

Consolidated Financial Statements for the Year Ended March 31, 2019
<under Japanese GAAP>

May 13, 2019

Listed Company Name: TAISHO PHARMACEUTICAL HOLDINGS CO., LTD. Stock Listing: TSE
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Scheduled date for annual shareholders' meeting: June 27, 2019
 Scheduled date for filing Securities Report: June 27, 2019
 Scheduled date of dividend payments: June 28, 2019
 Supplementary material on financial results: Yes
 Financial results briefing: Yes

* All amounts in this report are rounded down to the nearest million yen, unless otherwise noted.

1. Consolidated Financial Results for Fiscal 2018 (April 1, 2018 to March 31, 2019)

(1) Consolidated Operating Results

Note: Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the year ended								
March 31, 2019	261,551	(6.6)	31,211	(15.6)	40,851	(3.1)	48,593	53.4
March 31, 2018	280,092	0.1	36,977	15.7	42,140	10.8	31,679	10.1

Note: Comprehensive income Fiscal 2018: ¥48,027 million [31.1%] Fiscal 2017: ¥36,627 million [21.3%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
For the year ended					
March 31, 2019	608.80	608.22	7.0	5.0	11.9
March 31, 2018	396.54	396.20	4.8	5.4	13.2

Reference: Equity in earnings of entities accounted for using equity method
 Fiscal 2018: ¥1,689 million Fiscal 2017: ¥(1,634) million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
March 31, 2019	821,782	724,137	86.7	8,924.23
March 31, 2018	799,616	691,318	84.4	8,452.12

Reference: Equity As of March 31, 2019: ¥712,284 million As of March 31, 2018: ¥674,664 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
For the year ended				
March 31, 2019	19,222	66,044	(15,467)	263,549
March 31, 2018	39,852	(19,908)	(9,867)	194,364

2. Cash Dividends

	Annual dividends					Total cash dividends	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal 2017	–	50.00	–	60.00	110.00	8,792	27.7	1.3
Fiscal 2018	–	50.00	–	70.00	120.00	9,586	19.7	1.4
Fiscal 2019 (Forecast)	–	50.00	–	60.00	110.00		30.8	

Note: Breakdown of year-end dividends in Fiscal 2018: Ordinary dividends: 60.00 yen
Special dividends: 10.00 yen

Note: See “(5) Policy for Deciding Dividends of Retained Earnings and Dividends for Fiscal Year Under Review and Next Fiscal Year” of “1. Overview of Operating Results and Others” on page 6 of the Attached Material for details on our dividend policy.

3. Forecast of Consolidated Operating Results for Fiscal 2019 (April 1, 2019 to March 31, 2020)

Note: Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Half year	126,500	(2.3)	16,500	(2.9)	20,000	(11.9)	13,500	(68.2)	169.15
Full year	253,500	(3.1)	35,500	13.7	42,500	4.0	28,500	(41.4)	357.11

* Notes

(1) Changes in significant subsidiaries during the period (or changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Excluded 1 company from the scope of consolidation

(Company name) Taisho Pharmaceutical (Europe) Ltd.

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

a. Changes in accounting policies due to revisions to accounting standards: No

b. Changes in accounting policies due to other reasons: No

c. Changes in accounting estimates: No

d. Restatement of prior period financial statements after error corrections: No

(3) Number of issued shares (common stock)

a. Total number of issued shares at the end of the period (including treasury stock)

As of March 31, 2019: 90,139,653 shares

As of March 31, 2018: 90,139,653 shares

b. Number of shares of treasury stock at the end of the period

As of March 31, 2019: 10,324,998 shares

As of March 31, 2018: 10,317,712 shares

c. Average number of shares during the period

For the year ended March 31, 2019: 79,818,213 shares

For the year ended March 31, 2018: 79,889,003 shares

- * Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.
- * Disclaimer regarding appropriate use of forecasts and related points of note
The forecast statements shown in these materials are based on the information available at the time of preparation and certain assumptions that the Company deems rational. As such, they do not constitute guarantees by the Company of future performance. Actual performance and other results may differ materially from these forecasts due to various factors.

Attached Material

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1. Overview of Operating Results and Others

(1) Overview of Operating Results for the Fiscal Year

In the over-the-counter (OTC) drug market during the fiscal year under review, although sales were lackluster in certain categories such as energy drinks and gastrointestinal treatments, sales in categories such as anti-inflammatory analgesics and nasal inflammation treatments were strong. As a result, sales were slightly higher year on year overall.

The Prescription Pharmaceutical Operation Group continued to face a difficult business environment due to an increasing level of difficulty in discovering new drugs and the steady penetration of various government measures designed to curb healthcare costs.

Considering the current environment, the Self-Medication Operation Group is working to actively develop new fields to address growing interest in health consciousness among consumers, also step up product development to create new products that satisfy consumer needs, and generate new demand. In the area of sales, the group is implementing activities to expand contact points and spread our new brand concept with consumers in order to build strong brands that attract consumers, while also focusing on enhancing direct communication with consumers by expanding new channels such as a mail order system. In overseas markets, the group is actively developing its OTC drug business, mainly in Asia.

The Prescription Pharmaceutical Operation Group is working to maximize sales of new drugs by carefully targeting the provision of information. In addition, the group is working to secure the early approval of compounds at the development stage and reinforce its R&D pipeline by introducing new drug candidates. The group is also strengthening cooperation with external research institutions to support the ongoing discovery of original substances.

Consolidated net sales for the year ended March 31, 2019, decreased by ¥18.5 billion, or 6.6% year on year, to ¥261.6 billion.

**Please take note that all amounts given in billions of yen are rounded off to one decimal place.*

Performance by segment is provided below.

Segment / Category	Amount	(Billions of yen) Increase (Decrease)	
		Amount	%
Self-Medication Operation Group	180.1	(3.9)	(2.1)
Japan	146.0	(4.2)	(2.8)
Overseas	30.9	(0.1)	(0.2)
Others	3.3	0.4	13.5
Prescription Pharmaceutical Operation Group	81.4	(14.7)	(15.3)
Ethical drugs	79.5	(11.8)	(12.9)
Others	2.0	(2.9)	(59.3)

Sales of major products were as follows:

< Self-Medication Operation Group >

Consolidated net sales for the fiscal year under review decreased by ¥3.9 billion, or 2.1% year on year, to ¥180.1 billion.

With regard to our mainstay brands, the *Lipovitan* series fell 4.9% to ¥52.0 billion. Sales of the *Pabron* series increased by 0.2% to ¥28.9 billion. Sales of the *RiUP* series decreased by 7.3% to ¥15.3 billion. On the other hand, sales of *Biofermin* series, for which the selling model has shifted to direct sales by Taisho Pharmaceutical Co., Ltd. since October 2017, increased by 17.9% to ¥10.2 billion.

Meanwhile, sales of the overseas OTC drug business, which is being developed mainly in Asia, declined by 3.1% to ¥18.0 billion.

< Prescription Pharmaceutical Operation Group >

Consolidated net sales for the fiscal year under review decreased by ¥14.7 billion, or 15.3% year on year, to ¥81.4 billion.

Osteoporosis agent *Edirol* increased by 3.2% to ¥26.2 billion, osteoporosis agent *Bonviva* was down 1.8% to ¥6.4 billion, combination antibiotic with a beta-lactamase inhibitor *ZOSYN* decreased by 38.1% to ¥6.1 billion, Type 2 diabetes mellitus agent *Lusefi* increased by 13.0% to ¥5.6 billion, macrolide antibiotic *Clarith* decreased by 30.4% to ¥5.3 billion, and peripheral vasodilator *Palux* was down 27.1% to ¥3.5 billion, and transdermal anti-inflammatory analgesic patch formulation *LOQOA* rose by 14.0% to ¥3.5 billion. Among them, long-listed drugs *ZOSYN*, *Clarith* and *Palux* decreased significantly year on year due to the effects of NHI drug price revision and generic drugs.

Operating profit of the entire Group for the year ended March 31, 2019, decreased by ¥5.8 billion, or 15.6% year on year, to ¥31.2 billion and profit attributable to owners of parent increased by ¥16.9 billion, or 53.4% year on year, to ¥48.6 billion.

The Group's profit performance is provided below.

	Amount	Increase (Decrease)	
		Amount	%
Net sales	261.6	(18.5)	(6.6)
Gross profit on sales	170.3	(12.6)	(6.9)
Selling, general & administrative expenses	139.0	(7.1)	(4.8)
Research and development expenses	20.8	(0.3)	(1.7)
Advertising expenses	20.2	(2.4)	(10.5)
Sales promotion expenses	27.1	(1.5)	(5.3)
Personnel expenses	32.5	(2.7)	(7.8)
Operating profit	31.2	(5.8)	(15.6)
Ordinary profit	40.9	(1.3)	(3.1)
Profit attributable to owners of parent	48.6	16.9	53.4
Basic earnings per share (Yen)	608.80	212.26	—

Gross profit on sales decreased ¥12.6 billion year on year to ¥170.3 billion, mainly reflecting a decrease in net sales.

Selling, general and administrative expenses declined ¥7.1 billion year on year to ¥139.0 billion due to lower advertising expenses, sales promotion expenses and personnel expenses. As a result, operating profit decreased ¥5.8 billion, or 15.6% year on year, to ¥31.2 billion.

In addition, the operating profit margin fell 1.3 percentage points to 11.9%.

Non-operating income rose ¥2.3 billion year on year to ¥9.8 billion, mainly due to an increase in equity in earnings of entities accounted for using equity method, while non-operating expenses fell ¥2.2 billion year on year to ¥0.1 billion.

As a result of the above, ordinary profit decreased ¥1.3 billion, or 3.1% year on year, to ¥40.9 billion. In addition, the ordinary profit margin rose 0.6 percentage points to 15.6%.

Extraordinary income increased ¥36.8 billion year on year to ¥43.0 billion due to a rise in gain on sales of shares of subsidiaries and affiliates, while extraordinary losses increased ¥19.1 billion year on year to ¥19.3 billion due to the effects of early retirement program-expenses and impairment loss.

As a result of the above, profit before income taxes increased ¥16.4 billion, or 34.1% year on year, to ¥64.5 billion. After adjusting for income taxes—current, income taxes—deferred and profit attributable to non-controlling interests, profit attributable to owners of parent increased ¥16.9 billion, or 53.4% year on year, to ¥48.6 billion.

In addition, basic earnings per share was ¥608.80 and the return on equity (ROE) rose 2.2 percentage points to 7.0%.

(2) Overview of Financial Position for the Fiscal Year

Total assets as of March 31, 2019, stood at ¥821.8 billion, up ¥22.2 billion from the previous fiscal year-end. Although investment securities decreased by ¥64.4 billion, cash and deposits increased by ¥62.6 billion and marketable securities increased by ¥46.2 billion.

Liabilities amounted to ¥97.6 billion, a decrease of ¥10.7 billion from the previous fiscal year-end. Notes and accounts payable—trade decreased by ¥1.1 billion, net defined benefit liabilities decreased by ¥4.7 billion, and deferred tax liabilities decreased by ¥3.4 billion.

Net assets amounted to ¥724.1 billion, an increase of ¥32.8 billion from the previous fiscal year-end. The main factor of increase was ¥48.6 billion in profit attributable to owners of parent, while the main factor of decrease was dividends of surplus of ¥8.8 billion.

(3) Overview of Cash flows for the Fiscal Year

Cash and cash equivalents (hereinafter, “net cash”) stood at ¥263.5 billion as of March 31, 2019, representing an increase of ¥69.2 billion from the previous fiscal year-end.

Cash flows during the fiscal year under review and their causes are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥19.2 billion, a year-on-year decrease of ¥20.6 billion mainly attributable to early retirement program-expenses paid of ¥12.2 billion and increase in inventories of ¥2.8 billion.

(Cash flows from investing activities)

Net cash provided by investing activities was ¥66.0 billion, a year-on-year increase of ¥86.0 billion attributable to gain on sales of shares of subsidiaries and affiliates of ¥78.6 billion.

(Cash flows from financing activities)

Net cash used in financing activities was ¥15.5 billion, a year-on-year increase of ¥5.6 billion mainly attributable to cash dividends paid of ¥8.8 billion and dividends paid to non-controlling interests of ¥4.5 billion.

(Reference) Indicators related to cash flows

	Year ended March 2018	Year ended March 2019
Equity ratio (%)	84.4	86.7
Equity ratio on a fair value basis (%)	104.3	102.5
Interest-bearing debt to cash flow ratio (%)	1.3	2.4
Interest coverage ratio (times)	17,862.9	7,325.6

(Notes)

Equity ratio = Equity / Total assets

Equity ratio on a fair value basis = Market capitalization / Total assets

Interest-bearing debt to cash flow ratio = Interest-bearing debt / Cash flow

Interest coverage ratio = Cash flow / Interest paid

* The above indicators are calculated based on consolidated financial figures.

* Market capitalization is calculated using the closing stock price at the end of the fiscal year multiplied by the number of issued shares at the end of the fiscal year (excluding treasury stock).

* Cash flow represents net cash provided by operating activities.

* Interest-bearing debt represents all liabilities posted on the consolidated balance sheets subject to interest payments. Interest paid is the amount of interest paid as shown on the consolidated statements of cash flows.

(4) Future Outlook

– Self-Medication Operation Group sales forecast

For Fiscal 2019, the Company forecasts net sales of ¥185.5 billion for the Self-Medication Operation Group, up 3.0% year on year.

Net sales in Japan are expected to increase by 3.1% to ¥150.5 billion. With respect to mainstay products, the Company projects sales of ¥52.7 billion (up 1.3%) for the *Lipovitan* series and ¥29.1 billion (up 0.7%) for the *Pabron* series. The Company projects sales of the *RiUP* series to stay level with the fiscal year ended March 31, 2019, at ¥15.3 billion.

Net sales overseas are expected to increase by 4.6% to ¥32.3 billion. The Company projects sales of ¥19.4 billion (up 7.6%) for OTC drugs and ¥11.7 billion (up 1.8%) for energy drinks.

– Prescription Pharmaceutical Operation Group sales forecast

The Company forecasts net sales of ¥68.0 billion for the Prescription Pharmaceutical Operation Group, down 16.5% year on year.

Net sales of ethical drugs are expected to decrease by 16.3% to ¥66.5 billion. The main products for which the Company forecasts sales growth are *Edirol*, for which sales are expected to be ¥27.7 billion (up 5.7%), *Bonviva*, for which sales are expected to be ¥6.8 billion (up 6.5%), *Lusefi*, for which sales are expected to be ¥6.7 billion (up 19.3%), and *LOQOA*, for which sales are expected to be ¥3.9 billion (up 12.1%). Meanwhile, the main products for which the Company projects sales decreases are *Clarith*, for which sales are expected to be ¥4.0 billion (down 24.9%), *Geninax*, for which sales are expected to be ¥3.3 billion (down 5.9%), and *Palux*, for which sales are expected to be ¥3.1 billion (down 12.6%). Furthermore, following the dissolution of the business alliance with FUJIFILM Holdings Corporation and with TOYAMA CHEMICAL CO., LTD. (currently,

FUJIFILM Toyama Chemical Co., Ltd.), we are expecting sales decreases due to discontinuing the sale of TOYAMA CHEMICAL products as of March 31, 2019.

– **Consolidated earnings forecast**

With respect to profits, although net sales are expected to decrease, the Company expects gross profit and operating profit to increase due to decreases in the cost of sales ratio and selling, general and administrative expenses. While selling, general and administrative expenses are expected to decline after taking into account the effects of implementing the early retirement program and reviewing costs, the Company is expecting some increases in costs such as the expense for supporting the 2019 Rugby World Cup™ to be held in Japan, advertising and sales promotion expenses, the cost of strengthening and cultivating our brands in the medium term, and research and development expenses necessary to enhance our R&D pipeline.

Profit attributable to owners of parent is expected to decrease from the fiscal year ended March 31, 2019, taking into account the effect of extraordinary income on sale of the shares of TOYAMA CHEMICAL CO., LTD. in the fiscal year ended March 31, 2019.

Furthermore, the effects on operating results of converting Duoc Hau Giang Pharmaceutical JSC (hereinafter, “DHG”) and UPSA SAS (hereinafter, “UPSA”) into consolidated subsidiaries are not factored into the consolidated earnings forecast announced today.

	(Billions of yen)	
	Fiscal 2019 (full year)	Changes (%)
Net sales	253.5	(3.1)
Operating profit	35.5	13.7
Ordinary profit	42.5	4.0
Profit attributable to owners of parent	28.5	(41.4)

(5) Policy for Deciding Dividends of Retained Earnings and Dividends for Fiscal Year Under Review and Next Fiscal Year

Regarding the basic policy for deciding dividends of retained earnings, the Company works to increase its retained earnings to maintain stable dividends over the long term at a high level while strengthening the Company. In line with the Company’s policy to strengthen the competitiveness and expand and develop businesses, these retained earnings will be appropriated for investments that include R&D, capital investment, licensing-in of products, equity-based business alliances and new business development. Furthermore, the Company plans to acquire treasury stock in a flexible manner with the aims of improving capital efficiency and achieving a dynamic financial policy, while comprehensively assessing fund requirements.

The Company’s dividend policy has been set to roughly correspond to the consolidated operating results for each business term. The goal has been a dividend payout ratio of 30% of profit attributable to owners of parent excluding extraordinary gains and losses. The Company intends to maintain its annual dividend at the minimum of ¥100 per share even if it is apparent that the dividend payout ratio will exceed 30%, unless there are exceptional circumstances.

For the fiscal year under review, as the Company recorded extraordinary income due to the investment and structural revisions, the Company plans to pay a special dividend of ¥10 per share in addition to the usually announced ¥110 per share, for a total dividend of ¥120 per share (an interim dividend of ¥50 and a year-end dividend of ¥70).

For the next fiscal year, the Company plans to pay a dividend of ¥110 per share (an interim dividend of ¥50 and a year-end dividend of ¥60).

(6) Business and Other Risks

The Group faces a number of risks as part of its business activities. Listed below are the main risks that could have a material impact on investment decisions.

(i) Legal 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 Company's products could fail to conform to regulations at one of these stages, or that a previously granted approval could be revoked. Depending on trends in healthcare policy, health insurance systems and other changes, the Company may also face the risk of a decline in pharmaceutical prices, among other risks.

(ii) Risks related to pharmaceutical quality, side effects and other issues

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

(iii) Risks related to pharmaceutical development and commercialization

The development of pharmaceuticals is a lengthy process and requires a substantial amount of capital investment. There is uncertainty concerning the possibility of successfully launching products and businesses.

(iv) Risks related to the proper protection of intellectual property rights

If the Group cannot properly protect 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.

(v) 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 over-the-counter drugs produced following the expiration of patents.

(vi) 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.

(vii) 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.

(viii) Other risks

Sudden occurrence of natural disasters such as earthquakes and tsunami, deterioration in sociopolitical stability overseas, and other events could cause the Group suffer damage, such as the destruction of overseas business sites or business infrastructures, 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 above-described risks do not constitute all the risks inherent in the Group's business activities.

2. Management Policies

(1) The Company's Basic Management Philosophy

The Group's company mission is to contribute to the 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. In line with this mission, the Group is building a stronger business foundation so that it can steadily grow and develop even in the face of international competition.

(2) Medium- and Long-Term Management Strategies

The Group is working to expand its Self-Medication Operation Group, which handles OTC drugs and health-related products, and its Prescription Pharmaceutical Operation Group, which handles ethical drugs and related businesses, and to expand its business operations.

The Group aims to maximize corporate value by generating synergies between these two operation groups, while facilitating their growth in a well-balanced manner.

(3) Issues to be Addressed

The Group expects the operating environment in the pharmaceuticals industry to become more challenging owing mainly to further progress of population aging, the intensification of competition and changes in market structure. In this market environment, the Group will work to further strengthen business performance by reinforcing its business base and increasing management efficiency.

In the Self-Medication Operation Group (which handles OTC drugs and health-related products), the Company will develop products for new fields to address growing health consciousness among consumers, step up product development to satisfy the needs of consumers, and strive to create new demand.

In the area of sales, in order to build strong brands that attract consumers, the Company will strive to further increase the brand value it has built over many years, including the *Lipovitan* series, *Pabron* series, and *RiUP* series, and work to nurture new brands by implementing activities to expand contact points and spread our new brand concept with consumers. In addition, the Company will focus on enhancing direct communication with consumers by expanding new channels such as a mail order system.

In the operating environment of the Prescription Pharmaceutical Operation Group (which handles ethical drugs and related businesses), the business climate remains tough due to an increasing level of difficulty in discovering new drugs as well as effects of the promotion of government measures designated to curb healthcare costs and full-blown reform of the drug price system, and other factors. The Prescription Pharmaceutical Operation Group is stepping up efforts for R&D for highly original new branded drugs and securing of the early approval, and working to reinforce its pipeline by actively promoting the introduction of promising new drug candidates from companies and research institutions in Japan and abroad and collaborative development.

In the area of sales, through the accurate provision of detailed information to customers, the Company is working to maximize sales of new drugs including Type 2 diabetes treatment *Lusefi*, and transdermal anti-inflammatory analgesic patch formulation *LOQOA*.

Outside Japan, since the full-scale entry into the OTC drug business in Asia in Fiscal 2009, the Group has been working to enhance its OTC drug business mainly in Southeast Asian countries such as Indonesia, the Philippines, Thailand, and Malaysia. Under this situation, the Group acquired 24.50% of shares in Vietnam-based DHG in July 2016, and since then, has increased the investment ratio by stages and endeavored to strengthen the partnership. Going forward, the Group will further enhance the collaboration with DHG and work to reinforce the development of the drug business in Vietnam making use of this company's operating base.

Moreover, under the policy of also expanding business into regions where the market is expected to grow in the context of increasing consumer awareness of population aging and self-medication, a Put Option Agreement relating to a Stock and Asset Purchase Agreement was entered into with Bristol-Myers Squibb Company (Headquarters: New York, United States of America; hereinafter, "BMS") as of December 19, 2018, to acquire all of the shares of UPSA, a French pharmaceutical manufacturer, owned by BMS through a subsidiary, and its business assets and make UPSA a subsidiary. From now on, the Group aims to achieve sustainable growth by expanding the overseas business through the bipolar structure targeting the European market in addition to the Southeast Asian market.

The operating environment in the pharmaceuticals industry becomes increasingly challenging. In order to respond more promptly to changes in the environment, the Group intends to strengthen its management framework further

and enhance its collective strengths.

3. Basic Rationale for Selecting the Accounting Standard

The Group adopts the generally accepted accounting standards in Japan (Japanese GAAP). This is because, as a result of undergoing convergence with international accounting standards, the Japanese GAAP is high quality, compares favorably internationally, and it is evaluated by the relevant authorities in Europe as being equivalent to IFRS.

The Group is preparing for the adoption of IFRS in the future. While taking into consideration the trend of foreign shareholder ratio and the trend of other Japanese companies in the same industry adopting IFRS, the Group is taking various measures such as acquiring knowledge of IFRS, performing gap analysis with Japanese GAAP, and investigating the impact of introducing the IFRS. However, the Group remains undecided on a timeframe for the adoption of the IFRS.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
ASSETS		
Current assets		
Cash and deposits	219,973	282,567
Notes and accounts receivable–trade	75,268	71,286
Marketable securities	29,739	75,900
Merchandise and finished goods	15,596	16,748
Work in process	2,159	2,283
Raw materials and supplies	9,088	10,485
Other	4,441	10,663
Allowance for doubtful accounts	(105)	(154)
Total current assets	356,161	469,781
Fixed assets		
Tangible fixed assets		
Buildings and structures	152,039	152,695
Accumulated depreciation and impairment loss	(104,502)	(106,930)
Buildings and structures, net	47,536	45,764
Machinery, equipment and vehicles	88,128	88,670
Accumulated depreciation and impairment loss	(82,678)	(83,452)
Machinery, equipment and vehicles, net	5,449	5,217
Land	37,021	37,008
Construction in progress	468	246
Other	32,940	33,098
Accumulated depreciation and impairment loss	(29,700)	(30,052)
Other, net	3,239	3,045
Total tangible fixed assets	93,716	91,283
Intangible fixed assets		
Goodwill	15,347	12,534
Sales rights	2,740	1,419
Trademarks	8,750	5,657
Software	3,627	4,086
Other	650	604
Total intangible fixed assets	31,116	24,302
Investments and other assets		
Investment securities	236,797	172,432
Shares of subsidiaries and affiliates	65,294	31,262
Long-term prepaid expenses	769	549
Net defined benefit assets	3,230	5,765
Deferred tax assets	11,806	9,365
Other	966	17,285
Allowance for doubtful accounts	(243)	(244)
Total investments and other assets	318,622	236,416
Total fixed assets	443,455	352,001
Total assets	799,616	821,782

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
LIABILITIES		
Current liabilities		
Notes and accounts payable–trade	19,939	18,814
Accounts payable	14,275	14,276
Accrued income taxes	8,614	8,607
Accrued expenses	10,688	10,319
Provision for sales returns	775	932
Provision for bonuses	3,874	3,123
Other	2,131	2,379
Total current liabilities	60,299	58,453
Long-term liabilities		
Provision for directors' retirement benefits	1,001	1,006
Net defined benefit liabilities	23,391	18,715
Deferred tax liabilities	16,970	13,530
Other	6,635	5,939
Total long-term liabilities	47,998	39,192
Total liabilities	108,298	97,645
NET ASSETS		
Shareholders' equity		
Common stock	30,000	30,000
Capital surplus	15,271	14,924
Retained earnings	666,920	706,742
Treasury stock	(68,536)	(68,641)
Total shareholders' equity	643,655	683,025
Accumulated other comprehensive income		
Valuation difference on securities	37,970	32,017
Deferred gains or losses on hedges	(0)	2,181
Foreign currency translation adjustment	(1,704)	(2,130)
Remeasurements of defined benefit plans	(5,256)	(2,809)
Total accumulated other comprehensive income	31,009	29,258
Share acquisition rights	565	687
Non-controlling interests	16,087	11,165
Total net assets	691,318	724,137
Total liabilities and net assets	799,616	821,782

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Net sales	280,092	261,551
Cost of sales	97,154	91,206
Gross profit on sales	182,938	170,345
Reversal of provision for sales returns	714	668
Provision for sales returns	668	850
Gross profit	182,984	170,163
Selling, general & administrative expenses	146,007	138,951
Operating profit	36,977	31,211
Non-operating income		
Interest income	4,999	4,952
Dividend income	1,723	1,897
Equity in earnings of entities accounted for using equity method	–	1,689
Other	756	1,235
Total non-operating income	7,479	9,774
Non-operating expenses		
Interest expenses	2	2
Equity in losses of entities accounted for using equity method	1,634	–
Foreign exchange losses	556	–
Commission fee	94	84
Other	28	48
Total non-operating expenses	2,316	135
Ordinary profit	42,140	40,851
Extraordinary income		
Gain on sales of fixed assets	619	37
Gain on sales of investment securities	5,598	–
Gain on sales of shares of subsidiaries and affiliates	–	42,944
Total extraordinary income	6,218	42,982
Extraordinary losses		
Loss on disposal of fixed assets	288	80
Early retirement program-expenses	–	12,866
Impairment loss	–	2,916
Loss on liquidation of subsidiaries	–	1,948
Loss on valuation of shares of subsidiaries and affiliates	–	1,536
Total extraordinary losses	288	19,349
Profit before income taxes	48,070	64,484
Income taxes–current	14,522	14,989
Income taxes–deferred	179	(330)
Total income taxes	14,701	14,658
Profit	33,368	49,825
Profit attributable to non-controlling interests	1,689	1,231
Profit attributable to owners of parent	31,679	48,593

Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Profit	33,368	49,825
Other comprehensive income		
Valuation difference on securities	1,205	(4,889)
Deferred gains or losses on hedges	–	2,181
Foreign currency translation adjustment	842	506
Remeasurements of defined benefit plans	948	2,371
Share of other comprehensive income of entities accounted for using equity method	261	(1,967)
Total other comprehensive income	3,258	(1,798)
Comprehensive income	36,627	48,027
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	34,812	46,843
Comprehensive income attributable to non- controlling interests	1,815	1,183

(3) Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the current period	30,000	15,272	644,038	(67,727)	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 at the end of the current period	30,000	15,271	666,920	(68,536)	643,655

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	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			
Balance at the beginning of the current period	36,234	0	(2,195)	(6,162)	27,875	478	15,150	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 at the end of the current period	37,970	(0)	(1,704)	(5,256)	31,009	565	16,087	691,318

For the year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the current period	30,000	15,271	666,920	(68,536)	643,655
Changes during the period					
Purchase of treasury stock				(125)	(125)
Disposal of treasury stock		4		20	24
Change in ownership interest of parent due to transactions with non-controlling interests		(351)			(351)
Dividends of surplus			(8,787)		(8,787)
Profit attributable to owners of parent			48,593		48,593
Change of scope of consolidation			16		16
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	–	(347)	39,821	(104)	39,369
Balance at the end of the current period	30,000	14,924	706,742	(68,641)	683,025

(Millions of yen)

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	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			
Balance at the beginning of the current period	37,970	(0)	(1,704)	(5,256)	31,009	565	16,087	691,318
Changes during the period								
Purchase of treasury stock								(125)
Disposal of treasury stock								24
Change in ownership interest of parent due to transactions with non-controlling interests								(351)
Dividends of surplus								(8,787)
Profit attributable to owners of parent								48,593
Change of scope of consolidation								16
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	(5,952)	2,181	(425)	2,447	(1,750)	121	(4,921)	(6,550)
Total changes during the period	(5,952)	2,181	(425)	2,447	(1,750)	121	(4,921)	32,819
Balance at the end of the current period	32,017	2,181	(2,130)	(2,809)	29,258	687	11,165	724,137

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	48,070	64,484
Depreciation and amortization	10,154	10,073
Amortization of goodwill	1,226	1,217
Loss (gain) on sales of fixed assets	(619)	(37)
Loss (gain) on disposal of fixed assets	288	80
Loss (gain) on liquidation of subsidiaries	–	1,948
Loss (gain) on sales of shares of subsidiaries and affiliates	–	(42,944)
Early retirement program-expenses	–	12,866
Loss (gain) on sales of investment securities	(5,598)	–
Impairment loss	–	2,916
Loss on valuation of shares of subsidiaries and affiliates	–	1,536
Interest and dividend income	(6,723)	(6,849)
Interest expenses	2	2
Equity in losses (earnings) of entities accounted for using equity method	1,634	(1,689)
Increase (decrease) in allowance for doubtful accounts	9	54
Increase (decrease) in net defined benefit liabilities	(133)	(5,365)
Decrease (increase) in net defined benefit assets	(734)	(2,534)
Increase (decrease) in provision for directors' retirement benefits	18	5
Increase (decrease) in provision for bonuses	3	(744)
Decrease (increase) in notes and accounts receivable–trade	(5,393)	3,686
Decrease (increase) in inventories	1,167	(2,788)
Increase (decrease) in notes and accounts payable–trade	(3,531)	(1,053)
Increase (decrease) in long-term accounts payable–other	(200)	(428)
Other	4,255	631
Subtotal	43,894	35,069
Interest and dividend income received	7,643	11,251
Interest paid	(2)	(2)
Early retirement program-expenses paid	–	(12,166)
Income taxes paid	(11,772)	(15,039)
Income taxes refund	88	111
Net cash provided by operating activities	39,852	19,222

(Millions of yen)

	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from investing activities		
Decrease (increase) in time deposits	(9,763)	6,223
Payments for cash segregated as deposits	–	(16,336)
Proceeds from sales/redemption of marketable securities	–	29,396
Payments for purchase of tangible fixed assets	(2,726)	(3,434)
Proceeds from sales of tangible fixed assets	868	27
Payments for purchase of intangible fixed assets	(2,287)	(1,480)
Payments for purchase of investment securities	(12,472)	(18,866)
Proceeds from sales/redemption of investment securities	6,317	–
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation	(434)	–
Payments for purchase of shares of subsidiaries and affiliates	–	(8,021)
Proceeds from sales of shares of subsidiaries and affiliates	–	78,596
Payments for purchase of long-term prepaid expenses	(470)	(147)
Other	1,061	87
Net cash provided by (used in) investing activities	(19,908)	66,044
Cash flows from financing activities		
Increase in short-term loans payable	378	211
Decrease in short-term loans payable	(365)	(187)
Repayments of finance lease obligations	(116)	(110)
Payments for purchase of treasury stock	(96)	(125)
Cash dividends paid	(8,771)	(8,773)
Dividends paid to non-controlling interests	(895)	(4,517)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(1,749)
Payments for purchase of treasury stock of subsidiaries	(0)	(216)
Net cash used in financing activities	(9,867)	(15,467)
Effect of exchange rate changes on cash and cash equivalents	67	(570)
Net increase (decrease) in cash and cash equivalents	10,143	69,228
Cash and cash equivalents at the beginning of period	184,221	194,364
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	–	(44)
Cash and cash equivalents at the end of period	194,364	263,549

(Reference)

(Significant subsequent events)

1. Acquisition of Shares in Duoc Hau Giang Pharmaceutical JSC

Taisho Pharmaceutical Co., Ltd., a consolidated subsidiary of the Company, acquired shares of Duoc Hau Giang Pharmaceutical JSC in Vietnam through a Tender Offer on April 26, 2019. The outline is as follows:

(1) Name	Duoc Hau Giang Pharmaceutical JSC
(2) Address	288 Bis Nguyen Van Cu, An Hoa Ward, Ninh Kieu District, Can Tho City, Vietnam
(3) Business outline	Manufacture and sale of pharmaceuticals, sale of functional food, etc.
(4) Capital stock	1,307,460,710,000 VND
(5) Number of shares transferred	20,635,966 shares (15.78% of the total number of issued shares)
(6) Purchase price	About VND2,476.3 billion (about ¥11.7 billion) (*)
(7) Investment ratio after the transfer	50.78%

(*) 1 VND = ¥0.0047

The timing of making this company a consolidated subsidiary and the effects on operating results of the Group will be announced immediately after they are determined.

2. Retirement of Treasury Stock

The Company, at its Board of Directors meeting held today, resolved to implement retirement of treasury stock pursuant to the provisions of Article 178 of the Companies Act. For the details, please refer to the news release “Notice of Retirement of Treasury Stock” announced today.