum of Art

On November 3, 2017, the Uehara Museum of Modern Art and Uehara Museum of Buddhism Art merged to become the Uehara Museum of Art. The collection contains pieces of modern art from the likes of Matisse, Picasso, Sotaro Yasui, Kunitaro Suda and Kokei Kobayashi in addition to a wide range of Buddhist art including Buddhist sculptures from the Heian (794–1185) and Kamakura (1185–1333) periods, ancient sutras dating to the Nara Period (710–794) and modern Buddhist sculptures.

The museum will hold exhibitions centered on its collection in addition to conducting activities such as investigating and introducing ancient Buddhist art from Izu. The museum also aims to contribute to enriching community culture through a wide range of cultural activities, including by inviting experts to give lectures and workshops and teaching activities in collaboration with schools.



Projects for Culture Promotion during Fiscal 2017

- Held exhibitions centered on collections
- Collections lent for domestic exhibitions
- Lecture to commemorate the museum reopening given by Mr. Goro Yamada on "Shimoda is a town where the art of East and West meets: How to enjoy the Uehara Museum of Art."
- Museum newsletter issued
- Curator held a Gallery Talk artwork explanation
- Held practical workshops on Japanese-style painting, drawing, and watercolor painting and seminars on shakyo and Buddhist sculptures
- Held educational activities in collaboration with local schools: Accepted school field trips, held lectures at schools, accepted work experience students, held summer vacation workshops for junior high and high school students, etc.
- Conducted a cultural property investigation (on a Buddhist temple, etc.)

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 CO₂ emissions and other environmental issues.

<Fundamental Policy>

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. 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 CO₂ 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

Using Recycled Water

The Hanyu Factory is located about 60 kilometers north of Tokyo in a pastoral area of the northern Saitama Prefecture city of Hanyu, separated from Gunma Prefecture by the Tone River. Wastewater from the factory is biologically treated in a wastewater treatment facility, undergoes coagulation, is filtered and after organic materials have been removed, sent to a regulating reservoir owned by the city, then taken from rivers and used for farming. Some of the water is retrieved and processed, after which it is used as production equipment coolants or to water plants. This recycled water is an important water resource.

At a time of usable water shortages due to global warming or fears over the impact on ecosystems that new water resource developments may cause, being able to utilize recycled water as an alternative water source contributes to a sustainable recycling society.



Hanyu Factory



Wastewater treatment facility

Regulating reservoir

Water used in farming (pastoral scene)

Standards for farming use*

Item	COD (Chemical oxygen demand)
Standard value	6 mg/l or lower
Amount produced in fiscal 2017	3–4 mg/l

* A basic requirement for complying with environmental standards

Environmental Activity Report

Environmental Objectives, Achievements and Future Initiatives

Objectives	Targets for the fiscal year ended March 31, 2018	Achievements of the fiscal year ended March 31, 2018	Self-assessment	Future initiatives
1. Rationalization of energy use	Reduce Groupwide average annual energy consumption*1 by 1% or more	<ul style="list-style-type: none"> Annual average: worsened by 0.7% Omiya Factory (including Research Center): up 9.8% Hanyu Factory: down 6.3% Okayama Factory: up 1.1% Sales and back offices: up 1.3% 	×	<ul style="list-style-type: none"> Set average annual targets for each department, factory Identified, analyzed factors behind changes
2. Reduction of CO₂ 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)	<ul style="list-style-type: none"> 42,691 tons (down 11.6%) 	△	
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, 2018	<ul style="list-style-type: none"> Up 0.3% year on year Fiscal year ended March 31, 2017: 0.0331 liter/ton-km Fiscal year ended March 31, 2018: 0.0332 liter/ton-km Annual average (over 5 years): down 0.8% 	△	<ul style="list-style-type: none"> Promote modal shift to sea transport from Omiya to Hiroshima Branch to increase efficiency to 30% Reduce energy consumption on transport in cooperation with freight companies and improve fuel efficiency Reduce the number of deliveries by increasing delivery volumes Omiya-Osaka, Hanyu Factory-Sendai
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	<ul style="list-style-type: none"> Status checks of waste treatment: Conducted at 4 offices out of 15 Waste management self-checks: Conducted at all 15 offices in May Waste management seminars: Held at 4 offices 	○	<ul style="list-style-type: none"> Continue conducting status checks of waste treatment and waste management self-checks Continue holding waste management seminars at offices Office-based inspection of waste disposal contractors
5. Compliance with the Act on Rational Use and Proper Management of Fluorocarbons	Manage fluorocarbons in accordance with the act	<ul style="list-style-type: none"> Conducted simple inspections and periodic inspections Ascertained amount omitted from calculation 	○	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Incidents of environmental risk that had an impact on the external environment: 1 	×	<ul style="list-style-type: none"> Identify environmental risks and assess their impact Risk prevention measures
7. Promotion of environmental communication	Raise employees' awareness of the environment through Companywide Environmental Month events and group training events, including environmental seminars held at each branch	<ul style="list-style-type: none"> 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 Environmental Month events July 2017 (summer): 1,256 participants February 2018 (winter): 1,102 participants 	△	<ul style="list-style-type: none"> Hold seminars on environmental education Environmental Month initiatives <ul style="list-style-type: none"> —Environmental risk —Lights-Down Campaign 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	<ul style="list-style-type: none"> Published the Social and Environmental Report (online edition) in October Participated in the Saitama City Environment Forum in October 	○	<ul style="list-style-type: none"> 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): Energy consumption / (number of production lots × floor area)
Okayama Factory and Hanyu Factory: Energy consumption / (production × floor area)
Sales and back offices: Energy consumption / floor area

*2 Annual average of CO₂ 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

Consolidated Financial Highlights

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

Fiscal years ended March 31	2009	2010	2011	2012
Net sales	256,213	258,441	268,632	271,230
Operating profit	37,935	34,686	44,082	38,412
Ordinary profit	39,902	36,671	54,077	46,201
Profit attributable to owners of parent	8,815	19,485	34,892	24,357
R&D expenses	27,523	28,118	23,677	24,231
Capital expenditures	5,814	21,132	7,870	12,868
Depreciation and amortization	11,014	11,533	11,725	11,242
Total assets	591,568	606,443	618,434	629,506
Current assets	215,872	215,686	233,170	234,782
Total net assets (Total shareholders' equity)	514,511	527,760	535,231	538,666
Free cash flow	23,252	50,719	45,701	(15,616)
Per share data (Yen)				
Profit attributable to owners of parent	30.01	67.98	124.90	296.20
Total net assets (Total shareholders' equity)	1,745.96	1,816.68	1,901.74	6,560.67
Cash flows* ¹	174.87	166.07	234.32	669.69
Dividends	27.00	27.00	27.00	90.00* ²

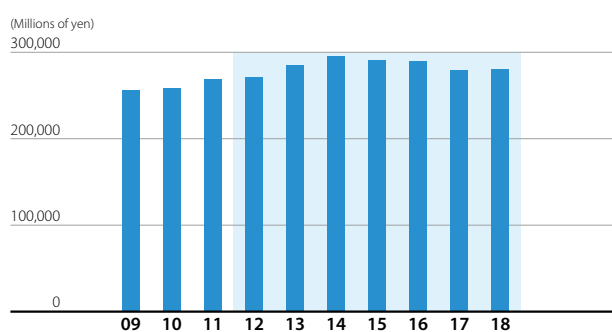
Note: Calculated in accordance with corporate accounting standards for each fiscal year.

*¹ Cash flows per share = (Profit before income taxes + Depreciation and amortization + Amortization of goodwill) / Average number of issued shares for the period

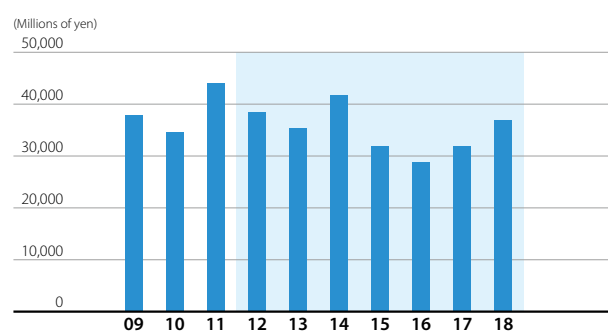
*² The annual dividend of ¥90 per share for the fiscal year ended March 31, 2012 comprises the sum of ¥40 per share derived from the conversion of Taisho Pharmaceutical's interim dividend of ¥12 per share and the year-end dividend of Taisho Pharmaceutical Holdings of ¥50 per share.

*³ Includes the commemorative dividend for the 100th anniversary of the founding of Taisho Pharmaceutical.

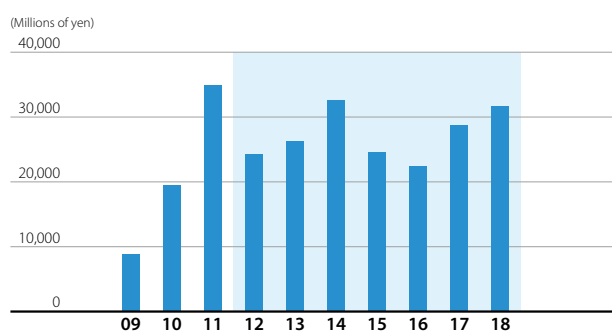
Net sales



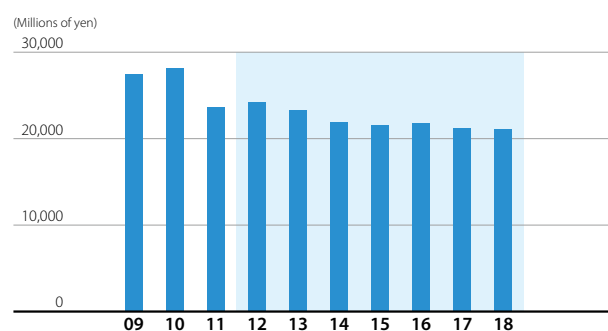
Operating profit



Profit attributable to owners of parent



R&D expenses

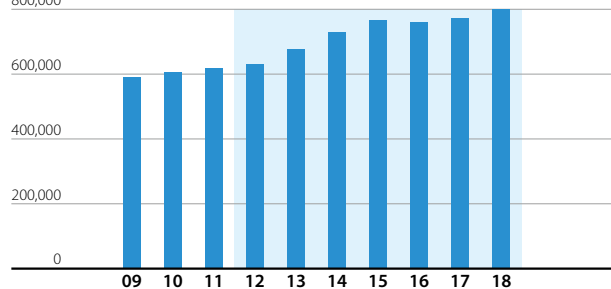


(Millions of yen)

	2013	2014	2015	2016	2017	2018
	285,168	295,957	290,498	290,135	279,773	280,092
	35,337	41,683	31,974	28,878	31,966	36,977
	44,173	51,244	39,576	36,775	38,036	42,140
	26,320	32,692	24,528	22,473	28,781	31,679
	23,331	21,874	21,554	21,768	21,260	21,150
	12,287	10,401	5,253	8,967	7,011	4,857
	10,951	11,042	11,561	11,117	10,423	10,154
	676,388	728,442	768,092	759,049	771,222	800,157
	254,326	281,045	289,081	319,670	308,946	362,146
	578,158	611,933	653,242	643,127	665,088	691,318
	31,933	38,235	15,552	31,396	38,705	19,944
	325.26	403.18	302.57	277.75	360.18	396.54
	6,975.94	7,401.61	7,892.19	7,870.04	8,127.87	8,452.12
	682.92	785.62	655.00	596.73	671.09	744.16
	120.00*3	110.00	110.00	100.00	110.00	110.00

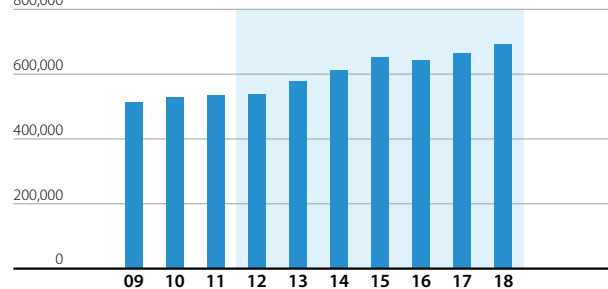
Total assets

(Millions of yen)
800,000



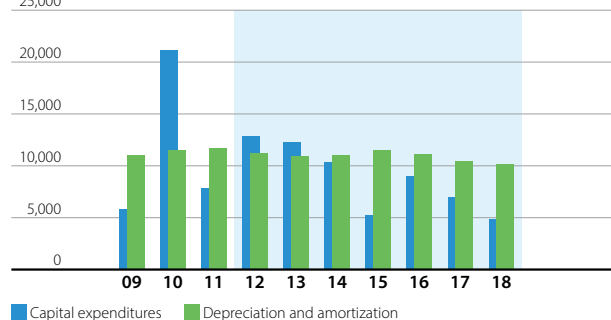
Total net assets (Total shareholders' equity)

(Millions of yen)
800,000



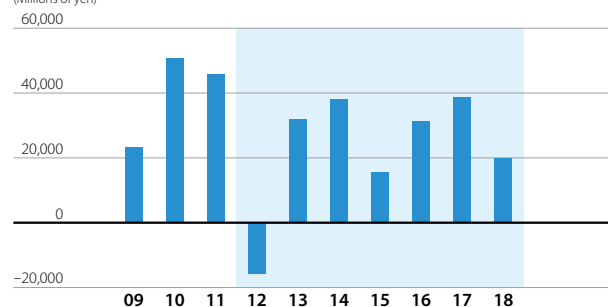
Capital expenditures/Depreciation and amortization

(Millions of yen)
25,000



Free cash flow

(Millions of yen)
60,000



Consolidated Performance Indicators

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

Fiscal years ended March 31	2009	2010	2011	2012
Profit indicators				
Operating profit margin (%)	14.8	13.4	16.4	14.2
Ordinary profit margin (%)	15.6	14.2	20.1	17.0
Profit attributable to owners of parent margin (%)	3.4	7.5	13.0	9.0
Cost of sales margin (%)	33.9	35.5	35.9	36.5
SG&A expenses margin (%)	51.3	51.1	47.7	49.3
Return on equity (ROE) (%) ^{*1}	1.7	3.8	6.7	4.6
Efficiency indicators				
Return on assets (ROA) (%) ^{*2}	1.4	3.3	5.7	3.9
Return on investment (ROI) (%) ^{*3}	1.6	3.6	6.3	4.3
Asset turnover (Times) ^{*4}	0.4	0.4	0.4	0.4
Tangible fixed assets turnover (Times) ^{*5}	2.7	2.8	3.0	3.0
Inventory turnover (Times) ^{*6}	11.1	11.3	11.5	11.3
Stability indicators				
Liquidity (%) ^{*7}	398.8	387.4	389.5	370.9
Equity ratio (%)	85.4	85.3	84.8	83.8
Debt/equity ratio (Times) ^{*8}	0.0032	0.0024	0.0004	0
Interest coverage (Times) ^{*9}	1,248.5	1,451.4	6,282.8	4,061.0
Cash and deposits and marketable securities per share (Yen) ^{*10}	400.6	397.4	483.8	1,414.8
Valuation (Times)				
Price earning ratio (PER)	60.9	25.0	14.4	22.7
Price book-value ratio (PBR)	1.0	0.9	0.9	1.0
Price to cash flow ratio (PCFR)	10.5	10.2	7.7	10.0
Other indicators				
Cash flows (Millions of yen)	51,364	47,604	65,461	55,070
Capital expenditures as a percentage of cash flows (%)	11.3	44.4	12.0	23.4
R&D expenses as a percentage of net sales (%)	10.7	10.9	8.8	8.9
Working capital (Millions of yen) ^{*11}	161,742	160,006	173,311	171,476
Payout ratio (%) (Non-consolidated)	66.9	35.3	25.2	30.4 ^{*12}

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

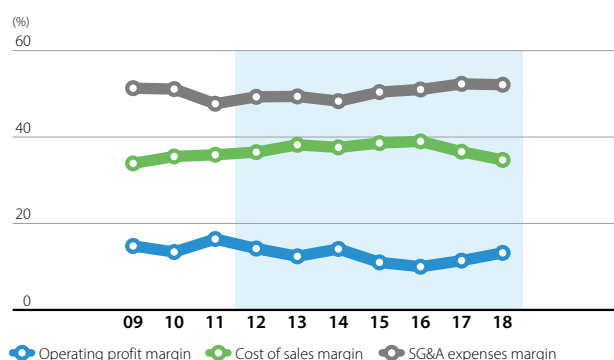
*6 Inventory turnover = Net sales/Average inventories

*7 Liquidity = Current assets/Current liabilities

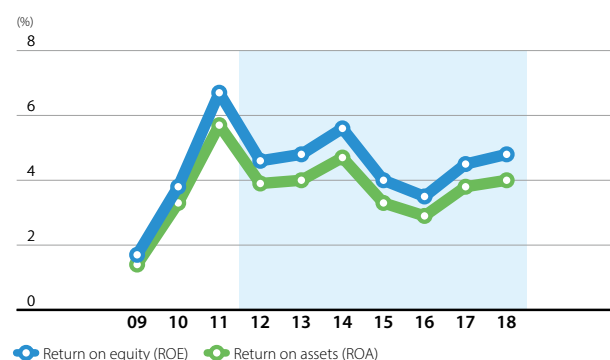
*8 Debt/equity ratio = Interest-bearing debt/Total net assets

*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)

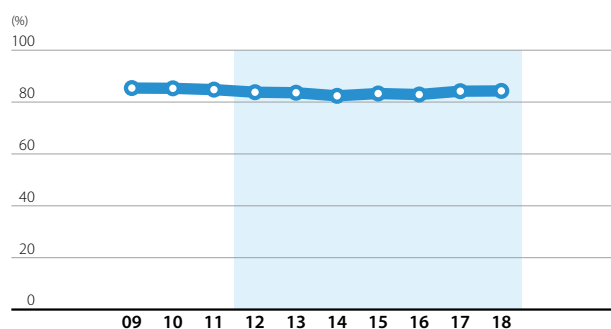
	2013	2014	2015	2016	2017	2018
	12.4	14.1	11.0	10.0	11.4	13.2
	15.5	17.4	13.6	12.7	13.6	15.0
	9.3	11.2	8.4	7.7	10.3	11.3
	38.2	37.6	38.6	39.0	36.3	34.7
	49.4	48.3	50.4	51.0	52.3	52.1
	4.8	5.6	4.0	3.5	4.5	4.8
	4.0	4.7	3.3	2.9	3.8	4.0
	4.7	5.5	3.9	3.5	4.4	4.7
	0.4	0.4	0.4	0.4	0.4	0.4
	2.9	2.9	2.8	2.9	2.9	2.9
	11.3	11.1	10.7	10.8	10.3	10.3
	404.8	369.6	450.1	479.7	531.8	600.4
	83.6	82.4	83.3	82.9	84.2	84.3
	0	0	0	0	0	0
	2,457.8	24,090.5	19,332.0	17,854.5	38,704.0	21,849.5
	1,624.4	1,966.1	2,092.5	2,583.6	2,518.9	3,128.4
	21.0	20.6	29.5	32.1	25.1	26.4
	1.0	1.1	1.1	1.1	1.1	1.2
	10.0	10.6	13.6	14.9	13.5	14.1
	55,262	63,703	53,100	48,282	53,626	59,450
	22.2	16.3	9.9	18.6	13.1	8.2
	8.2	7.4	7.4	7.5	7.6	7.6
	191,492	204,995	224,851	253,024	250,849	301,828
	36.9 ^{*12}	27.3 ^{*12}	36.4 ^{*12}	36.0 ^{*12}	30.5 ^{*12}	27.7^{*12}

*10 Cash and deposits and marketable securities per share =
(Cash and deposits + Marketable securities)/Outstanding shares (excluding treasury shares)

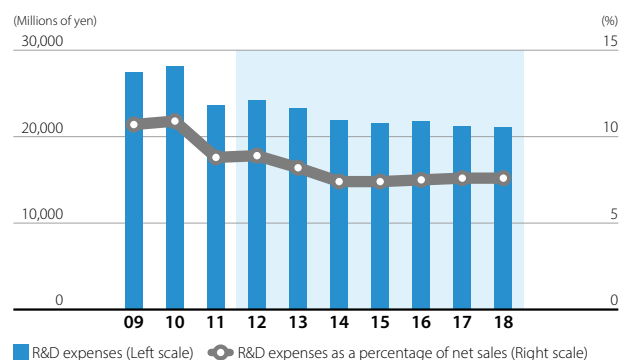
*11 Working capital = Current assets – Current liabilities

*12 Figures are presented on a consolidated basis.

Equity ratio



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

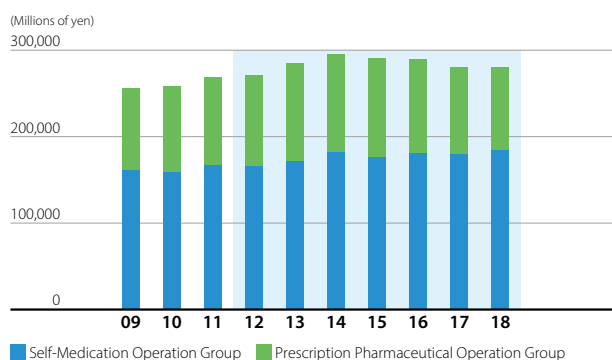


Consolidated Segment Information

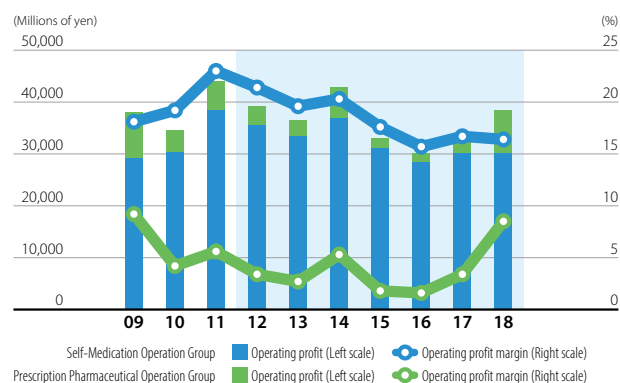
Figures for the fiscal year ended March 31, 2011 and earlier are for Taisho Pharmaceutical.

Fiscal years ended March 31	2009	2010	2011	2012
Net sales				
Companywide	256,213	258,441	268,632	271,230
Self-Medication Operation Group	161,141	158,851	167,195	166,467
Percent of net sales (%)	62.9	61.5	62.2	61.4
Prescription Pharmaceutical Operation Group	95,072	99,590	101,436	104,763
Percent of net sales (%)	37.1	38.5	37.8	38.6
Overseas sales	8,184	7,692	12,166	13,387
Percent of net sales (%)	3.2	3.0	4.5	4.9
Operating profit				
Companywide	37,935	34,686	44,082	38,412
Self-Medication Operation Group	29,227	30,458	38,385	35,565
Prescription Pharmaceutical Operation Group	8,707	4,227	5,696	3,557
Operating profit margin (%)				
Companywide	14.8	13.4	16.4	14.2
Self-Medication Operation Group	18.1	19.2	23.0	21.4
Prescription Pharmaceutical Operation Group	9.2	4.2	5.6	3.4
Identifiable assets				
Self-Medication Operation Group	189,376	215,667	249,088	234,245
Prescription Pharmaceutical Operation Group	151,623	149,874	161,222	153,947
R&D expenses				
Companywide	27,523	28,118	23,677	24,231
Self-Medication Operation Group	7,222	5,534	4,677	5,239
Percent of net sales (%)	4.5	3.5	2.8	3.1
Prescription Pharmaceutical Operation Group	20,300	22,583	19,000	18,992
Percent of net sales (%)	21.4	22.7	18.7	18.1
Depreciation and amortization				
Companywide	11,014	11,533	11,725	11,242
Self-Medication Operation Group	7,984	8,588	8,935	8,701
Prescription Pharmaceutical Operation Group	3,029	2,944	2,789	2,540

Net sales



Operating profit/Operating profit margin

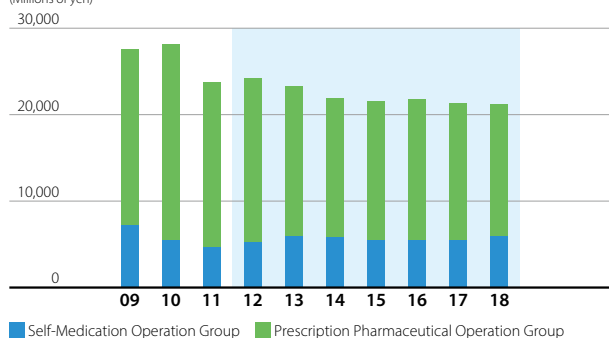


(Millions of yen)

	2013	2014	2015	2016	2017	2018
	285,168	295,957	290,498	290,135	279,773	280,092
	171,271	181,753	176,295	180,722	179,992	183,996
	60.1	61.4	60.7	62.3	64.3	65.7
	113,896	114,204	114,202	109,413	99,781	96,096
	39.9	38.6	39.3	37.7	35.7	34.3
	17,574	25,393	27,949	29,901	27,529	30,936
	6.2	8.6	9.6	10.3	9.8	11.0
	35,337	41,683	31,974	28,878	31,966	36,977
	33,510	36,865	31,060	28,393	30,106	30,162
	3,027	6,000	2,078	1,755	3,352	8,207
	12.4	14.1	11.0	10.0	11.4	13.2
	19.6	20.3	17.6	15.7	16.7	16.4
	2.7	5.3	1.8	1.6	3.4	8.5
	251,016	275,361	287,090	302,521	319,520	337,976
	156,989	161,332	171,256	175,302	173,423	186,361
	23,331	21,874	21,554	21,768	21,260	21,150
	5,908	5,790	5,502	5,497	5,497	5,983
	3.4	3.2	3.1	3.0	3.1	3.3
	17,423	16,084	16,051	16,270	15,763	15,167
	15.3	14.1	14.1	14.9	15.8	15.8
	10,951	11,042	11,561	11,117	10,423	10,154
	8,516	9,155	9,740	9,293	8,710	8,500
	2,435	1,887	1,821	1,824	1,712	1,653

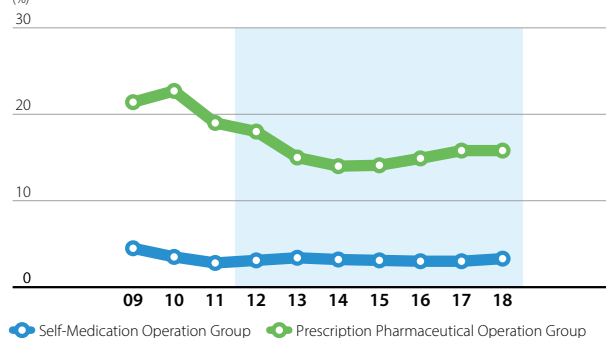
R&D expenses

(Millions of yen)



Segment R&D expenses as a percentage of net sales

(%)



Management's Discussion and Analysis

Fiscal 2017 Operating Results

Net Sales

Consolidated net sales for fiscal 2017, the fiscal year ended March 31, 2018, increased ¥0.3 billion, or 0.1%, year on year to ¥280.1 billion.

Gross Profit and Operating Profit

Gross profit increased ¥4.7 billion to ¥182.9 billion, as the cost of sales ratio decreased 1.6 percentage points year on year to 34.7%, due mainly to a change in the sales mix.

Selling, general and administrative expenses decreased ¥0.3 billion to ¥146.0 billion, due mainly to decreased sales promotion expenses and personnel expenses, despite higher advertising expenses. Consequently, operating profit increased ¥5.0 billion, or 15.7%, to ¥37.0 billion. The operating profit margin increased 1.8 percentage points to 13.2%.

R&D Expenses

The Group conducts vigorous R&D activities centered on prescription pharmaceuticals. In fiscal 2017, R&D expenses were to ¥21.2 billion. 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 amounted to ¥6.0 billion.

The Prescription Pharmaceutical Operation Group aims to develop highly original new drugs. R&D expenses in the Prescription Pharmaceutical Operation Group amounted to ¥15.2 billion.

Ordinary Profit and Profit Attributable to Owners of Parent

Non-operating income was ¥7.5 billion, mostly unchanged from the previous fiscal year. Non-operating expenses increased ¥0.9 billion to ¥2.3 billion, due mainly to an increase in equity in losses of entities accounted for using equity method.

Consequently, ordinary profit increased ¥4.1 billion, or 10.8%, to ¥42.1 billion. The ratio of ordinary profit to net sales increased 1.4 percentage points to 15.0%.

Extraordinary income increased ¥2.1 billion year on year to ¥6.2 billion, due mainly to an increase in gain on sales of investment securities. Extraordinary losses remained mostly unchanged from fiscal 2016 at ¥0.3 billion.

Consequently, profit before income taxes increased ¥6.1 billion, or 14.6%, to ¥48.1 billion. After adjusting for income taxes, profit attributable to owners of parent was ¥31.7 billion, an increase of ¥2.9 billion, or 10.1%.

Profit attributable to owners of parent per share was ¥396.54. Return on equity increased 0.3 of a percentage point to 4.8%.

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, 2018 increased ¥28.9 billion, or 3.8%, from a year earlier to ¥800.2 billion. Total current assets increased ¥53.2 billion, or 17.2%, to ¥362.1 billion. Total fixed assets decreased ¥24.3 billion, or 5.2%, to ¥438.0 billion.

In current assets, marketable securities increased ¥29.7 billion from a year earlier, and cash and deposits increased ¥18.7 billion from a year earlier.

In fixed assets, total tangible fixed assets decreased ¥3.6 billion, or 3.7%, to ¥93.7 billion from a year earlier. Total intangible fixed assets decreased ¥3.3 billion, or 9.5%, to ¥31.1 billion.

Total liabilities as of March 31, 2018 increased ¥2.7 billion, or 2.5%, from a year earlier to ¥108.8 billion. Total current liabilities rose ¥2.2 billion, or 3.8%, to ¥60.3 billion, and total long-term liabilities increased ¥0.5 billion, or 1.0%, to ¥48.5 billion.

Net assets as of March 31, 2018 increased ¥26.2 billion, or 3.9%, from a year earlier to ¥691.3 billion. Retained earnings increased ¥22.9 billion from a year earlier. Valuation difference on securities increased ¥1.7 billion from a year ago.

As a result, the equity ratio increased 0.1 of a percentage point from March 31, 2017 to 84.3%. Net assets per share amounted to ¥8,452.12.

Cash Flows

Cash and cash equivalents as of March 31, 2018 increased ¥10.1 billion from a year earlier to ¥194.4 billion.

Cash flows during fiscal 2017 were as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥0.2 billion year on year to ¥39.9 billion. The main component was profit before income taxes of ¥48.1 billion.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥18.5 billion year on year to ¥19.9 billion. The primary use of cash was payments for purchase of investment securities of ¥12.5 billion.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥1.5 billion year on year to ¥9.9 billion. The primary use of cash was cash dividends paid of ¥8.8 billion.

Capital Expenditures

The Group made capital expenditures totaling ¥4.9 billion during fiscal 2017 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, 2018 decreased by 121 from a year earlier to 6,340.

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 2017, the Company paid an annual dividend of ¥110 per share.

For fiscal 2018, 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, 2018.

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, 2017 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Current assets:			
Cash and deposits (Notes 8 and 9)	¥ 201,276	¥ 219,973	\$ 2,070,339
Notes and accounts receivable—trade (Note 9)	69,536	75,268	708,412
Marketable securities (Notes 8, 9 and 10)	—	29,739	279,901
Inventories	27,501	26,844	252,650
Deferred tax assets (Note 13)	5,820	5,985	56,332
Other (Note 15)	4,900	4,441	41,799
Allowance for doubtful accounts (Note 9)	(85)	(105)	(996)
Total current assets	308,946	362,146	3,408,437
Fixed assets:			
Tangible fixed assets:			
Buildings and structures	152,312	152,039	1,430,961
Machinery, equipment and vehicles	88,471	88,128	829,440
Land	37,457	37,021	348,436
Construction in progress	177	468	4,411
Other	32,466	32,940	310,025
Accumulated depreciation and impairment loss	(213,600)	(216,881)	(2,041,238)
Total tangible fixed assets	97,283	93,716	882,034
Intangible fixed assets:			
Goodwill	16,769	15,347	144,448
Sales rights	4,068	2,740	25,792
Trademarks	9,966	8,750	82,362
Other	3,570	4,278	40,264
Total intangible fixed assets	34,373	31,116	292,866
Investments and other assets:			
Investment securities (Notes 9 and 10)	252,460	236,797	2,228,683
Shares of subsidiaries and affiliates (Note 9)	67,551	65,294	614,539
Long-term prepaid expenses	666	769	7,244
Net defined benefit assets (Note 11)	2,496	3,230	30,405
Deferred tax assets (Note 13)	6,783	6,362	59,884
Other	913	966	9,099
Allowance for doubtful accounts	(249)	(243)	(2,295)
Total investments and other assets	330,621	313,178	2,947,559
Total fixed assets	462,276	438,011	4,122,459
Total assets (Note 14)	¥ 771,223	¥ 800,157	\$ 7,530,896

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Liabilities:			
Current liabilities:			
Notes and accounts payable–trade	¥ 23,327	¥ 19,939	\$ 187,668
Accounts payable (Note 15)	13,047	14,275	134,358
Accrued income taxes (Note 13)	5,775	8,614	81,073
Accrued expenses	9,997	10,688	100,600
Provision for sales returns	750	775	7,303
Provision for bonuses	3,854	3,874	36,467
Other	1,347	2,149	20,230
Total current liabilities	58,098	60,318	567,699
Long-term liabilities:			
Provision for directors' retirement benefits	983	1,001	9,425
Net defined benefit liabilities (Note 11)	23,505	23,391	220,153
Deferred tax liabilities (Note 13)	16,131	17,493	164,642
Other	7,417	6,635	62,455
Total long-term liabilities	48,036	48,521	456,675
Total liabilities	106,134	108,839	1,024,374
Net Assets:			
Shareholders' equity:			
Common stock (Note 7)			
Authorized—			
2017: 360,000 thousand shares			
2018: 360,000 thousand shares			
Issued—			
2017: 90,139 thousand shares			
2018: 90,139 thousand shares	30,000	30,000	282,353
Capital surplus	15,272	15,271	143,735
Retained earnings	644,039	666,920	6,276,900
Treasury stock (Note 7)			
(2017: 10,234 thousand shares, 2018: 10,317 thousand shares)	(67,728)	(68,536)	(645,050)
Total shareholders' equity	621,583	643,655	6,057,938
Accumulated other comprehensive income:			
Valuation difference on securities	36,234	37,970	357,368
Deferred gains or losses on hedges	0	(0)	(1)
Foreign currency translation adjustment	(2,196)	(1,704)	(16,041)
Remeasurements of defined benefit plans	(6,163)	(5,256)	(49,477)
Total accumulated other comprehensive income	27,876	31,009	291,849
Share acquisition rights (Note 7)	478	565	5,322
Non-controlling interests	15,151	16,087	151,413
Total net assets	665,088	691,318	6,506,522
Total liabilities and net assets	¥771,223	¥800,157	\$7,530,896

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, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Net sales (Note 14)	¥279,774	¥280,092	\$2,636,168
Cost of sales	101,548	97,108	913,958
Gross profit	178,226	182,984	1,722,210
Selling, general and administrative expenses (Note 5)	146,260	146,007	1,374,186
Operating profit (Note 14)	31,966	36,977	348,024
Non-operating income:			
Interest income	5,134	4,999	47,057
Dividend income	1,605	1,723	16,224
Other	773	756	7,115
	7,512	7,479	70,396
Non-operating expenses:			
Interest expenses	1	2	21
Equity in losses of entities accounted for using equity method	601	1,634	15,387
Foreign exchange losses	672	556	5,238
Commission fee	91	94	887
Other	76	28	271
	1,442	2,316	21,804
Ordinary profit	38,036	42,140	396,616
Extraordinary income:			
Gain on sales of fixed assets (Note 5)	14	619	5,833
Gain on sales of investment securities (Note 10)	4,124	5,598	52,690
	4,138	6,218	58,523
Extraordinary losses:			
Loss on disposal of fixed assets (Note 5)	184	288	2,712
Loss on sales of investment securities (Note 10)	33	—	—
	217	288	2,712
Profit before income taxes	41,957	48,070	452,427
Income taxes (Note 13):			
Current	11,495	14,522	136,680
Deferred	256	179	1,688
	11,751	14,701	138,367
Profit	30,206	33,368	314,060
Profit attributable to non-controlling interests	1,425	1,689	15,904
Profit attributable to owners of parent (Note 16)	¥ 28,781	¥ 31,679	\$ 298,155

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, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Profit	¥30,206	¥33,368	\$314,060
Other comprehensive income (loss):			
Valuation difference on securities	472	1,205	11,342
Foreign currency translation adjustment	(4,064)	842	7,931
Remeasurements of defined benefit plans	2,139	948	8,931
Share of other comprehensive income of entities accounted for using equity method	1,431	261	2,465
Total other comprehensive income (loss) (Note 6)	(22)	3,258	30,669
Comprehensive income	¥30,184	¥36,627	\$344,729
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of parent	¥28,627	¥34,812	\$327,645
Comprehensive income attributable to non-controlling interests	1,557	1,815	17,084

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, 2017 and 2018

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	¥30,000	¥15,271	¥623,255	¥(67,664)	¥600,863
Changes during the period					
Purchase of treasury stock				(100)	(100)
Disposal of treasury stock		1		36	37
Change in ownership interest of parent due to transactions with non-controlling interests		(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
Changes during the period					
Purchase of treasury stock				(816)	(816)
Disposal of treasury stock		(0)		7	7
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Dividends of surplus			(8,797)		(8,797)
Profit attributable to owners of parent			31,679		31,679
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method				0	0
Changes in other than shareholders' equity during the period, net					
Total changes during the period	—	(0)	22,881	(809)	22,072
Balance as of March 31, 2018	¥30,000	¥15,271	¥666,920	¥(68,536)	¥643,655

	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	Share acquisition rights	Non-controlling interests	Total net assets
Balance as of April 1, 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 interests								(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
Changes during the period								
Purchase of treasury stock								(816)
Disposal of treasury stock								7
Change in ownership interest of parent due to transactions with non-controlling interests								(0)
Dividends of surplus								(8,797)
Profit attributable to owners of parent								31,679
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method								0
Changes in other than shareholders' equity during the period, net	1,735	(0)	491	905	3,133	87	936	4,157
Total changes during the period	1,735	(0)	491	905	3,133	87	936	26,229
Balance as of March 31, 2018	¥37,970	¥(0)	¥(1,704)	¥(5,256)	¥31,009	¥565	¥16,087	¥691,318

Thousands of U.S. dollars (Note 1)

	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of March 31, 2017	\$282,353	\$143,739	\$6,061,541	\$(637,435)	\$5,850,197
Changes during the period					
Purchase of treasury stock				(7,687)	(7,687)
Disposal of treasury stock		(0)		68	68
Change in ownership interest of parent due to transactions with non-controlling interests		(4)			(4)
Dividends of surplus			(82,796)		(82,796)
Profit attributable to owners of parent			298,155		298,155
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method				4	4
Changes in other than shareholders' equity during the period, net					
Total changes during the period	—	(4)	215,360	(7,614)	207,742
Balance as of March 31, 2018	\$282,353	\$143,735	\$6,276,900	\$(645,050)	\$6,057,938

Thousands of U.S. dollars (Note 1)

	Accumulated other comprehensive income							Total net assets
	Valuation difference on securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	
Balance as of March 31, 2017	\$341,029	\$ 1	\$(20,668)	\$(58,002)	\$262,360	\$4,503	\$142,596	\$6,259,655
Changes during the period								
Purchase of treasury stock								(7,687)
Disposal of treasury stock								68
Change in ownership interest of parent due to transactions with non-controlling interests								(4)
Dividends of surplus								(82,796)
Profit attributable to owners of parent								298,155
Change in number of shares of treasury stock due to change in interests in entities accounted for using equity method								4
Changes in other than shareholders' equity during the period, net	16,339	(1)	4,627	8,526	29,490	819	8,817	39,126
Total changes during the period	16,339	(1)	4,627	8,526	29,490	819	8,817	246,867
Balance as of March 31, 2018	\$357,368	\$(1)	\$(16,041)	\$(49,477)	\$291,849	\$5,322	\$151,413	\$6,506,522

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

Financial Section

Consolidated Statements of Cash Flows

Taisho Pharmaceutical Holdings Co., Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 41,957	¥ 48,070	\$ 452,427
Adjustments:			
Depreciation and amortization (Note 14)	10,423	10,154	95,567
Amortization of goodwill	1,248	1,226	11,540
Loss (gain) on sales of fixed assets (Note 5)	(14)	(619)	(5,833)
Loss on disposal of fixed assets (Note 5)	184	288	2,712
Loss (gain) on sales of investment securities	(4,091)	(5,598)	(52,690)
Interest and dividend income	(6,739)	(6,723)	(63,281)
Interest expenses	1	2	21
Equity in losses of entities accounted for using equity method	601	1,634	15,387
Increase (decrease) in allowance for doubtful accounts	(1)	9	85
Increase (decrease) in net defined benefit liabilities	(184)	(133)	(1,256)
Decrease (increase) in net defined benefit assets	(1,928)	(734)	(6,910)
Increase (decrease) in provision for directors' retirement benefits	(214)	18	170
Increase (decrease) in provision for bonuses	4	3	33
Decrease (increase) in notes and accounts receivable–trade	5,366	(5,393)	(50,760)
Decrease (increase) in inventories	(1,025)	1,167	10,987
Increase (decrease) in notes and accounts payable–trade	(3,656)	(3,531)	(33,240)
Increase (decrease) in long-term accounts payable–other	(81)	(200)	(1,883)
Other	2,603	4,255	40,052
Subtotal	44,454	43,894	413,128
Interest and dividend income received	6,954	7,643	71,936
Interest expenses paid	(1)	(2)	(21)
Income taxes paid	(11,436)	(11,772)	(110,797)
Income taxes refund	95	88	833
Net cash provided by operating activities	40,067	39,852	375,079
Cash flows from investing activities:			
Decrease (increase) in time deposits	136	(9,763)	(91,891)
Proceeds from sales/redemption of marketable securities	34,200	—	—
Payments for purchase of tangible fixed assets	(7,323)	(2,726)	(25,665)
Proceeds from sales of tangible fixed assets	39	868	8,172
Payments for purchase of intangible fixed assets	(1,508)	(2,287)	(21,531)
Payments for purchase of investment securities	(20,828)	(12,472)	(117,388)
Proceeds from sales/redemption of investment securities	6,555	6,317	59,458
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(434)	(4,091)
Payments for purchase of shares of subsidiaries and affiliates	(12,262)	—	—
Payments for purchase of long-term prepaid expenses	(380)	(470)	(4,432)
Other	10	1,061	9,994
Net cash used in investing activities	(1,362)	(19,908)	(187,374)
Cash flows from financing activities:			
Increase in short-term loans payable	291	378	3,562
Decrease in short-term loans payable	(232)	(365)	(3,435)
Repayments of finance lease obligations	(104)	(116)	(1,093)
Payments for purchase of treasury stock	(100)	(96)	(910)
Cash dividends paid	(7,974)	(8,771)	(82,559)
Dividend paid to non-controlling interests	(285)	(895)	(8,431)
Payments for purchase of treasury stock of subsidiaries	—	(0)	(2)
Net cash used in financing activities	(8,404)	(9,867)	(92,868)
Effect of exchange rate changes on cash and cash equivalents	(349)	67	632
Net increase (decrease) in cash and cash equivalents	29,953	10,143	95,470
Cash and cash equivalents at the beginning of period	154,269	184,221	1,733,845
Cash and cash equivalents at the end of period (Note 8)	¥184,221	¥194,364	\$1,829,314

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 as of and for the year ended March 31, 2017 and rounded down to the nearest million yen as of and for the year ended March 31, 2018.

The U.S. dollar amounts are included solely for convenience and have been translated at the rate of ¥106.25 = U.S. \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market as at March 31, 2018. 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, 2018:**

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (33 companies at March 31, 2018). 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, 2018:

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, 2018) 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) Non-consolidated 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 consolidated subsidiaries' account closing dates are March 31 for Taisho Pharmaceutical Co., Ltd., Taisho Toyama Pharmaceutical Co., Ltd., Biofermin Pharmaceutical Co., Ltd. and five other companies, and December 31 for the other 25 subsidiaries. The financial statements of these subsidiaries as of and for the fiscal year ended March 31, 2018 and December 31, 2017, as applicable, are used in preparing the consolidated financial statements. All material transactions which occurred during the periods from their respective fiscal year-ends to March 31 are appropriately adjusted for on consolidation, as necessary.

(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 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, 2017 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. Accounting Standards and Guidances Issued but Not Yet Applied

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

a) Outline:

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards for revenue recognition and published the "Revenue from Contracts with Customers" (IFRS 15 for the IASB and Topic 606 for the FASB) in May 2014. IFRS 15 is effective for fiscal years beginning on or after January 1, 2018 and Topic 606 is effective for fiscal years beginning after December 15, 2017. Given these circumstances, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them with the implementation guidance thereon.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is to set such accounting standards by adopting the basic principles of IFRS 15 as a starting point, from the viewpoint of comparability among financial statements, which is one benefit of ensuring consistency with IFRS 15, and to additionally provide for alternative accounting treatments to the extent that it would not impair comparability, if there is an item to be taken into consideration in practices that have been conducted in Japan.

b) Planned date of application:

To be applied from the beginning of the fiscal year ending March 31, 2022.

c) Impact of application of the accounting standard and guidance:

The impact of the application of the "Accounting Standard for Revenue Recognition" and the "Implementation Guidance on Accounting Standard for Revenue Recognition" on the Company's consolidated financial statements is currently being evaluated.

- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, revision on February 16, 2018)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, final revision on February 16, 2018)

a) Outline:

The "Implementation Guidance on Tax Effect Accounting" and "Implementation Guidance on Recoverability of Deferred Tax Assets" adhere fundamentally to the previous contents. The following revisions were deemed necessary on the occasion of transferring the practical guidelines on tax effect accounting from the Japanese Institute of Certified Public Accountants to the ASBJ.

(Major accounting treatments revised)

- Accounting treatment of taxable temporary difference pertaining to subsidiaries' shares, etc., in non-consolidated financial statements
- Accounting treatment of recoverability of deferred tax assets in companies that fall under (Category 1)

b) Planned date of application:

To be applied from the beginning of the fiscal year ending March 31, 2019.

c) Impact of application of the accounting guidances:

The impact of the application of the "Implementation Guidance on Tax Effect Accounting" and "Implementation Guidance on Recoverability of Deferred Tax Assets" on the Company's consolidated financial statements is currently being evaluated.

4. Notes to Consolidated Balance Sheets

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

As of March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Shares of subsidiaries and affiliates	¥67,551	¥65,294	\$614,539

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:

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Freight charges	¥ 7,442	¥ 7,454	\$ 70,159
Advertisement expenses	22,087	22,579	212,512
Sales promotion expenses	30,080	28,636	269,521
Salaries and bonuses	24,493	24,283	228,553
Provisions for bonuses	2,131	2,114	19,897
Retirement benefit expenses	2,633	2,394	22,532
Research and development expenses	21,261	21,150	199,068

(2) Research and development expenses

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

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Research and development expenses	¥21,261	¥21,150	\$199,068

(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:

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Machinery, equipment and vehicles	¥14	¥ 9	\$ 87
Land	—	610	5,745
Other fixed assets	0	0	0
Total	¥14	¥619	\$5,833

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

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Buildings and structures	¥ 82	¥213	\$2,008
Machinery, equipment and vehicles	4	55	527
Land	—	8	83
Construction in progress	90	—	—
Other tangible fixed assets	8	9	89
Software	0	0	3
Other intangible fixed assets	0	0	1
Total	¥184	¥288	\$2,712

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, 2017 and 2018 are as follows:

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Valuation difference on securities:			
Amount arising during the period	¥ 4,726	¥ 7,780	\$ 73,224
Reclassification adjustment	(4,091)	(5,598)	(52,690)
Before tax effect adjustment	635	2,181	20,535
Tax effect	(164)	(976)	(9,193)
Valuation difference on securities	472	1,205	11,342
Foreign currency translation adjustment:			
Amount arising during the period	(4,064)	842	7,931
Reclassification adjustment	—	—	—
Before tax effect adjustment	(4,064)	842	7,931
Tax effect	—	—	—
Foreign currency translation adjustment	(4,064)	842	7,931
Remeasurements of defined benefit plans:			
Amount arising during the period	2,066	589	5,549
Reclassification adjustment	1,013	775	7,300
Before tax effect adjustment	3,078	1,365	12,850
Tax effect	(939)	(416)	(3,919)
Remeasurements of defined benefit plans	2,139	948	8,931
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the period	1,405	245	2,308
Reclassification adjustment	27	16	157
Share of other comprehensive income of entities accounted for using equity method	1,431	261	2,465
Total other comprehensive income	¥ (22)	¥ 3,258	\$ 30,699

7. Notes to Consolidated Statements of Changes in Net Assets

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 the 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 share acquisition rights and treasury share acquisition rights

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

(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

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

For the year ended March 31, 2018

(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	10,234	84* ¹	1* ²	10,317

*1 The increase of 10 thousand shares was attributable to the purchase of shares of less than one trading unit, and the increase of 73 thousand shares attributable to the purchase of shares held by untraceable shareholders.

*2 The decrease in shares attributable to the exercise of stock options was 1 thousand shares, and the 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 share acquisition rights and treasury share acquisition rights

Category	Type of share acquisition rights	No. of shares to be granted upon the exercise of share acquisition rights (shares)					Fiscal year-end balance (¥ million)
		Type of Shares to be granted upon the exercise of share acquisition rights	Start of fiscal year	Increase during fiscal year	Decrease during fiscal year	End of fiscal year	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	¥527
Consolidated subsidiaries	Share acquisition rights as stock options	—	—	—	—	—	37
Total		—	—	—	—	—	¥565

Category	Type of share acquisition rights	No. of shares to be granted upon the exercise of share acquisition rights (shares)					Fiscal year-end balance (\$ thousand) (Note 1)
		Type of Shares to be granted upon the exercise of share acquisition rights	Start of fiscal year	Increase during fiscal year	Decrease during fiscal year	End of fiscal year	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	\$4,965
Consolidated subsidiaries	Share acquisition rights as stock options	—	—	—	—	—	357
Total		—	—	—	—	—	\$5,322

(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, 2017	Common stock	¥4,798	¥60	March 31, 2017	June 30, 2017
Meeting of Board of Directors held on October 30, 2017	Common stock	¥3,998	¥50	September 30, 2017	December 5, 2017

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, 2017	Common stock	\$45,162	\$0.56	March 31, 2017	June 30, 2017
Meeting of Board of Directors held on October 30, 2017	Common stock	\$37,634	\$0.47	September 30, 2017	December 5, 2017

b) Of the dividends for which the date of record is in the fiscal year ended March 31, 2018, 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 28, 2018	Common stock	¥4,793	¥60	March 31, 2018	June 29, 2018	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 28, 2018	Common stock	\$45,115	\$0.56	March 31, 2018	June 29, 2018	Retained earnings

8. Notes to Consolidated Statements of Cash Flows

Cash and cash equivalents at March 31, 2017 and 2018 comprise the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
For the year ended March 31			
Cash and deposits	¥201,276	¥219,973	\$2,070,339
Marketable securities	—	29,739	279,901
Subtotal	201,276	249,713	2,350,240
Time deposits with original maturity of more than three months	(17,055)	(25,608)	(241,025)
Marketable securities with original maturity of more than three months	—	(29,739)	(279,901)
Cash and cash equivalents	¥184,221	¥194,364	\$1,829,314

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:

As of March 31, 2017	Millions of yen		
	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)

As of March 31, 2018	Millions of yen		
	Carrying amount	Fair value	Variance
a) Cash and deposits	¥219,973	¥219,973	¥—
b) Notes and accounts receivable—trade	75,268		
Allowance for doubtful accounts	(105)		
	75,162	75,162	—
c) Marketable securities			
Available-for-sale securities	29,739	29,739	—
d) Investment securities			
Available-for-sale securities	236,335	236,335	—
e) Shares of subsidiaries and affiliates	24,519	24,568	49

As of March 31, 2018	Thousands of U.S. dollars (Note 1)		
	Carrying amount	Fair value	Variance
a) Cash and deposits	\$2,070,339	\$2,070,339	\$—
b) Notes and accounts receivable—trade	708,412		
Allowance for doubtful accounts	(996)		
	707,416	707,416	—
c) Marketable securities			
Available-for-sale securities	279,901	279,901	—
d) Investment securities			
Available-for-sale securities	2,224,330	2,224,330	—
e) Shares of subsidiaries and affiliates	230,770	231,232	462

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)
	2017	2018	2018	
Category				
Unlisted equity securities	¥ 463	¥ 462	\$ 4,353	
Equity securities in unlisted affiliates	42,359	40,775	383,769	

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

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, 2018	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	¥ 34,166	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	75,268	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Corporate bonds)	29,494	92,800	46,500	5,000
Total	¥138,930	¥92,800	¥46,500	¥5,000

As of March 31, 2018	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	\$321,571	\$ —	\$ —	\$ —
Notes and accounts receivable—trade	708,412	—	—	—
Marketable securities and investment securities				
Available-for-sale securities with maturities (Corporate bonds)	277,599	873,412	437,647	47,059
Total	\$1,307,582	\$873,412	\$437,647	\$47,059

10. Marketable and Investment Securities

The following information relates to the aggregate carrying amounts and fair value of securities at March 31, 2017 and 2018.

(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, 2017 and 2018.

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
Subtotal	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	—	—	—
Subtotal	33,873	34,707	(834)
Total	¥251,997	¥200,802	¥51,195

Financial Section

Notes to Consolidated Financial Statements

As of March 31, 2018	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	¥ 86,801	¥ 38,330	¥48,470
(2) Corporate bonds	71,636	70,086	1,550
(3) Others	73,974	70,000	3,974
Subtotal	232,412	178,417	53,995
Securities whose carrying amounts on the consolidated balance sheets do not exceed their acquisition costs			
(1) Equity securities	—	—	—
(2) Corporate bonds	33,662	34,280	(618)
(3) Others	—	—	—
Subtotal	33,662	34,280	(618)
Total	¥266,074	¥212,697	¥53,376

As of March 31, 2018	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	\$ 816,951	\$ 360,760	\$456,192
(2) Corporate bonds	674,229	659,640	14,590
(3) Others	696,231	658,824	37,407
Subtotal	2,187,411	1,679,223	508,189
Securities whose carrying amounts on the consolidated balance sheets do not exceed their acquisition costs			
(1) Equity securities	—	—	—
(2) Corporate bonds	316,819	322,639	(5,819)
(3) Others	—	—	—
Subtotal	316,819	322,639	(5,819)
Total	\$2,504,231	\$2,001,861	\$502,369

Unlisted equity securities (carrying amount on the consolidated balance sheets: ¥462 million (\$4,353 thousand) as of March 31, 2017 and 2018) 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, 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

For the year ended March 31, 2018

Category	Millions of yen		
	Proceeds from sales	Total gain on sales	Total losses on sales
Equity securities	¥719	¥5,598	¥—
Corporate bonds	—	—	—
Others	—	—	—
Total	¥719	¥5,598	¥—

Category	Thousands of U.S. dollars (Note 1)		
	Proceeds from sales	Total gain on sales	Total losses on sales
Equity securities	\$6,769	\$52,690	\$—
Corporate bonds	—	—	—
Others	—	—	—
Total	\$6,769	\$52,690	\$—

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 multiemployer plans.

(2) Defined benefit plans

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

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Retirement benefit obligation at the beginning of period	¥68,431	¥67,873	\$638,804
Service costs	2,948	2,829	26,632
Interest costs	362	436	4,113
Actuarial gain/loss incurred	(1,598)	789	7,428
Payments for retirement benefits	(2,269)	(2,579)	(24,275)
Retirement benefit obligations at the end of period	¥67,873	¥69,349	\$652,702

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

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Plan assets at the beginning of period	¥46,145	¥47,731	\$449,236
Expected return on plan assets	923	954	8,985
Actuarial gain/loss incurred	467	1,378	12,977
Employer contributions	1,278	1,246	11,735
Payments for retirement benefits	(1,081)	(1,206)	(11,352)
Plan assets at the end of period	¥47,731	¥50,105	\$471,581

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		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Net defined benefit liabilities at the beginning of period	¥860	¥867	\$8,165
Retirement benefit expenses	77	56	530
Payments for retirement benefits	(35)	(16)	(156)
Contributions to plan	(10)	(9)	(90)
Increase due to acquisition of new subsidiary	—	20	189
Others	(25)	(0)	(9)
Net defined benefit liabilities at the end of period	¥867	¥916	\$8,628

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		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Defined benefit obligations for funded plans	¥ 45,365	¥ 47,008	\$ 442,431
Plan assets	(47,862)	(50,238)	(472,836)
	(2,496)	(3,230)	(30,405)
Defined benefit obligations for unfunded plans	23,505	23,391	220,153
Net amount of defined benefit liabilities and defined benefit assets on the consolidated balance sheets	¥ 21,009	¥ 20,160	\$ 189,749
Net defined benefit liabilities	¥ 23,505	¥ 23,391	\$ 220,153
Net defined benefit assets	(2,496)	(3,230)	(30,405)
Net amount of defined benefit liabilities and defined benefit assets on the consolidated balance sheets	¥ 21,009	¥ 20,160	\$ 189,749

e) Components of net retirement benefit costs:

As of March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Service costs	¥2,948	¥2,829	\$26,632
Interest costs	362	436	4,113
Expected return on plan assets	(923)	(954)	(8,985)
Amortization of actuarial gain/loss	1,323	1,039	9,781
Amortization of prior service cost	(310)	(263)	(2,481)
Net retirement benefit cost calculated using simplified method	77	56	530
Net retirement benefit cost for defined benefit plans	¥3,477	¥3,143	\$29,590

f) Remeasurements of defined benefit plans:

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

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Unrecognized prior service costs	¥ (310)	¥ (263)	\$ (2,481)
Unrecognized actuarial gain/loss	3,388	1,628	15,330
Total	¥3,078	¥1,365	\$12,850

g) Cumulative remeasurements of defined benefit plans:

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

As of March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Unrecognized prior service costs	¥ 906	¥ 642	\$ 6,045
Unrecognized actuarial differences	(9,983)	(8,354)	(78,632)
Total	¥(9,078)	¥(7,712)	\$(72,587)

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	2017	2018
Bonds	60%	62%
Equity securities	26	24
General account	14	14
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	2017	2018
Discount rate	0.3%–0.9%	0.2%–0.7%
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:

2017 ¥537 million

2018 ¥525 million (\$4,944 thousand)

12. Stock Options and Related Matters

Reporting company

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

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Selling, general and administrative expenses	¥138	¥102	\$965

(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	2017 stock options
Type and number of recipients	Directors of the Company (excluding outside directors) 7 individuals	Directors of the Company (excluding outside directors) 7 individuals
	Executive officers and others of the Company 1 individual	Executive officer 1 individual
	Directors of Taisho Pharmaceutical Co., Ltd. (excluding outside directors) 7 individuals	Directors of Taisho Pharmaceutical Co., Ltd. (excluding outside directors) 7 individuals
	Other officers of Taisho Pharmaceutical Co., Ltd. 17 individuals	Other officers of Taisho Pharmaceutical Co., Ltd. 19 individuals
Total number of stock options by type of shares*	12,700 shares of common stock	13,200 shares of common stock
Grant date	August 2, 2016	August 3, 2017
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 3, 2016 to August 2, 2066	From August 4, 2017 to August 3, 2067

* 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, 2018. 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, 2017	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Unvested balance as of March 31, 2018	—	—
After vesting (shares)		
Balance as of March 31, 2017	8,900	9,000
Vested	—	—
Exercised	300	300
Forfeited	—	—
Unexercised balance as of March 31, 2018	8,600	8,700
	2014 stock options	2015 stock options
Before vesting (shares)		
Balance at March 31, 2017	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Unvested balance as of March 31, 2018	—	—
After vesting (shares)		
Balance as of March 31, 2017	11,800	12,400
Vested	—	—
Exercised	500	—
Forfeited	—	—
Unexercised balance as of March 31, 2018	11,300	12,400

	2016 stock options	2017 stock options
Before vesting (shares)		
Balance at March 31, 2017	—	—
Granted	—	13,200
Forfeited	—	—
Vested	—	13,200
Unvested balance as of March 31, 2018	—	—
After vesting (shares)		
Balance as of March 31, 2017	12,700	—
Vested	—	13,200
Exercised	—	—
Forfeited	—	—
Unexercised balance as of March 31, 2018	12,700	13,200

Per share information

	Yen		
	2012 stock options	2013 stock options	2014 stock options
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price upon exercise	9,110	9,110	9,110
Fair value at grant date	6,086	6,460	6,936

	Yen		
	2015 stock options	2016 stock options	2017 stock options
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price upon exercise	—	—	—
Fair value at grant date	8,049	10,890	7,767

c) Estimation method for fair value of stock options:

The estimation method for the fair price of the 2017 stock options granted in the fiscal year ended March 31, 2018 was as follows:

Valuation model used Black-Scholes model

Main basic assumptions and estimation methods

	2017 stock options
Stock price volatility*1	24.46%
Estimated remaining service period*2	3.37 years
Dividend forecast*3	¥110 per share
Risk-free interest rate*4	(0.074)%

*1. Calculated based on the historical stock price performance over 3 years from March 24, 2014 to August 3, 2017.

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

*3. Based on the dividend performance in the fiscal year ended March 31, 2017.

*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			Thousands of U.S. dollars (Note 1)
	2017	2018	2018	
Selling, general and administrative expenses	¥21	¥10	\$103	

(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

	2017 stock options
Type and number of recipients	Directors of Biofermin Pharmaceutical Co., Ltd. (excluding outside directors) 3 individuals
Total number of stock options by type of shares*	5,500 shares of common stock
Grant date	July 13, 2017
Vesting conditions	No vesting conditions are attached.
Applicable period of service	No applicable period of service is specified.
Exercise period	From July 14, 2017 to July 13, 2047

* 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, 2018. 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, 2017	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Unvested balance as of March 31, 2018	—	—
After vesting (shares)		
Balance as of March 31, 2017	10,300	10,100
Vested	—	—
Exercised	4,200	4,300
Forfeited	—	—
Unexercised balance as of March 31, 2018	6,100	5,800

	2017 stock options
Before vesting (shares)	
Balance at March 31, 2017	—
Granted	5,500
Forfeited	—
Vested	5,500
Unvested balance as of March 31, 2018	—
After vesting (shares)	
Balance as of March 31, 2017	—
Vested	5,500
Exercised	—
Forfeited	—
Unexercised balance as of March 31, 2018	5,500

Per share information

	Yen		
	2015 stock options	2016 stock options	2017 stock options
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price upon exercise	3,023	3,023	—
Fair value at grant date	2,487	2,035	1,984

c) Estimation method for fair value of stock options:

The estimation method for the fair price of the 2017 stock options granted in the fiscal year ended March 31, 2018 was as follows:

Valuation model used Black-Scholes model

Main basic assumptions and estimation methods

	2017 stock options
Stock price volatility*1	25.009%
Estimated remaining service period*2	15 years
Dividend forecast*3	¥85 per share
Risk-free interest rate*4	0.322%

*1. Calculated based on the historical stock price performance over 15 years from July 13, 2002 to July 13, 2017.

*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, 2017.

*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, 2017 and 2018 were as follows:**

As of March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Deferred tax assets:			
Enterprise taxes	¥ 327	¥ 510	\$ 4,806
Accrued expenses	2,346	2,417	22,754
Research expenses, etc.	1,317	1,166	10,976
Provision for bonuses	1,148	1,154	10,865
Net defined benefit liabilities	6,897	6,850	64,478
Provision for directors' retirement benefits	329	301	2,842
Prepaid research expenses	638	477	4,498
Evaluation loss on investment securities	1,686	1,601	15,076
Unrealized loss on securities	252	185	1,750
Operating loss carry forwards for tax purposes	497	439	4,133
Others	3,438	4,307	40,539
Gross deferred tax assets	18,875	19,413	182,714
Less: Valuation allowance	(2,451)	(3,488)	(32,831)
Total deferred tax assets	16,425	15,925	149,883
Deferred tax liabilities:			
Unrealized gains on securities	(14,596)	(15,509)	(145,970)
Deferred gain on sales of real property	(2,100)	(1,631)	(15,359)
Net defined benefits assets	(731)	(951)	(8,959)
Undistributed earnings of overseas subsidiaries and affiliates	(1,059)	(1,116)	(10,507)
Others	(1,467)	(1,879)	(17,686)
Total deferred tax liabilities	(19,952)	(21,088)	(198,480)
Net deferred tax assets (liabilities)	¥ (3,528)	¥ (5,163)	\$ (48,597)

(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, 2017 and 2018 were as follows:

As of March 31	2017	2018
Statutory tax rate (Reconciliation)	30.9%	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.
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, 2017	Millions of yen				Consolidated
	Self-medication	Pharmaceutical	Total	Other*1	
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
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

*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, 2018	Millions of yen				Consolidated
	Self-medication	Pharmaceutical	Total	Other*1	
Net sales:					
(1) Outside customers	¥183,996	¥ 96,096	¥280,092	¥ —	¥280,092
(2) Inter-segment	—	—	—	—	—
Total	183,996	96,096	280,092	—	280,092
Segment profit*2	30,162	8,207	38,370	(1,393)	36,977
Segment assets	337,976	186,361	524,338	275,819	800,157
Other items					
Depreciation*3	8,500	1,653	10,154	—	10,154
Amortization of goodwill	1,226	—	1,226	—	1,226
Investment in equity method affiliates	24,550	38,934	63,485	—	63,485
Increase in tangible and intangible fixed assets*4	4,372	1,460	5,832	—	5,832

For the year ended March 31, 2018	Thousands of U.S. dollars (Note 1)				Consolidated
	Self-medication	Pharmaceutical	Total	Other*1	
Net sales:					
(1) Outside customers	\$1,731,733	\$ 904,436	\$2,636,168	\$ —	\$2,636,168
(2) Inter-segment	—	—	—	—	—
Total	1,731,733	904,436	2,636,168	—	2,636,168
Segment profit*2	283,886	77,250	361,136	(13,112)	348,024
Segment assets	3,180,954	1,753,992	4,934,946	2,595,950	7,530,896
Other items					
Depreciation*3	80,000	15,567	95,567	—	95,567
Amortization of goodwill	11,540	—	11,540	—	11,540
Investment in equity method affiliates	231,065	366,446	597,511	—	597,511
Increase in tangible and intangible fixed assets*4	41,151	13,742	54,892	—	54,892

*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, 2017****(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	¥252,244
Asia	25,135
Other	2,395
Total	¥279,774

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, 2018**(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	¥249,156	\$2,345,000
Asia	28,352	266,847
Other	2,584	24,321
Total	¥280,092	\$2,636,168

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]

Not applicable.

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

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

For the year ended March 31, 2018	Millions of yen			
	Self-Medication	Pharmaceutical	Other	Total
Goodwill amortization	¥ 1,226	¥—	¥—	¥ 1,226
Unamortized balance of goodwill	15,347	—	—	15,347

For the year ended March 31, 2018	Thousands of U.S. dollars (Note 1)			
	Self-Medication	Pharmaceutical	Other	Total
Goodwill amortization	\$ 11,540	\$—	\$—	\$ 11,540
Unamortized balance of goodwill	144,448	—	—	144,448

[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, 2017**

Name	Location	Capital	Shares with voting rights owned by Company in related party (owned by related party in Company)	Transactions ²	Amounts ¹	
					Millions of yen	Closing balances in yen
Toyama Chemical Co., Ltd.	Shinjuku ward, Tokyo	¥10,000 million	34.0%	Product purchases	¥22,807	Accounts payable ¥9,965

For the year ended March 31, 2018

Name	Location	Capital	Shares with voting rights owned by Company in related party (owned by related party in Company)	Transactions ²	Amounts ¹		Amounts ¹	
					Millions of yen	Thousands of U.S. dollars (Note 1)	Millions of yen	Thousands of U.S. dollars (Note 1)
Toyama Chemical Co., Ltd.	Shinjuku ward, Tokyo	¥10,000 million	34.0%	Product purchases	¥16,276	\$153,187	Accounts payable	¥7,815 \$73,562

(2) Related transactions with directors and individual shareholders

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 ^{*2}	Amounts ^{*1}		Closing balances in	Amounts ^{*1}	
					Millions of yen	Millions of yen		Millions of yen	Millions of yen
Taisei Co., Ltd. ^{*3}	Toshima ward, Tokyo	¥100 million	(1.49%)	Outsourced administrative work	¥16		Current assets other		¥ 0
Shoji Uehara	—	—	(9.92%)	Acquisition of tangible fixed assets (transfer of assets free of charge) ^{*4}	¥47		—		¥—

For the year ended March 31, 2018

Name	Location	Capital	Shares with voting rights owned by Company in related party (owned by related party in Company)	Transactions ^{*2}	Amounts ^{*1}		Closing balances in	Amounts ^{*1}	
					Millions of yen	Thousands of U.S. dollars (Note 1)		Millions of yen	Thousands of U.S. dollars (Note 1)
Taisei Co., Ltd. ^{*3}	Toshima ward, Tokyo	¥100 million	(1.49%)	Outsourced administrative work	¥15	\$144	Current assets other	¥0	\$3

*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		U.S. dollars (Note 1)
	2017	2018	2018
Net assets per share	¥8,127.87	¥8,452.12	\$79.55
Basic earnings per share	360.18	396.54	3.73
Diluted earnings per share	359.92	396.20	3.73

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		U.S. dollars (Note 1)
	2017	2018	2018
Profit attributable to owners of parent	¥28,781	¥31,679	\$298,155
Profit attributable to owners of parent available to common shareholders	28,781	31,679	298,155
Weighted-average number of shares outstanding (Thousand shares)	79,908	79,889	

Diluted earnings per share

Year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2018	2018
Adjustments to profit attributable to owners of parent	¥ (2)	¥ (2)	\$(22)
(Adjustments of dilutive shares of consolidated subsidiaries)	(2)	(2)	(22)
Increase in number of common stock (Thousand shares)	51	62	
(Including share acquisition rights (Thousand shares))	51	62	

17. Significant Subsequent Events

(1) Acquisition of shares in Taisho Toyama Pharmaceutical Co., Ltd. (conversion into a wholly-owned subsidiary) and sale of shares in Toyama Chemical Co., Ltd.

In accordance with a resolution passed by the Board of Directors on May 14, 2018, the Company sold all its shares in Toyama Chemical Co., Ltd. (hereinafter referred to as "Toyama Chemical") to FUJIFILM Holdings Corporation (hereinafter referred to as "Fujifilm HD") and purchased all shares in Taisho Toyama Pharmaceutical Co., Ltd. (hereinafter referred to as "Taisho Toyama") owned by Toyama Chemical, thereby making Taisho Toyama into a wholly-owned subsidiary of the Company (hereinafter referred to as the "Transaction"), effective on July 31, 2018.

a) Reasons for the Transaction:

The Company, Fujifilm HD and Toyama Chemical have maintained strategic capital and business alliances since 2008. Under the circumstances of the pharmaceutical industry experiencing drastic changes in its business environment, to form a better framework, the Company resolved to dissolve the capital alliance over Taisho Toyama and Toyama Chemical, which has been maintained as part of the strategic capital and business alliances among the three companies, the Company, Fujifilm HD and Toyama Chemical.

The Company believes that, through the Transaction, more expeditious business management can be achieved at both the Company and Fujifilm HD by the shares in Taisho Toyama and those in Toyama Chemical being wholly owned by the Company and Fujifilm HD, respectively.

b) Outline of the target companies for the Transaction:

(1) Name	Taisho Toyama Pharmaceutical Co., Ltd.	Toyama Chemical Co., Ltd.
(2) Location	25-1, Takada 3-chome, Toshima-ku, Tokyo	2-5, Nishishinjuku 3-chome, Shinjuku-ku, Tokyo
(3) Title and name of representative	Chairman (Representative): Junji Okada President (Representative): Kenichi Fujita	President: Toshikazu Ban
(4) Business fields	Sales of ethical pharmaceuticals	Development, manufacture, and sales of pharmaceuticals
(5) Capital	¥2,000 million	¥10,000 million

c) Impact on financial results:

In relation to the Transaction, the Company will record ¥42.4 billion (\$399 million) in extraordinary income on the sale of shares in Toyama Chemical in the second quarter of the fiscal year ending March 31, 2019.

(2) Implementation of early retirement program

The Company resolved at its Board of Directors meeting held on May 14, 2018 to implement an early retirement program targeting employees of the Company and the Group companies in Japan.

a) Reasons for the implementation of early retirement program:

The Group has determined to implement the early retirement program as part of the measures to move forward with building a highly productive organization to ensure its sustainable growth, and also to provide assistance to employees who would pursue a change of career on this occasion and in view of their own life plan.

b) Outline of early retirement program:

1) Target individuals

Employees who have been with the Company or the Group companies for 10 years or more and are 40 years of age or older (excluding those at some Group companies)

2) Maximum number of applicants sought

Not specified

3) Application period

From July 1, 2018 to August 10, 2018

4) Date of retirement

Given day for each individual during September 30, 2018 and December 31, 2018 as determined in due course

5) Preferential benefits

In addition to the regular retirement allowance, an extra retirement allowance will be paid. Outplacement support will also be provided to those retiring under this program.

c) Impact on financial results:

At this point, the projected loss amount arising from the early retirement program is unclear as the application period is still open and the number of employees who will be accepted into the program and the amount of the extra portion of the retirement allowances have not been determined.

18. Schedule of Borrowings

For the year ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)	Average interest rate (%) ^{*1,2}	Due date of payment
	2017	2018	2018		
Short-term loans	¥109	¥379	\$3,569	0.61%	—
Current portion of long-term loans	—	—	—	—	—
Current portion of lease obligations	104	104	982	—	—
Long-term loans (without current portion)	—	—	—	—	—
Lease obligations ^{*3} (without current portion)	146	48	455	—	From 2019 to 2023
Total	¥359	¥531	\$5,006	—	—

*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, 2018)) 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)	¥ 23	¥ 7	¥ 7	¥ 6
Lease obligations (Thousands of U.S. dollars (Note 1))	\$221	\$70	\$70	\$57

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, 2018, 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, 2018, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

*PricewaterhouseCoopers Aarata LLC
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To the Board of Directors of
Taisho Pharmaceutical Holdings Co., Ltd.
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Emphasis of Matter

As discussed in “17. Significant Subsequent Events”, in accordance with a resolution passed by the Board of Directors on May 14, 2018, the Company sold all its shares in TOYAMA CHEMICAL CO., LTD. to FUJIFILM Holdings Corporation and purchased all shares in Taisho Toyama Pharmaceutical Co., Ltd. owned by TOYAMA CHEMICAL CO., LTD., thereby making Taisho Toyama Pharmaceutical Co., Ltd. into a wholly-owned subsidiary of the Company, effective on July 31, 2018.

Our opinion is not qualified in respect of this matter.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 Amata LLC

August 7, 2018

Major Subsidiaries and Affiliates

(As of July 31, 2018)

Group Business Network



Corporate Data/Investor Information

(As of March 31, 2018)

Company Name	Taisho Pharmaceutical Holdings Co., Ltd.
Date of Foundation	October 3, 2011
Paid-in Capital	¥30,000 million
Number of Employees	6,340 (consolidated, as of March 31, 2018)
URL	https://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	Mitsubishi UFJ Trust and Banking Corporation Corporate Agency Division P.O. Box 29, Shin-Tokyo Post Office, Tokyo 137-8081, Japan Telephone: 0120-232-711 (Toll-free in Japan)

Major Shareholders

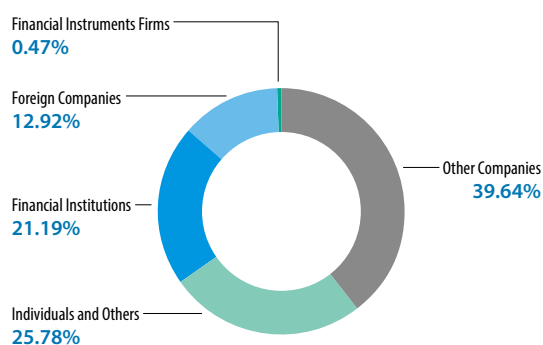
Shareholder	Number of Voting Rights (Thousands)	Percentage of Voting Rights (%)
The Uehara Memorial Foundation	15,000	18.78%
Shoji Uehara	7,874	9.86%
Uehara Museum	3,900	4.88%
Sumitomo Mitsui Banking Corp.	3,000	3.76%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,000	3.76%
Akira Uehara	2,143	2.68%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,926	2.41%
Japan Trustee Services Bank, Ltd. (Trust account)	1,800	2.25%
Kajima Corporation	1,650	2.07%
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited Retrust Account/Sumitomo Chemical Company, Limited Employee Pension Trust Account)	1,530	1.92%

* Number of voting rights (shares) is stated after having been rounded down to the nearest thousand.

* Percentage of voting rights is calculated excluding treasury stock of 10,248 thousand shares and rounded to two decimal points.

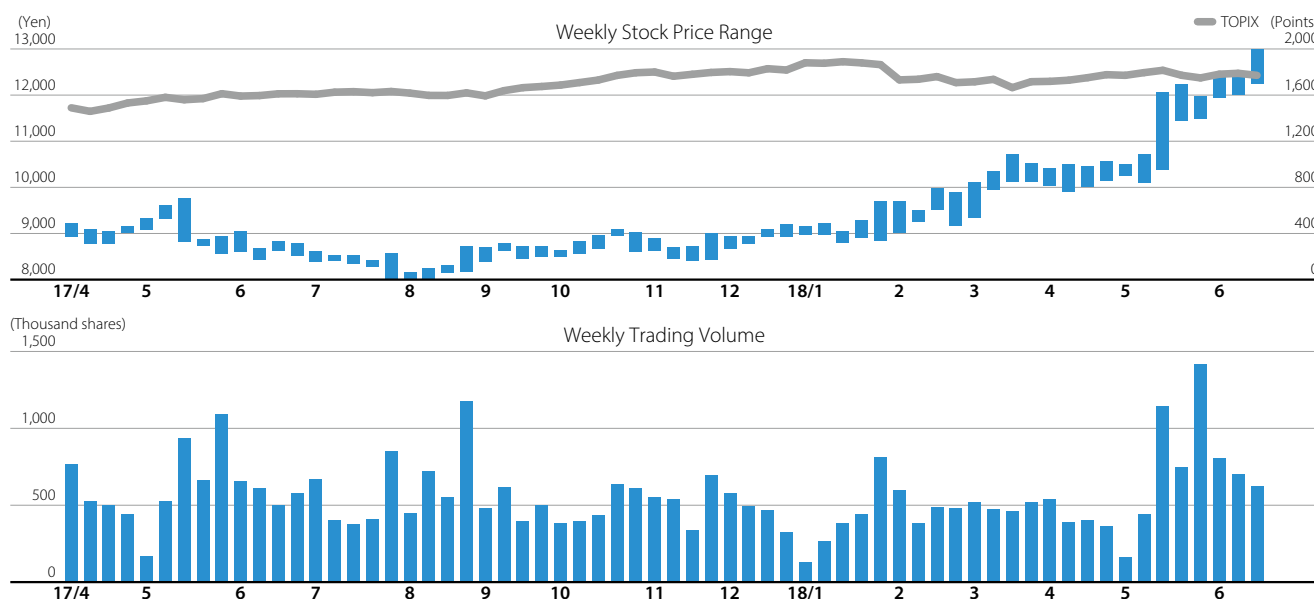
* The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its legal name to MUFG Bank, Ltd. on April 1, 2018.

Distribution of Shareholders



* Percentage of voting rights is calculated excluding treasury stock of 10,248 thousand shares and rounded to two decimal points.

Stock Data (TSE) (April 2017–June 2018)



 **TAISHO PHARMACEUTICAL HOLDINGS CO., LTD.**



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