Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary (IFRS)
Fiscal 2017

(January 1, 2017 – December 31, 2017)

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS (IFRS)
for Fiscal Year Ended December 31, 2017

(The twelve-month period from January 1, 2017 to December 31, 2017)

February 8, 2018

Company Name:	Kyowa Hakko Kirin Co., Ltd.	Listed Exchanges:	1st Section of the Tokyo Stock Exchange
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Scheduled date of Ordinary General Meeting of Shareholders: March 23, 2018
Scheduled start date of dividend payment: March 26, 2018
Scheduled date of submission of Annual Securities Report: March 16, 2018
Appendix materials to accompany the annual financial report: Yes
FY2017 earnings presentation meeting: Yes (for institutional investors and securities analysts)

(Millions of yen rounded off)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2017 (from January 1, 2017 to December 31, 2017)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

	Revenue		Core operating profit		Profit before tax		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2017	353,380	1.6	57,731	47.6	55,849	30.3	42,899	40.9
December 31, 2016	347,956	–	39,116	–	42,877	–	30,450	–

Total comprehensive income: Fiscal year ended December 31, 2017: ¥52,476 million; 309.2%
Fiscal year ended December 31, 2016: ¥12,824 million; –%

Note: Core operating profit was calculated by deducting “selling, general and administrative expenses” and “research and development expenses” from “gross profit,” and adding “share of profit (loss) of investments accounted for using equity method” to the amount.

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share	Return on equity attributable to owners of parent	Profit before tax to total assets ratio
Fiscal year ended	Millions of yen	%	Yen	Yen	%	%
December 31, 2017	42,899	40.9	78.38	78.30	7.2	8.0
December 31, 2016	30,450	–	55.65	55.59	5.3	6.2

(Reference) Share of profit (loss) of investments accounted for using equity method:
Fiscal year ended December 31, 2017: (¥4,478) million;
Fiscal year ended December 31, 2016: (¥12,351) million

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
December 31, 2017	708,295	616,028	616,028	87.0	1,125.56
December 31, 2016	683,801	577,036	577,036	84.4	1,054.48

(3) Consolidated cash flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2017	64,902	(45,265)	(18,287)	14,685
December 31, 2016	66,881	(49,824)	(13,871)	13,076

2. Dividends

	Dividends per share					Total dividend amount	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of parent (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2016	–	12.50	–	12.50	25.00	13,681	44.9	2.4
Fiscal year ended December 31, 2017	–	12.50	–	14.50	27.00	14,777	34.4	2.5
Fiscal year ending December 31, 2018 (Forecast)	–	15.00	–	15.00	30.00		37.3	

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Percentages indicate year-on-year changes.)

	Revenue		Core operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	335,000	(5.2)	51,000	(11.7)	61,000	9.2	44,000	2.6	44,000	2.6	80.39

* Notes

(1) Changes to significant subsidiaries during the period (Changes of specified subsidiaries resulting in changes in the scope of consolidation during the period under review): No

(2) Changes in accounting policies, and accounting estimates:

a. Changes in accounting policies required by IFRS: No

b. Changes in accounting policies other than a. above: No

c. Changes in accounting estimates: No

(3) Number of shares issued (ordinary shares)

a. Number of shares issued (including treasury shares)

As of December 31, 2017	576,483,555 shares
As of December 31, 2016	576,483,555 shares

b. Number of treasury shares

As of December 31, 2017	29,176,451 shares
As of December 31, 2016	29,261,490 shares

c. Average number of shares during the period

FY ended December 31, 2017	547,289,787 shares
FY ended December 31, 2016	547,224,646 shares

(Reference)
Non-Consolidated Results for the Fiscal Year Ended December 31, 2017 (Japanese GAAP)
(from January 1, 2017 to December 31, 2017)

(1) Non-consolidated operating results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2017	210,616	3.0	38,635	21.8	49,740	21.9	43,087	253.8
December 31, 2016	204,394	(6.2)	31,724	(20.6)	40,819	(16.1)	12,179	(69.7)

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
December 31, 2017	78.73	78.65
December 31, 2016	22.26	22.24

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2017	531,901	476,609	89.5	869.55
December 31, 2016	507,595	445,338	87.6	812.79

(Reference) Equity: As of December 31, 2017: ¥475,911 million; As of December 31, 2016: ¥444,775 million

* These financial results reports are not required to be audited.

* Notice regarding the appropriate use of the earnings forecasts and other special comments

Adoption of International Financial Reporting Standards (IFRS)

The Group has adopted IFRS starting in the fiscal year ended December 31, 2017. Reported financial results for the previous fiscal year are also presented in accordance with IFRS. For differences between IFRS and Japanese GAAP regarding reported financial results, please see page 33 of the attachment, "*First-time adoption of IFRS*" in "3. Consolidated Financial Statements and Significant Notes Thereto, (5) Notes to Consolidated Financial Statements."

Caution regarding forward-looking statements

The forward-looking statements, including earnings forecasts, contained in these materials are based on the information currently available to the Company and on certain assumptions deemed to be reasonable by management. As such, they do not constitute guarantees by the Company of future performance. Actual results may differ materially from these projections for a wide variety of reasons. For more information regarding our suppositions that form the assumptions for the earnings forecasts, please see page 10 of the attachment, "(4) Outlook for Fiscal 2018" in "1. Summary of Business Performance and Financial Position."

Attachment Index

1. Summary of Business Performance and Financial Position

[Adoption of International Financial Reporting Standards]
The Group has adopted the International Financial Reporting Standards ("IFRS") from the current fiscal year to enhance the international comparability of its financial reporting for the capital market, and unify the process of the Group's accounting. Accordingly, reported financial results for the previous fiscal year have been reclassified according to IFRS for comparative analysis.
The Group uses "core operating profit" (Japanese GAAP) as an indicator of sustainable growth in the five-year Mid-term Business Plan for FY2016 to 2020. After the adoption of IFRS, the Group adopts "core operating profit" (IFRS) as an indicator showing recurring profitability from operating activities. "Core operating profit" (IFRS) is calculated by deducting "selling, general and administrative expenses" and "research and development expenses" from "gross profit," and adding "share of profit (loss) of investments accounted for using equity method" to the amount.

(1) Summary of Business Performance in Fiscal 2017

1) Business performance in Fiscal 2017

(Billions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016	Change
Revenue	353.4	348.0	5.4
Core operating profit	57.7	39.1	18.6
Profit before tax	55.8	42.9	13.0
Profit attributable to owners of parent	42.9	30.5	12.4

- Consolidated revenue and core operating profit for the current fiscal year increased due mainly to an increase in licensing revenue, a decrease in research and development expenses, and improvement in share of profit (loss) of investments accounted for using equity method, despite the impact of reductions in drug price standards and other factors.
- Profit before tax and profit attributable to owners of parent also respectively increased due mainly to the increase in core operating profit.
- In Japan, although the business environment grew more severe mainly due to the market penetration of generics, solid growth was shown for sales of G-Lasta®, an agent for decreasing the incidence of febrile neutropenia, NOURIAST®, an antiparkinsonian agent, Onglyza®, a treatment for type 2 diabetes, as well as the new product LUMICEF®, a treatment for psoriasis. In the international business, sales of Abstral®, a treatment for cancer pain, and other core products were robust in the U.S. and Europe, and progress was made in the market penetration of new product Moventig®, an opioid-induced constipation (OIC) treatment. Furthermore, in addition to steady financial results in Asia, Benralizumab which applies POTELLIGENT® technology was approved in the U.S. As application for its approval was made for Japan as well, revenue from the upfront payment agreement and milestone revenue was received from AstraZeneca. As a result, the Pharmaceuticals business achieved an increase in both revenue and profit compared to the previous fiscal year.

  The reorganization of the domestic manufacturing bases, an initiative started in 2010, has now achieved relocation and consolidation as planned following the termination of production at the Fuji Plant. In Japan, the Group focused on reorganization of its sales offices and an initiative to strengthen area marketing strategies for the government's community medical care initiative. In the U.S. and Europe, the Group focused on building new systems aimed at launching burosumab and mogamulizumab (product name in Japan: POTELIGEO®).

  In research and development, after being given priority review designation by the U.S. Food and

Drug Administration (FDA), burosumab, which is being jointly developed with Ultragenyx, obtained an affirmative opinion recommending conditional approval from the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP), raising the Group's expectations that approval will be obtained in early 2018. In addition, the Group has submitted approval applications in the U.S. and Europe for mogamulizumab due to its success in phase III study targeting cutaneous T-cell lymphoma. In the U.S., mogamulizumab was given priority review designation, the second drug to receive this following on from burosumab. In Japan, we applied for approval for evocalcet as a new treatment for secondary hyperparathyroidism in maintenance dialysis patients, and AstraZeneca applied for benralizumab's approval of indication for treatment of bronchial asthma. Furthermore, in our biosimilars business, which is a joint venture with FUJIFILM Corporation, we enjoyed a year of steady progress in the research and development of a pipeline that is important for the entire Group, which included applying for approval to the EMA for biosimilar of adalimumab.

In the Bio-Chemicals business, in addition to becoming resistant to the impact of exchange rate volatility, boosting production efficiency, and continuing to upgrade the production platform with the aim of bolstering our product supply framework, a contribution to profit growth was realized by accelerating the commercial operations of Thai Kyowa Biotechnologies Co., Ltd. We also worked to increase the added value of existing products amid rising health consciousness and growing interest in product quality. In the pharmaceutical and medical treatment fields, sales of medical specialty raw materials proceeded robustly in Japan and overseas, while in the healthcare field, sales in the domestic business grew steadily mainly due to growth in mail-order sales of Arginine EX.

In addition, as a result of the Group's efforts to concentrate management resources and explore the further growth of business, the Company decided to transfer shares of diagnostics business subsidiary Kyowa Medex Co., Ltd. to Hitachi Chemical Co., Ltd. and sell the plant growth regulators business of Kyowa Hakko Bio Co., Ltd. to Sumitomo Chemical Co., Ltd.

Performance by segment

Pharmaceuticals business

(Billions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016	Change
Revenue	275.8	270.0	5.7
Core operating profit	50.5	33.5	17.0

- Revenue in Japan decreased compared to the previous fiscal year due mainly to the impacts of the market penetration of generics in conjunction with measures to reduce medical costs and reductions in drug price standards implemented in April of last year.
  - Revenue from core products NESP®, a renal anemia treatment drug, were the same level as the previous fiscal year, despite being affected by the impact of the reductions in drug price standards.
  - Revenue from long term NHI products such as ALLELOCK®, an anti-allergy agent, CONIEL®, a hypertension and angina pectoris drug, Depakene®, an anti-epileptic drug, and GRAN®, a neutropenia treatment drug, decreased due to the impacts of the market penetration of generics, etc.
  - Revenue from products such as G-Lasta®, an agent for decreasing the incidence of febrile neutropenia, NOURIAST®, an antiparkinsonian agent, and Onglyza®, a treatment for type 2 diabetes showed solid growth.
  - LUMICEF®, a treatment for psoriasis launched in September last year, is also steadily penetrating the market.
- International revenue increased compared to the previous fiscal year due mainly to the increase in

licensing revenue.

- In Europe and the Americas, revenues increased compared to the previous fiscal year due to increased sales of products such as Abstral®, which is treatment for cancer pain, and Moventig®, an opioid-induced constipation (OIC) treatment, and other sources of revenues including upfront payment agreement and milestone revenue related to Benralizumab from AstraZeneca.
- Revenue in Asia increased compared to the previous fiscal year, reflecting steady sales particularly in Taiwan and China.

R&D activities in the Pharmaceuticals business:

- Using cutting-edge biotechnology centered on antibody technology, we have made nephrology, oncology, immunology/allergy and CNS the focus of research and development, and by investing resources efficiently, we aim to further speed up the creation of new medical value and drug creation.
  - The development statuses of our main late-stage development products in the current fiscal year are as follows.

Nephrology

- In Japan, in April we applied for approval of indication of calcium receptor agonist KHK7580 (generic name: evocalcet) for the treatment of secondary hyperparathyroidism in maintenance dialysis patients. Also, we started a phase III clinical study in October, targeting hypercalcemia in patients with parathyroid carcinoma and patients with primary hyperparathyroidism who are unable to undergo parathyroidectomy or relapse after parathyroidectomy.
- In Japan, we completed phase II clinical study for RTA 402 (generic name: bardoxolone methyl) targeting chronic kidney disease (CKD) with type 2 diabetes in September.
- In China, we are currently preparing to reapply for approval of indication for KRN321 (product name in Japan: NESP®), a long-acting erythropoiesis stimulating agent for the treatment of renal anemia in patients receiving dialysis.

Oncology

- In Japan, we stopped development of c-Met inhibitor ARQ 197 (generic name: tivantinib) that we had been advancing for patients with c-Met diagnostic-high inoperable hepatocellular carcinoma treated with one prior sorafenib therapy.
- Regarding anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®), the applications for approval of indication for treatment of adult cutaneous T-cell lymphoma in patients with history of systemic therapy were accepted in Europe, and the applications for approval of indication for treatment of cutaneous T-cell lymphoma in patients with history of systemic therapy were accepted in the U.S., in October and November, respectively. In Japan, we applied for a partial change approval in November regarding treatment, dosage and administration targeting relapsed or refractory cutaneous T-cell lymphoma.

Immunology and allergy

- AstraZeneca, our licensing partner for the anti-IL-5 receptor humanized monoclonal antibody KHK4563 (generic name: benralizumab), applied for approval of indication for treatment of bronchial asthma for KHK4563 in Japan, in February. Also, as part of the multi-regional clinical study being conducted by said company, we are currently conducting a phase III clinical study in Japan and South Korea, targeting bronchial asthma patients, and a phase III clinical study in Japan, targeting patients with chronic obstructive pulmonary disease.
- In April we started a phase III clinical study targeting axial spondyloarthritis in Japan, South Korea, etc. for the anti-IL-17 receptor A fully human antibody KHK4827 (product name in Japan: LUMICEF®). We are also currently conducting a phase III clinical study for psoriasis in South Korea.

In addition, LUMICEF® was also applied as a formulation for at-home self-injection in Japan, in September.

· In Japan, in May we obtained approval of additional dosage and administration for the ulcerative colitis treatment drug ASACOL® that is being jointly developed with Zeria Pharmaceutical Co., Ltd.

CNS

· We are currently preparing to submit a reapplication of adenosine A_{2A} receptor antagonist KW-6002 (product name in Japan: NOURIAST®) targeting Parkinson’s disease in the U.S. during 2018.

· In Japan, we started a phase III clinical study targeting HTLV-1 associated myelopathy in June for the anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®).

Other

· For the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23 (generic name: burosumab), we are currently applying for approval of indication for treatment of X-linked hypophosphatemia in pediatric patients in Europe (application accepted in December 2016). Also, in the U.S., applications for approval of indication for treatment of X-linked hypophosphatemia in both adult and pediatric patients were accepted in October. Furthermore, we are currently conducting a multi-regional phase III clinical study in the U.S., Canada, Europe, Japan and South Korea, targeting X-linked hypophosphatemia in adult patients, a multi-regional phase III clinical study in the U.S., Canada, Europe, Australia, Japan and South Korea, targeting X-linked hypophosphatemia in pediatric patients. In addition, we are currently conducting a phase II clinical study in the U.S., Japan and South Korea, targeting tumor induced osteomalacia and epidermal nevus syndrome.

· In China, we are currently conducting a phase III clinical study of thrombopoietin receptor agonist AMG531 (product name in Japan: ROMIPLATE®) targeting chronic idiopathic (immune) thrombocytopenic purpura. Also, we are currently conducting a phase II/III clinical study in aplastic anemia in Japan and South Korea.

· In Japan, in September we obtained manufacturing and marketing approval for the new formulation strength “ACOALAN® Injection 1800” of the recombinant antithrombin (AT) drug (product name in Japan: ACOALAN®).

<u>Bio-Chemicals business</u>

(Billions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016	Change
Revenue	81.1	81.8	(0.7)
Core operating profit	7.2	5.6	1.6

● Revenue in Japan stayed at the same level as in the previous fiscal year.

· Revenue from active pharmaceutical and health food ingredients business were solid, increasing compared to the previous fiscal year.

· In the mail-order business, revenue increased compared to the previous fiscal year, boosted by revenue growth of products, notably Arginine EX.

· Revenue from Kyowa Engineering Co., Ltd. decreased compared to the previous fiscal year.

● Revenue from international business stayed at the same level as in the previous fiscal year.

· In the Americas and Europe, revenue increased compared to the previous fiscal year due to solid revenue of the active pharmaceutical and health food ingredients business.

· In Asia, revenue decreased compared to the previous fiscal year due to the effect of intensified competition regarding some products.

R&D activities in the Bio-Chemicals business:

- We are continuing to focus on research and development into resource-saving and efficient fermentation production processes for amino acids, and high value added products such as nucleic acids and peptides.
- We have been increasing the added value of our products through efforts that involve exploring functions of nutritional physiology with respect to amino acids and other products of fermentation, and developing applications in that regard, on the basis of functionality and safety data obtained through joint research with Japanese and overseas universities and research institutes.
- We have started new research and development of lactococcus lactis strain Plasma, which is used in the new brand iMUSE launched jointly with the Kirin Group, to investigate it as a material, drawing on knowledge regarding material development.
- We have been carrying out research pertaining to cell culture mediums for regenerative medicine, drawing on knowledge regarding high-quality amino acids and cell culture technology.

(2) Summary of Consolidated Financial Position for Fiscal 2017

1) Assets, liabilities and equity

- Assets as of December 31, 2017 were ¥708.3 billion, an increase of ¥24.5 billion compared to the end of the previous fiscal year. In the current fiscal year, we decided to transfer part of our shareholdings in our consolidated subsidiary Kyowa Medex Co., Ltd. Since we will consequently lose our control over the subsidiary, all assets of the subsidiary of ¥14.3 billion have been classified as assets held for sale.
  - · Non-current assets declined by ¥8.7 billion to ¥360.1 billion, due mainly to decreases in property, plant and equipment and intangible assets.
  - · Current assets increased by ¥33.2 billion to ¥348.2 billion, due mainly to an increase in loans receivable from parent as fund management.
- Equity as of December 31, 2017 was ¥616.0 billion, an increase of ¥39.0 billion compared to the end of the previous fiscal year, due to the booking of profit attributable to owners of parent and others, despite a decline because of payment of dividends. As a result, the ratio of equity attributable to owners of parent to total assets was 87.0%, an increase of 2.6 percentage points compared to the end of the previous fiscal year.
- Liabilities as of December 31, 2017 were ¥92.3 billion, a decrease of ¥14.5 billion compared to the end of the previous fiscal year, due mainly to a decrease in trade and other payables. In addition, liabilities of Kyowa Medex Co., Ltd. of ¥4.1 billion have been classified as liabilities directly associated with assets held for sale.

(3) Cash Flow Summary for Fiscal 2017

(Billions of yen)

	FY ended December 31, 2017	FY ended December 31, 2016	Change
Net cash provided by (used in) operating activities	64.9	66.9	(2.0)
Net cash provided by (used in) investing activities	(45.3)	(49.8)	4.6
Net cash provided by (used in) financing activities	(18.3)	(13.9)	(4.4)
Cash and cash equivalents at end of period	14.7	13.1	1.6

- Cash and cash equivalents as of December 31, 2017 were ¥14.7 billion, an increase of ¥1.6 billion compared to the balance of ¥13.1 billion as of December 31, 2016.

The main contributing factors affecting cash flow during the current fiscal year were as follows:

- Net cash provided by operating activities was ¥64.9 billion, a 3.0% decrease compared to the previous fiscal year. The main factors included profit before tax of ¥55.8 billion, depreciation and amortization of ¥22.0 billion, despite income taxes paid of ¥16.9 billion, etc.
- Net cash used in investing activities was ¥45.3 billion, a 9.2% decrease compared to the previous

fiscal year. Major outflows included a net increase of ¥28.7 billion in loans receivable from parent, ¥14.8 billion for purchase of property, plant and equipment, and ¥7.6 billion for purchase of intangible assets such as the upfront payment under the license agreement for tenapanor, which was in-licensed from U.S. company Ardelyx, Inc. Major inflows included ¥6.1 billion in proceeds from the sale of the plant growth regulators business and ¥2.2 billion in proceeds from sales of property, plant and equipment.

- Net cash used in financing activities was ¥18.3 billion, a 31.8% increase compared to the previous fiscal year. The main outflows included dividends paid of ¥13.7 billion and a net decrease of ¥4.2 billion in short-term borrowings.

(4) Outlook for Fiscal 2018

(Billions of yen)

	FORECAST* FY ending December 31, 2018	Change compared to FY ended December 31, 2017	% Change compared to FY ended December 31, 2017
Revenue	335.0	(18.4)	(5.2)%
Core operating profit	51.0	(6.7)	(11.7)%
Profit before tax	61.0	5.2	9.2%
Profit attributable to owners of parent	44.0	1.1	2.6%

These forecasts assume average exchange rates of ¥110/US$, ¥130/euro and ¥150/British pound.

- Consolidated financial earnings forecasts for fiscal 2018 (January 1, 2018 to December 31, 2018) are for revenue of ¥335.0 billion, a decrease of 5.2% compared to the current fiscal year, core operating profit of ¥51.0 billion, down 11.7%, profit before tax of ¥61.0 billion, up 9.2%, and profit attributable to owners of parent of ¥44.0 billion, an increase of 2.6%.
- In the Pharmaceuticals business, although we expect new product launches and an increase in licensing revenues in Europe, the U.S. and Japan, we are expecting revenue to be lower compared to the current fiscal year because we expect a significant impact from reductions in drug price standards scheduled to be implemented in April 2018 as well as the impact of excluding Kyowa Medex Co., Ltd. from the scope of consolidation. Also, in addition to the expected decrease in revenue, we are also expecting a decrease in core operating profit mainly on account of anticipated increases in selling expenses accompanying the launch in the U.S. and European markets of global strategic products.
- In the Bio-Chemicals business, although we are expecting revenue in the next fiscal year to be lower than the current fiscal year due to the impact of a decreased sales volume in China and the sale of the plant growth regulators business, core operating profit is expected to increase due to cost savings achieved by shifting production to overseas plants.
- We expect profit before tax and profit attributable to owners of parent to both be higher in the next fiscal year than in the current fiscal year, on account of the recording of the gain from transfer of the shares of Kyowa Medex Co., Ltd. implemented on January 4, 2018.
- Cash flows from operating activities: Operating cash inflow is expected to be lower in the next fiscal year than the current fiscal year as core operating profit is expected to be lower compared to the current fiscal year.
- Cash flows from investing activities: Cash outflow from investing activities is expected to be lower in the next fiscal year than in the current fiscal year, due to an expected inflow from the transfer of shares of Kyowa Medex Co., Ltd.
- Cash flows from financing activities: Cash outflow from financing activities is expected to be lower in the next fiscal year than in the current fiscal year, as the cash outflow of the current fiscal year includes the repayment of short-term borrowings. As regards the purchase of treasury shares and

the sourcing of funds, we will remain flexible and act as appropriate for the economic and funding environment.

As a result of the above, cash and cash equivalents as of the end of fiscal 2018 are expected to be at the same level as at the end of fiscal 2017.

Note: The above financial position outlook is based on information available to management at the current time. As such, they do not constitute guarantees by the Company of future performance. The actual results may differ significantly from projections.

(5) Basic Policy on Profit Distribution: Fiscal 2017 and Fiscal 2018 Dividends

Kyowa Hakko Kirin regards the return of profits to its shareholders as one of its key management priorities.
Our basic policy on profit distribution is to deliver stable dividends, while maintaining fully adequate internal reserves for future business expansion and other developments, and considering factors such as our consolidated results for the respective fiscal years and the dividend payout ratio. We plan to improve our capital efficiency by acting rapidly with regards to purchase of treasury shares. Kyowa Hakko Kirin intends to use internal reserve funds for investments required to drive new growth, such as those in research and development, capital expenditures, and our development pipeline's expansion that are expected to contribute to the improvement of our future corporate value.

In our FY2016-2020 Mid-term Business Plan, until FY2018 we aim for a stable dividend payment, targeting a consolidated dividend payout ratio of 40%.

In accordance with the above-mentioned policy, the Board of Directors has resolved to pay a year-end dividend for fiscal 2017 of ¥14.50 per share. As a result, the annual dividend is expected to be ¥27, an increase of ¥2 compared to the previous fiscal year, including an interim dividend of ¥12.50. With respect to the year-end dividend, we plan to submit a proposal at the 95th Ordinary General Meeting of Shareholders to be held on March 23, 2018.

For the fiscal year ending December 31, 2018, we expect to pay an annual dividend of ¥30 per share, an increase of ¥3 compared to the current fiscal year, consisting of an interim dividend of ¥15 and a year-end dividend of ¥15.

2. Basic Rationale for Selection of Accounting Standards

The Kyowa Hakko Kirin Group has applied IFRS from fiscal 2017 to enhance the international comparability of its financial information in the capital markets, and unify the process of the Group's accounting.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of December 31, 2017	As of December 31, 2016	IFRS Transition Date As of January 1, 2016
Assets			
Non-current assets			
Property, plant and equipment	109,578	118,192	115,149
Goodwill	142,837	144,467	152,922
Intangible assets	57,599	60,751	64,116
Investments accounted for using equity method	1,857	2,945	5,943
Other financial assets	14,890	13,618	16,522
Retirement benefit asset	8,582	3,879	4,345
Deferred tax assets	22,856	22,727	19,993
Other non-current assets	1,945	2,223	2,055
Total non-current assets	360,145	368,801	381,044
Current assets			
Inventories	71,222	76,278	84,826
Trade and other receivables	100,925	103,885	112,333
Loans receivable from parent	143,200	114,500	96,000
Other financial assets	517	932	1,198
Other current assets	3,346	6,328	5,242
Cash and cash equivalents	14,685	13,076	12,785
Subtotal	333,895	314,999	312,383
Assets held for sale	14,255	–	–
Total current assets	348,150	314,999	312,383
Total assets	708,295	683,801	693,427

(1) Consolidated Statement of Financial Position (continued)

(Millions of yen)

	As of December 31, 2017	As of December 31, 2016	IFRS Transition Date As of January 1, 2016
Equity			
Share capital	26,745	26,745	26,745
Capital surplus	509,145	509,128	509,128
Treasury shares	(26,820)	(26,890)	(26,881)
Retained earnings	113,504	79,655	65,132
Other components of equity	(6,546)	(11,603)	3,645
Total equity attributable to owners of parent	616,028	577,036	577,769
Total equity	616,028	577,036	577,769
Liabilities			
Non-current liabilities			
Retirement benefit liability	668	2,994	2,272
Provisions	3,558	3,558	4,064
Deferred tax liabilities	192	968	854
Other financial liabilities	2,121	2,159	2,387
Other non-current liabilities	7,320	9,015	12,880
Total non-current liabilities	13,858	18,693	22,458
Current liabilities			
Trade and other payables	44,907	52,133	55,354
Other financial liabilities	2,963	7,435	6,223
Income taxes payable	6,425	7,531	10,973
Other current liabilities	20,004	20,972	20,650
Subtotal	74,298	88,072	93,200
Liabilities directly associated with assets held for sale	4,111	–	–
Total current liabilities	78,409	88,072	93,200
Total liabilities	92,267	106,765	115,658
Total equity and liabilities	708,295	683,801	693,427

(2) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated Statement of Profit or Loss

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Revenue	353,380	347,956
Cost of sales	(129,059)	(133,364)
Gross profit	224,321	214,592
Selling, general and administrative expenses	(112,957)	(110,225)
Research and development expenses	(49,155)	(52,899)
Share of profit (loss) of investments accounted for using equity method	(4,478)	(12,351)
Other income	6,632	4,255
Other expenses	(8,389)	(1,319)
Finance income	806	1,224
Finance costs	(931)	(400)
Profit before tax	55,849	42,877
Income tax expense	(12,950)	(12,427)
Profit	42,899	30,450
Profit attributable to		
Owners of parent	42,899	30,450
Earnings per share		
Basic earnings per share (Yen)	78.38	55.65
Diluted earnings per share (Yen)	78.30	55.59

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Profit	42,899	30,450
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	1,532	(850)
Remeasurements of defined benefit plans	4,337	(2,083)
Total of items that will not be reclassified to profit or loss	5,868	(2,933)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	3,768	(14,590)
Share of other comprehensive income of investments accounted for using equity method	(60)	(103)
Total of items that may be reclassified to profit or loss	3,708	(14,694)
Other comprehensive income	9,577	(17,627)
Comprehensive income	52,476	12,824
Comprehensive income attributable to		
Owners of parent	52,476	12,824

(3) Consolidated Statement of Changes in Equity

Fiscal year ended December 31, 2017

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Share acquisition rights	Exchange differences on translation of foreign operations
Balance at January 1, 2017	26,745	509,128	(26,890)	79,655	563	(14,694)
Profit				42,899		
Other comprehensive income				–		3,708
Total comprehensive income	–	–	–	42,899	–	3,708
Dividends of surplus				(13,682)		
Purchase of treasury shares			(16)			
Disposal of treasury shares		17	86			
Share-based payment transactions					135	
Transfer from other components of equity to retained earnings				4,655		
Other increase (decrease)				(24)		
Total transactions with owners	–	17	70	(9,050)	135	–
Balance at December 31, 2017	26,745	509,145	(26,820)	113,504	698	(10,985)

	Equity attributable to owners of parent				Total equity
	Other components of equity			Total	
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
Balance at January 1, 2017	2,528	–	(11,603)	577,036	577,036
Profit			–	42,899	42,899
Other comprehensive income	1,532	4,337	9,577	9,577	9,577
Total comprehensive income	1,532	4,337	9,577	52,476	52,476
Dividends of surplus			–	(13,682)	(13,682)
Purchase of treasury shares			–	(16)	(16)
Disposal of treasury shares			–	103	103
Share-based payment transactions			135	135	135
Transfer from other components of equity to retained earnings	(319)	(4,337)	(4,655)	–	–
Other increase (decrease)			–	(24)	(24)
Total transactions with owners	(319)	(4,337)	(4,520)	(13,483)	(13,483)
Balance at December 31, 2017	3,741	–	(6,546)	616,028	616,028

(3) Consolidated Statement of Changes in Equity (continued)

Fiscal year ended December 31, 2016

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Share acquisition rights	Exchange differences on translation of foreign operations
Balance at January 1, 2016	26,745	509,128	(26,881)	65,132	431	–
Profit				30,450		
Other comprehensive income				–		(14,694)
Total comprehensive income	–	–	–	30,450	–	(14,694)
Dividends of surplus				(13,681)		
Purchase of treasury shares			(9)			
Disposal of treasury shares		0	0			
Share-based payment transactions					132	
Transfer from other components of equity to retained earnings				(2,247)		
Other increase (decrease)						
Total transactions with owners	–	0	(8)	(15,927)	132	–
Balance at December 31, 2016	26,745	509,128	(26,890)	79,655	563	(14,694)

	Equity attributable to owners of parent				Total equity
	Other components of equity				
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Total	
Balance at January 1, 2016	3,215	–	3,645	577,769	577,769
Profit			–	30,450	30,450
Other comprehensive income	(850)	(2,083)	(17,627)	(17,627)	(17,627)
Total comprehensive income	(850)	(2,083)	(17,627)	12,824	12,824
Dividends of surplus			–	(13,681)	(13,681)
Purchase of treasury shares			–	(9)	(9)
Disposal of treasury shares			–	0	0
Share-based payment transactions			132	132	132
Transfer from other components of equity to retained earnings	164	2,083	2,247	–	–
Other increase (decrease)			–	–	–
Total transactions with owners	164	2,083	2,379	(13,556)	(13,556)
Balance at December 31, 2016	2,528	–	(11,603)	577,036	577,036

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Cash flows from operating activities		
Profit before tax	55,849	42,877
Depreciation and amortization	22,032	23,784
Impairment losses	7,279	286
Share of loss (profit) of investments accounted for using equity method	4,478	12,351
Gain on sale of businesses	(5,163)	–
Decrease (increase) in inventories	2,109	6,856
Decrease (increase) in trade receivables	1,399	4,374
Increase (decrease) in trade payables	(1,364)	195
Income taxes paid	(16,920)	(18,360)
Other	(4,796)	(5,481)
Net cash provided by (used in) operating activities	64,902	66,881
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,765)	(20,695)
Proceeds from sale of property, plant and equipment	2,184	4,792
Purchase of intangible assets	(7,569)	(9,402)
Purchase of investments accounted for using equity method	(3,450)	(6,000)
Proceeds from sale of other financial assets	1,397	813
Proceeds from sale of businesses	6,136	–
Net decrease (increase) in loans receivable from parent	(28,700)	(18,500)
Other	(499)	(832)
Net cash provided by (used in) investing activities	(45,265)	(49,824)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(4,169)	343
Dividends paid	(13,682)	(13,681)
Other	(436)	(533)
Net cash provided by (used in) financing activities	(18,287)	(13,871)
Effect of exchange rate changes on cash and cash equivalents	1,334	(2,895)
Net increase (decrease) in cash and cash equivalents	2,683	291
Net increase (decrease) in cash and cash equivalents due to transfer to assets held for sale	(1,074)	–
Cash and cash equivalents at beginning of period	13,076	12,785
Cash and cash equivalents at end of period	14,685	13,076

(5) Notes to Consolidated Financial Statements

Notes on going concern assumption

No applicable items.

Basis of preparation of consolidated financial statements

(1) Compliance with IFRS and first-time adoption

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Since the Company satisfies the requirements for a Specified Company under Designated International Accounting Standards set forth in Article 1-2 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976), the Company has applied Article 93 of the Regulation, which permits a Specified Company to adopt IFRS for the preparation of consolidated financial statements.

The Group first adopted IFRS in the fiscal year ended December 31, 2017, and the date of transition to IFRS (the "Transition Date") is January 1, 2016. The effects of the transition to IFRS on the Group's financial position, operating results and cash flows on the Transition Date and in the comparative year are provided in note "First-time adoption."

Except for IFRS that the Group has not early adopted and exemptions permitted under IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Group's accounting policies are in accordance with IFRS effective as of December 31, 2017.

The exemptions adopted are provided in note "Significant accounting policies."

(2) Basis of measurement

The consolidated financial statements of the Group have been prepared on an acquisition cost basis, except for the specified financial instruments that have been measured at fair value as provided in note "Significant accounting policies."

(3) Functional currency and presentation currency

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

(4) Early adoption of new standards

The Group has early adopted IFRS 9 "Financial Instruments" (revised in July 2014) ("IFRS 9"), and IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (collectively, "IFRS 15"), from January 1, 2016.

(5) Accounting judgments, estimates and assumptions

In preparing IFRS-compliant consolidated financial statements, the management is required to make judgments, estimates and assumptions that may affect the adoption of accounting policies and the amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Such estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the review was conducted and future accounting periods.

Of items for which the management made judgments and estimates, those that have significant effects on the amounts recognized in the consolidated financial statements are as follows:

- Significant assumptions used for the calculation of discounted future cash flows in impairment test of property, plant and equipment, goodwill and intangible assets
- Measurement of defined benefit obligations
- Recoverability of deferred tax assets
- Accounting procedures and assessment of provisions
- Probability of future outflow of economic benefits on contingent liabilities

Significant accounting policies

(1) Basis of consolidation

i. Subsidiaries

Subsidiaries are companies controlled by the Group. The Group considers that it controls a company when it is exposed or has rights to variable returns arising from its involvement in the company and has an ability to affect those returns through its power over the company.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group gains control until the date that control is lost.

If any accounting policies applied by a subsidiary differ from those applied by the Group, adjustments are made to the subsidiary's financial statements where needed. The balances of payables and receivables and internal transactions within the Group as well as unrealized gains or losses arising from internal transactions are offset in preparing the consolidated financial statements.

When the ownership interest in a subsidiary is partially disposed of, the transaction is accounted for as an equity transaction if the Group retains control over the subsidiary.

If the Group loses control over the subsidiary, gains or losses derived from such loss are recognized as profit or loss.

ii. Joint arrangements

A joint arrangement is a contractual arrangement of which two or more parties have joint control.

The Group classifies its involvement in joint arrangements, depending on the rights and obligations of the parties involved in the arrangements, into joint operations (where the Group has rights to the assets and obligations to the liabilities in relation to the arrangements) and joint ventures (where the Group has only rights to the net assets in the arrangements).

Joint ventures are accounted for using the equity method.

Unrealized profits arising from transactions with joint ventures are deducted from investments to the extent of the Group's interest in the investees.

iii. Business combinations

Business combinations are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are measured at their acquisition-date fair values. Consideration transferred in a business combination is measured as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and equity instruments issued by the Company in exchange for control over an acquiree. Any excess of the consideration for acquisition over the fair value of identifiable assets and liabilities of an acquiree is recognized as goodwill in the consolidated statement of financial position. If the consideration for acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as revenue in the consolidated statement of profit or loss.

Costs incurred in connection with business combinations, such as finder's fees, attorney's fees and due diligence costs, are expensed in the period in which the respective cost was incurred.

The Group has adopted the exemptions of IFRS 1 and elected not to apply IFRS 3 "Business Combinations" ("IFRS 3") retrospectively to business combinations that had occurred before January 1, 2016 (Transition Date).

(2) Foreign currency translation

i. Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or an approximation of the rate.

At the end of each fiscal year, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates at the closing date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency using the exchange rates at the date when the fair value is calculated.

Exchange differences arising from the translation and settlement are recognized as profit or loss; provided, however, financial assets measured through other comprehensive income are recognized as other comprehensive income. Non-monetary items denominated in foreign currencies that are measured at cost continue to be translated using the spot exchange rates at the dates of the transactions or an approximation of the spot rate.

ii. Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rates at the closing date, whereas income and expenses are translated into Japanese yen using the rate that approximates the exchange rates at the dates of the transactions. Exchange differences arising on translating the financial statements of foreign operations are recognized in other comprehensive income. Exchange differences on translation of foreign operations are recognized as profit or loss for the period in which the foreign operations concerned are disposed of.

The Group has adopted the exemptions of IFRS 1 and accordingly the cumulative amount of exchange differences on translation of foreign operations before the Transition Date has been deemed to be zero and the entire amount has been reclassified to retained earnings.

(3) Financial instruments

The Group has early adopted IFRS 9.

i. Financial assets (excluding derivatives)

(i) Initial recognition and measurement

The Group classifies financial assets into financial assets that are measured at fair value through profit or loss, or through other comprehensive income, and financial assets measured at amortized cost. This classification is determined at the initial recognition.

The Group initially recognizes financial assets measured at amortized cost on the date of occurrence. The Group initially recognizes other financial assets on the date of settlement.

All financial assets are measured at fair value plus transaction costs directly attributable to the acquisition of financial assets, except for those classified into a category subject to fair value measurement through profit or loss.

Financial assets are classified into financial assets measured at amortized cost, on the condition that they meet both of the following conditions:

- Assets are held based on the business model to hold assets for the purpose of collecting contractual cash flows.
- Contractual terms associated with financial assets give rise to cash flows on specified dates, consisting only of payment of the principal and interest on the principal balance.

Financial assets other than those measured at amortized cost are classified into financial assets measured at fair value.

Of the financial instruments measured at fair value, with respect to equity instruments, each equity instrument shall be designated whether to be measured at fair value through profit or loss, or measured at fair value through other comprehensive income, and such designation shall remain applicable to each such instrument thereafter.

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value through profit or loss are recognized as profit or loss.

However, of equity instruments, for those designated as measured at fair value through other comprehensive income, changes in the fair value are recognized as other comprehensive income, and the changes are transferred to retained earnings when the equity instruments are derecognized or the fair value has declined significantly. Dividends on the financial assets are recognized in profit or loss as part of finance income unless the dividends clearly represent a partial recovery of the cost of the investment.

(iii) Derecognition

When the contractual rights with respect to the cash flows from a financial asset expire or the contractual rights to receive the cash flows from a financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset are transferred, the Group derecognizes the financial asset.

ii. Impairment of financial assets

With regard to financial assets measured at amortized cost, allowance for doubtful accounts is recognized for expected credit losses on the financial assets.

The Group evaluates, at the end of each fiscal year, whether credit risk of financial assets has significantly increased since the initial recognition. If credit risk of a financial asset has not increased significantly since the initial recognition, 12-month expected credit losses on the financial asset are recognized as allowance for doubtful accounts. On the other hand, if credit risk of a financial asset has increased significantly since the initial recognition, an amount equal to the lifetime expected credit losses is recognized as allowance for doubtful accounts.

The Group determines, at each reporting date, whether credit risk has increased significantly, based on changes in the risk of default occurrence since the initial recognition. In evaluating whether or not there is any change in the risk of default occurrence, the Group takes into account information on payments past the contractual due date and deterioration of operating results of the debtor and other information. However, with regard to trade receivables, allowance for doubtful accounts is always recognized at an amount equal to the lifetime expected credit losses, regardless of whether credit risk has increased significantly since the initial recognition.

Expected credit losses are measured based on the discounted present value of the difference between all contractual cash flows to be paid to a company under the contract and all cash flows that the company expects to receive. The Group estimates expected credit losses of financial assets based on reasonably available and supportable information such as historical default ratio. Any amount arising due to revision of the estimate of expected credit losses is recognized in profit or loss.

For any of the financial assets, in cases that are deemed as default, including cases where the asset is still significantly past due even after activities for enforcement of performance are conducted, and cases where the debtor files for legal procedures for bankruptcy, corporate rehabilitation, civil rehabilitation, special liquidation and others, the asset is treated as a credit-impaired financial asset. If the Group does not have any reasonable expectation that all or part of contractual cash flows on a financial asset is collected, the total carrying amount of the financial asset is directly reduced.

iii. Financial liabilities (excluding derivatives)

(i) Initial recognition and measurement

Financial liabilities held by the Group are classified as financial liabilities measured at amortized cost. This classification is determined at the initial recognition.

These financial liabilities are initially measured at an amount net of transaction costs that are directly attributable to issuance of the financial liabilities.

(ii) Subsequent measurement

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

Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss for the current period as part of finance costs.

(iii) Derecognition

When a financial liability is extinguished, that is, the obligations specified in a contract are discharged or cancelled, or expire, the Group derecognizes the financial liability.

iv. Presentation of financial assets and liabilities

Financial assets and liabilities are offset, with the net amount presented in the consolidated statement of financial position, only if the Group holds legally enforceable rights to offset the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

v. Derivatives

The Group is engaged in derivative transactions and uses forward foreign exchange contracts and currency swaps to manage its currency risks. These derivatives are initially recognized at fair value of the date when the derivative contracts are entered into and are subsequently remeasured at their fair values at the closing date. Changes in the fair value of derivatives are recognized in profit or loss.

Hedge accounting is not applied to the above derivatives.

(4) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The Group has adopted the exemptions of IFRS 1 and accordingly, with respect to costs of acquisition of certain property, plant and equipment, their fair values as of the Transition Date have been used as their deemed costs.

The cost of items of property, plant and equipment includes costs directly attributable to the acquisition and the costs of dismantling and removing the items and restoring the site on which they are located.

Depreciation expenses for each asset except for land and construction in progress are recorded mainly using the straight-line method over the respective estimated useful lives.

The estimated useful lives of major classes of property, plant and equipment are as follows:

●Buildings and structures: 15 to 50 years

●Machinery and vehicles: 4 to 15 years

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

(5) Leases

Leases are classified into finance leases if they transfer to the Group substantially all the risks and rewards associated with the ownership of the leased assets under contracts, while other type of leases are classified into operating leases.

Leased assets in finance lease transactions are subject to initial recognition at the fair value of the leased property determined at the commencement date of the lease, or the present value of the total amount of the minimum lease payments also at the commencement date of the lease, whichever is lower. Following the initial recognition, such assets shall be subject to depreciation based on the accounting policies applicable thereto, over the estimated useful lives or the lease term, whichever is shorter.

Lease payments are apportioned between finance costs and the repayment of lease obligations based on the interest method. Finance costs are recognized in the consolidated statement of profit or loss.

Lease payments in operating lease transactions are recognized as expenses in the consolidated statement of profit or loss, using the straight-line method over the lease term.

The Group has adopted the exemptions of IFRS 1 and accordingly the Group determines whether a contract contains a lease based on the facts and circumstances existing as of the Transition Date.

(6) Goodwill

Goodwill arising from business combinations is presented at the value calculated by deducting accumulated impairment losses from the cost. Goodwill is not amortised, and goodwill is tested for impairment in each fiscal year (during the fourth quarter) or whenever there is any indication of impairment.

Measurement of goodwill on initial recognition is described in “iii. Business combinations” of “(1) Basis of consolidation.”

(7) Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. Those acquired in a business combination are measured at fair value at the acquisition date. After the initial recognition, intangible assets, other than those for which the amortization has not been commenced, are amortized using the straight-line method over the respective estimated useful lives, and recorded at the carrying amount, which is the value calculated by deducting accumulated amortization and accumulated impairment losses from the cost.

Among intangible assets acquired through the in-licensing of products, development products and technology or through business combinations, those that are still in the research and development stage or have not yet obtained approval for sale from regulatory authorities are recognized under intangible assets as “in-process research and development expenses.” Because “in-process research and development expenses” are considered as intangible assets for which the amortization has not been commenced, these assets are tested for impairment individually or by cash-generating unit in each fiscal year (during the fourth quarter) or whenever there is any indication of impairment. Intangible assets for which approval for sale was gained from regulatory authorities are recorded in “sales right,” and are amortized after the asset becomes available for sale.

The estimated useful lives of major intangible assets are as follows:

●Sales right: 5 to 20 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of each fiscal year, and effects of any changes are applied prospectively as a change in an accounting estimate.

(8) Impairment of non-financial assets

For the carrying amounts of the Group’s non-financial assets, except for inventories, deferred tax assets, assets held for sale and retirement benefit asset, the Group assesses whether there is any indication of impairment at the end of each fiscal year. If there is an indication of impairment, the recoverable amount of the asset is estimated. For goodwill and intangible assets for which the amortization has not been commenced or those not yet available for use, the recoverable amounts are estimated at the same time in each fiscal year.

The recoverable amount of an asset or a cash-generating unit is the higher of value in use or fair value less costs of disposal. In measuring the value in use, the estimated future cash flows are discounted to the present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset. Assets that are not tested individually in impairment test are integrated into the smallest cash-generating unit that generates cash inflows largely independent of the cash inflows of other assets or groups of assets through continuing use.

Impairment losses are recognized in profit or loss when the carrying amount of the asset or cash-generating unit exceeds the estimated recoverable amount. Impairment losses recognized in relation to the cash-generating unit are first allocated to reduce the carrying amount of goodwill allocated to that unit, and then the carrying amount of other assets within the cash-generating unit is reduced proportionally.

Any impairment loss recognized for goodwill is not reversed. For other assets, the Group assesses whether there is any indication that an impairment loss recognized in the past has decreased or no longer exists at the end of each fiscal year. When an estimate used in the determination of the recoverable amount changes, the impairment loss is reversed. The impairment loss is reversed up to the amount that does not exceed the carrying amount calculated by deducting any necessary depreciation and amortization expenses from the carrying amount that would have been determined as no impairment loss had been recognized.

(9) Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined mainly by using the gross average method. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

(10) Cash and cash equivalents

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

(11) Assets held for sale

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

To classify an asset as held for sale, it must be highly probable that the asset will be sold, and the asset must be available for immediate sale in its present condition. In addition, management of the Group must have a firm commitment to execute the plan to sell the asset and the sale should be expected to be completed within one year from the date of classification, as a general rule.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their carrying amounts or fair values less cost to sell, and are not depreciated or amortized after they are classified as held for sale.

(12) Equity

i. Ordinary shares

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

ii. Treasury shares

When the Company acquires its own treasury shares, the amount of the consideration paid is deducted from equity. When the Company sells treasury shares, the difference between the carrying amount and the consideration received from the sale is recognized in capital surplus.

(13) Share-based payment

The Company has a share option plan as an equity-settled share-based payment for Directors of the Board and Executive Officers. Share options are estimated at fair value at the grant date and recognized as expenses in the consolidated statement of profit or loss over the vesting periods with the same amount recognized as an increase in equity in the consolidated statement of financial position, taking into account the estimated number of options to be eventually vested. The fair value of share options granted is calculated using the Black-Scholes model and others, taking into account terms and conditions of the options.

(14) Employee benefits

i. Post-employment benefits

The Group operates defined benefit and defined contribution plans as retirement benefit plans for its employees.

The Group uses the projected unit credit method to determine the present value of the defined benefit obligations, the related current service cost and the past service cost.

Discount rate is determined based on the market yield on high quality corporate bonds as of the end of fiscal year for the discount period which is set for the projected period until the expected date of benefit payment in each fiscal year.

Defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations.

Remeasurements of defined benefit plans are recognized at once as other comprehensive income in the period in which the remeasurement takes place, and immediately reclassified to retained earnings from other components of equity.
Past service cost is accounted for as profit or loss in the period in which it was incurred.

Cost for retirement benefits for defined contribution plans is recognized as an expense at the time of contribution.

ii. Short-term employee benefits

Short-term employee benefits are recognized as expenses when the related service is provided from employees.

Cost for paid absences is recognized as a liability, when the Group has a legal or constructive obligation to make such payment and when a reliable estimate of the obligation can be made. The amount of such liability is the estimate to be paid under the plan prescribing the payment.

(15) Provisions

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

(16) Revenue

i. Revenue from contracts with customers

The Group has early adopted IFRS 15.

The Group identifies the performance obligations in contracts with customers and recognizes revenue at the amount of consideration to which the company expects to be entitled in exchange for the transfer of goods or services to customers. The amount does not include the amount collected on behalf of taxation authorities such as consumptions taxes and value-added taxes. If consideration in contracts with customers includes variable consideration, the variable consideration is included in the transaction price only to the extent that it is highly probable a significant reversal in the cumulative amount of revenue recognized will not occur when uncertainty associated with the variable consideration is subsequently resolved.

Revenue is recognized at a point in time or over time, depending on the satisfaction of the performance obligation in the contracts with customers.

ii. Interest revenue

Interest revenue is recognized using the effective interest method.

iii. Dividends

Dividend revenue is recognized when the right to receive the dividend is established.

(17) Government grants

Grant income is measured at fair value and recognized when there is reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants for expenses incurred in association with research and development are presented as a deduction from related expenses. For grants for acquisition of assets, the amount of the grants is directly deducted from cost of the assets.

(18) Income taxes

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

i. Current taxes

Current taxes are measured at the amount of expected tax payment to or expected tax refund from taxation authorities. The amount of taxes is computed in accordance with tax rates and tax laws that have been enacted or substantially enacted by the end of the fiscal year in countries where the Group conducts business activities and earns taxable profits or losses.

ii. Deferred taxes

Deferred taxes are recognized for temporary differences between accounting carrying amounts of assets and liabilities at the reporting date and the amounts for tax purposes, unused tax losses and unused tax credits.

Deferred tax assets and liabilities are not recorded for the following temporary differences:

- Temporary differences arising from initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities which occur through transactions that affect neither accounting profit nor taxable profit for tax purposes, except for business combinations

Deferred tax liabilities are recognized, as a general rule, for all taxable temporary differences. However, for taxable temporary differences related to investments in subsidiaries and associates and interests in joint arrangements, deferred tax liabilities are not recognized if the Group can control the timing of the reversal and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences could be utilized. However, for deductible temporary differences related to investments in subsidiaries and associates and interests in joint arrangements, deferred tax assets are not recognized if it is probable that the temporary differences will not be reversed in the foreseeable future, or it is not probable that taxable profits will be available against which the temporary differences could be utilized.

The carrying amount of deferred tax assets is reviewed in every period, and reduced by the amount for which taxable profits sufficient to utilize all or part of the deferred tax assets are unlikely to be available. Unrecognized deferred tax assets are reassessed in every period and recognized to the extent that it is probable that deferred tax assets are realizable with future taxable profits.

Deferred tax assets and liabilities are measured in accordance with tax rates and tax laws expected to be applied in the period in which the assets are realized or the liabilities are settled based on tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

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

(19) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the Company, by the weighted average number of ordinary shares issued during the period that is adjusted by the number of treasury shares. Diluted earnings per share are calculated reflecting the adjustment of the impact from all potential shares with dilutive effect.

Segment information, etc.

(1) Outline of reportable segments

Reportable segments for the Group are components of the Group about which separate financial information is available that is evaluated regularly by the Board of Directors in deciding the resource allocation and in assessing performance.

The Group’s foundation is operating companies and it comprises business groups formed on the basis of the products and services handled by each company. A core company in each business group is in charge of formulating a comprehensive domestic and overseas strategy and developing business operations. The Group has two reportable segments, Pharmaceuticals and Bio-Chemicals. The Pharmaceuticals business conducts research, development, manufacturing and sales of ethical pharmaceuticals and others. The Bio-Chemicals business conducts research, development, manufacturing and sales of raw materials for pharmaceutical and industrial use, primarily amino acids, nucleic acids and related compounds, healthcare products and others.

The method of accounting for reportable segments is identical to the one provided in note “Significant accounting policies.” Inter-segment revenue is mainly based on prices in arm’s length transactions.

The Group uses “core operating profit” as an indicator showing recurring profitability from operating activities for performance management and others. Therefore, “core operating profit,” which is calculated by deducting “selling, general and administrative expenses” and “research and development expenses” from “gross profit,” and adding “share of profit (loss) of investments accounted for using equity method” to the amount, is presented as segment profit.

(2) Information on reportable segments

Fiscal year ended December 31, 2017

(Millions of yen)

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	274,776	78,605	353,380	–	353,380
Inter-segment revenue	990	2,531	3,521	(3,521)	–
Total	275,766	81,136	356,902	(3,521)	353,380
Segment profit (Core operating profit)	50,530	7,189	57,720	11	57,731
			Other income		6,632
			Other expenses		(8,389)
			Finance income		806
			Finance costs		(931)
			Profit before tax		55,849

(Millions of yen)

Other material items	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Asset items					
Segment assets	453,270	130,024	583,294	125,001	708,295
Investments accounted for using equity method	1,857	–	1,857	–	1,857
Increase in property, plant and equipment and intangible assets	12,932	7,782	20,715	(1)	20,714
Profit or loss items					
Research and development expenses	46,138	3,120	49,258	(41)	49,216
Depreciation and amortization	15,287	6,749	22,036	(4)	22,032
Share of loss of investments accounted for using equity method	4,478	–	4,478	–	4,478
Impairment losses	2,232	5,047	7,279	–	7,279

Note: Adjustments are as follows:
(1) The ¥11 million for adjustments of segment profit is due to elimination of inter-segment transactions.
(2) The ¥125,001 million for adjustments of segment assets includes elimination of inter-segment transactions of negative ¥25,779 million and corporate assets unallocated to each reportable segment of ¥150,780 million.
Corporate assets are primarily surplus operating cash (loans receivable from parent, cash and cash equivalents).

Fiscal year ended December 31, 2016

(Millions of yen)

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	269,263	78,693	347,956	–	347,956
Inter-segment revenue	785	3,114	3,899	(3,899)	–
Total	270,048	81,807	351,855	(3,899)	347,956
Segment profit (Core operating profit)	33,529	5,556	39,085	31	39,116
			Other income		4,255
			Other expenses		(1,319)
			Finance income		1,224
			Finance costs		(400)
			Profit before tax		42,877

(Millions of yen)

Other material items	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Asset items					
Segment assets	455,871	131,443	587,314	96,487	683,801
Investments accounted for using equity method	2,945	–	2,945	–	2,945
Increase in property, plant and equipment and intangible assets	25,311	8,001	33,312	(42)	33,270
Profit or loss items					
Research and development expenses	49,668	3,234	52,902	27	52,929
Depreciation and amortization	16,838	6,947	23,784	(1)	23,784
Share of loss of investments accounted for using equity method	12,351	–	12,351	–	12,351
Impairment losses	231	55	286	–	286

Note: Adjustments are as follows:
(1) The ¥31 million for adjustments of segment profit is due to elimination of inter-segment transactions.
(2) The ¥96,487 million for adjustments of segment assets includes elimination of inter-segment transactions of negative ¥25,152 million and corporate assets unallocated to each reportable segment of ¥121,639 million.
Corporate assets are primarily surplus operating cash (loans receivable from parent, cash and cash equivalents).

Transition Date: As of January 1, 2016

(Millions of yen)

Other material items	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Asset items					
Segment assets	482,053	133,117	615,170	78,257	693,427
Investments accounted for using equity method	5,943	–	5,943	–	5,943

Note: The ¥78,257 million for adjustments of segment assets includes elimination of inter-segment transactions of negative ¥24,291 million and corporate assets unallocated to each reportable segment of ¥102,548 million.
Corporate assets are primarily surplus operating cash (loans receivable from parent, cash and cash equivalents).

(3) Information about products and services

This information is omitted because the classification of products and services is the same as the classification of reportable segments.

(4) Information about geographical areas

i. Revenue

(Millions of yen)

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Japan	240,855	250,477
Americas	24,695	17,723
Europe	55,979	50,386
Asia	30,230	28,172
Other	1,621	1,198
Total	353,380	347,956

Note: Revenue is classified by country or region based on customer location.

ii. Non-current assets

(Millions of yen)

	As of December 31, 2017	As of December 31, 2016	Transition Date As of January 1, 2016
Japan	223,416	233,904	234,017
Americas	3,334	9,412	10,334
Europe	65,656	66,527	75,751
Asia	19,554	15,790	14,140
Total	311,959	325,633	334,242

Note: Non-current assets are classified based on the location of assets, and do not include investments accounted for using the equity method, financial instruments, retirement benefit asset and deferred tax assets.

(5) Information about major customers

The customer that accounts for 10% or more of revenue in the consolidated statement of profit or loss is as follows:

(Millions of yen)

Customer	Related segment	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Alfresa Pharma Corporation	Pharmaceuticals	48,291	46,762

Per share information

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2016
Profit attributable to ordinary equity holders of parent		
Profit attributable to owners of parent *(Millions of yen)*	42,899	30,450
Profit not attributable to ordinary equity holders of parent *(Millions of yen)*	–	–
Profit used for calculation of earnings per share *(Millions of yen)*	42,899	30,450
Average number of ordinary shares outstanding during period *(Shares)*	547,289,787	547,224,646
Increase in number of ordinary shares		
Share acquisition rights *(Shares)*	573,438	510,265
Average number of diluted ordinary shares outstanding during period *(Shares)*	547,863,225	547,734,911
Earnings per share		
Basic earnings per share *(Yen)*	78.38	55.65
Diluted earnings per share *(Yen)*	78.30	55.59

Significant subsequent events

Transfer of subsidiary's shares

On January 4, 2018, the Company transferred a certain number of shares of consolidated subsidiary Kyowa Medex Co., Ltd. ("Kyowa Medex"), which is engaged in the manufacturing and sales of the Group's diagnostic reagents, to Hitachi Chemical Co., Ltd. ("Hitachi Chemical") with the intention of maximizing shareholder value by concentrating management resources. As a result of the transfer, the Group's ownership interest in Kyowa Medex has decreased to 33.4%, from 100% previously, thereby causing the Group to lose its control in Kyowa Medex. Accordingly, Kyowa Medex is now classified as an entity accounted for using the equity method of the Group.

Upon the transfer of shares, the Company intends to recognize ¥7.4 billion as a gain on sale of investments in the subsidiary while also recognizing ¥3.7 billion as a gain on remeasurement at fair value of the retained interest in Kyowa Medex as of the date on which control was lost. The Company intends to recognize these amounts in "other income" in its condensed quarterly consolidated statement of profit or loss for the first quarter of the fiscal year ending December 31, 2018.

The Company retains a put option and Hitachi Chemical retains a call option for the remaining 33.4% of Kyowa Medex's shares owned by the Company to Hitachi Chemical after approximately 3 years from the date of the closing of the share transfer.

First-time adoption of IFRS

The consolidated financial statements for the fiscal year ended December 31, 2017, are the first consolidated financial statements prepared in accordance with IFRS and disclosed by the Group. The latest consolidated financial statements under Japanese GAAP are prepared for the fiscal year ended December 31, 2016, and the Transition Date is January 1, 2016.

Exemptions under IFRS 1

IFRS requires an entity adopting IFRS for the first time ("first-time adopter") to apply the standards required under IFRS retrospectively, in principle. However, IFRS 1 provides mandatorily applied exemptions and optionally applied exemptions from application of some standards required under IFRS. For effects of the application of these exemptions, adjustments were made to retained earnings or other components of equity at the Transition Date. The Group has applied the following exemptions in accordance with the transition from Japanese GAAP to IFRS:

● Business combinations

A first-time adopter is permitted not to apply IFRS 3 retrospectively to business combinations that occurred prior to the Transition Date. The Group elected to apply this exemption and did not apply IFRS 3 retrospectively to business combinations that occurred before the Transition Date. Consequently, the amount of goodwill arising from business combinations that occurred prior to the Transition Date is based on the carrying amount as of the Transition Date under Japanese GAAP, except for certain goodwill. The Group performed an impairment test on goodwill at the Transition Date, regardless of whether there was any indication of impairment.

● Deemed cost

IFRS 1 permits an entity to measure items of property, plant and equipment, investment property and intangible assets at the Transition Date at its fair value and use that fair value as deemed cost at that date. The Group elected to use the fair value at the Transition Date as deemed cost at that date for certain items of property, plant and equipment.

● Exchange differences on translation of foreign operations

IFRS 1 permits an entity to deem the cumulative amount of exchange differences on translation of foreign operations at the Transition Date to be zero. The Group elected to deem the cumulative amount of exchange differences on translation of foreign operations as zero at the Transition Date.

● Leases

IFRS 1 permits a first-time adopter to determine whether or not a contract contains a lease at the Transition Date. The Group applied this exemption and determined whether a contract contains a lease, based on facts and circumstances that existed at the Transition Date.

Mandatory exceptions under IFRS 1

IFRS 1 prohibits retrospective application of IFRS with regard to “estimates,” “derecognition of financial assets and financial liabilities,” “non-controlling interests,” “classification and measurement of financial assets” and others. The Group has applied these items prospectively from the Transition Date.

Reconciliations that are required to be disclosed in the first-time adoption of IFRS are as follows:

Reconciliation of equity as of January 1, 2016 (Transition Date)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Non-current assets						Non-current assets
Property, plant and equipment	147,044	–	(31,895)	115,149	(1)	Property, plant and equipment
Intangible assets						
Goodwill	155,851	–	(2,930)	152,922	(2) (3)	Goodwill
Sales right	56,234	(56,234)	–	–		
Other	722	(722)	–	–		
	–	56,956	7,160	64,116	(2) (3)	Intangible assets
	–	1,653	4,290	5,943	(4)	Investments accounted for using equity method
Investment securities	14,043	2,406	72	16,522	(5)	Other financial assets
Net defined benefit asset	6,965	–	(2,619)	4,345	(7)	Retirement benefit asset
Deferred tax assets	10,356	11,148	(1,511)	19,993	(6)	Deferred tax assets
Other	5,312	(4,253)	997	2,055	(5)	Other non-current assets
Allowance for doubtful accounts	(194)	194	–	–		
Total non-current assets	396,332	11,148	(26,436)	381,044		Total non-current assets
Current assets						Current assets
Raw materials and supplies	10,476	74,329	21	84,826	(9)	Inventories
Work in process	12,364	(12,364)	–	–		
Merchandise and finished goods	61,965	(61,965)	–	–		
Notes and accounts receivable - trade	106,830	5,503	–	112,333	(8) (10)	Trade and other receivables
Deferred tax assets	11,148	(11,148)	–	–		
Short-term loans receivable	96,105	(105)	–	96,000	(5) (11)	Loans receivable from parent
	–	1,198	–	1,198	(5) (11)	Other financial assets
Accounts receivable - other	7,693	(7,693)	–	–		
Other	4,819	1,346	(922)	5,242	(10)	Other current assets
Allowance for doubtful accounts	(202)	202	–	–		
Cash and deposits	13,236	(451)	–	12,785	(5) (11)	Cash and cash equivalents
Total current assets	324,433	(11,148)	(902)	312,383		Total current assets
Total assets	720,765	–	(27,338)	693,427		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net assets						Equity
Capital stock	26,745	–	–	26,745		Share capital
Capital surplus	509,128	–	–	509,128		Capital surplus
Treasury shares	(26,881)	–	–	(26,881)		Treasury shares
Retained earnings	85,998	–	(20,866)	65,132	(12)	Retained earnings
Total accumulated other comprehensive income	19,438	431	(16,224)	3,645	(13)	Other components of equity
Subscription rights to shares	431	(431)	–	–		
Total net assets	614,858	–	(37,089)	577,769		Total equity
Liabilities						Liabilities
Non-current liabilities						Non-current liabilities
Net defined benefit liability	1,883	114	274	2,272	(7) (14)	Retirement benefit liability
Provision for directors' retirement benefits	114	(114)	–	–		
Allowance for loss on plants reorganization	3,203	512	350	4,064	(15)	Provisions
Asset retirement obligations	404	(404)	–	–		
Deferred tax liabilities	12,092	2	(11,240)	854	(6)	Deferred tax liabilities
	–	2,559	(172)	2,387	(5)	Other financial liabilities
Other	3,385	(2,667)	12,161	12,880	(16)	Other non-current liabilities
Total non-current liabilities	21,083	2	1,373	22,458		Total non-current liabilities
Current liabilities						Current liabilities
Short-term loans payable	4,840	(4,840)	–	–		
Notes and accounts payable - trade	19,086	35,350	918	55,354	(10) (17)	Trade and other payables
Accounts payable - other	39,866	(39,866)	–	–		
	–	6,224	(1)	6,223	(5)	Other financial liabilities
Income taxes payable	11,830	(851)	(7)	10,973		Income taxes payable
Provision for sales rebates	2,097	(2,097)	–	–		
Provision for point card certificates	239	(239)	–	–		
Provision for bonuses	428	(428)	–	–		
Other	6,437	6,745	7,469	20,650	(16) (17) (18)	Other current liabilities
Total current liabilities	84,823	(2)	8,378	93,200		Total current liabilities
Total liabilities	105,906	–	9,752	115,658		Total liabilities
Total liabilities and net assets	720,765	–	(27,338)	693,427		Total equity and liabilities

Reconciliation of equity as of December 31, 2016 (date of latest consolidated financial statements prepared in accordance with Japanese GAAP)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Non-current assets						Non-current assets
Property, plant and equipment	151,047	–	(32,855)	118,192	(1)	Property, plant and equipment
Intangible assets						
Goodwill	134,910	–	9,557	144,467	(2) (3)	Goodwill
Sales right	49,403	(49,403)	–	–		
Other	708	(708)	–	–		
	–	50,111	10,640	60,751	(2) (3)	Intangible assets
	–	1,541	1,404	2,945	(4)	Investments accounted for using equity method
Investment securities	11,412	2,289	(84)	13,618	(5)	Other financial assets
Net defined benefit asset	6,563	–	(2,684)	3,879	(7)	Retirement benefit asset
Deferred tax assets	11,496	10,824	406	22,727	(6)	Deferred tax assets
Other	5,258	(3,930)	895	2,223	(5)	Other non-current assets
Allowance for doubtful accounts	(100)	100	–	–		
Total non-current assets	370,698	10,824	(12,721)	368,801		Total non-current assets
Current assets						Current assets
Raw materials and supplies	11,946	64,284	49	76,278	(9)	Inventories
Work in process	12,934	(12,934)	–	–		
Merchandise and finished goods	51,350	(51,350)	–	–		
Notes and accounts receivable - trade	100,999	3,544	(658)	103,885	(8) (10)	Trade and other receivables
Deferred tax assets	10,824	(10,824)	–	–		
Short-term loans receivable	114,867	(367)	–	114,500	(5) (11)	Loans receivable from parent
	–	412	521	932	(5) (11)	Other financial assets
Accounts receivable - other	5,900	(5,900)	–	–		
Other	4,849	2,037	(558)	6,328	(10)	Other current assets
Allowance for doubtful accounts	(266)	266	–	–		
Cash and deposits	13,067	9	–	13,076	(5) (11)	Cash and cash equivalents
Total current assets	326,470	(10,824)	(646)	314,999		Total current assets
Total assets	697,168	–	(13,367)	683,801		Total assets

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net assets						Equity
Capital stock	26,745	–	–	26,745		Share capital
Capital surplus	509,128	–	–	509,128		Capital surplus
Treasury shares	(26,890)	–	–	(26,890)		Treasury shares
Retained earnings	90,987	–	(11,332)	79,655	(12)	Retained earnings
Total accumulated other comprehensive income	212	563	(12,378)	(11,603)	(13)	Other components of equity
Subscription rights to shares	563	(563)	–	–		
Total net assets	600,745	–	(23,709)	577,036		Total equity
Liabilities						Liabilities
Non-current liabilities						Non-current liabilities
Net defined benefit liability	2,359	120	515	2,994	(7) (14)	Retirement benefit liability
Provision for directors' retirement benefits	120	(120)	–	–		
Allowance for loss on plants reorganization	2,988	574	(5)	3,558	(15)	Provisions
Asset retirement obligations	503	(503)	–	–		
Deferred tax liabilities	9,144	–	(8,177)	968	(6)	Deferred tax liabilities
	–	1,244	915	2,159	(5)	Other financial liabilities
Other	1,892	(1,315)	8,438	9,015	(16)	Other non-current liabilities
Total non-current liabilities	17,006	–	1,686	18,693		Total non-current liabilities
Current liabilities						Current liabilities
Short-term loans payable	5,361	(5,361)	–	–		
Notes and accounts payable - trade	18,230	33,875	29	52,133	(10) (17)	Trade and other payables
Accounts payable - other	37,609	(37,609)	–	–		
	–	7,384	51	7,435	(5)	Other financial liabilities
Income taxes payable	8,184	(653)	–	7,531		Income taxes payable
Provision for sales rebates	1,677	(1,677)	–	–		
Provision for point card certificates	249	(249)	–	–		
Provision for bonuses	422	(422)	–	–		
Other	7,685	4,711	8,576	20,972	(16) (17) (18)	Other current liabilities
Total current liabilities	79,416	–	8,656	88,072		Total current liabilities
Total liabilities	96,423	–	10,342	106,765		Total liabilities
Total liabilities and net assets	697,168	–	(13,367)	683,801		Total equity and liabilities

Notes to reconciliation of equity

(1) Adjustment to the recorded amount of property, plant and equipment

Since it is allowed under IFRS to use fair value of property, plant and equipment at the Transition Date as deemed cost at that date, the Group applies deemed cost for certain land. The carrying amount of land for which deemed cost was applied at the Transition Date was ¥41,089 million under Japanese GAAP and the fair value was ¥7,813 million. Consequently, “property, plant and equipment” decreased by ¥33,275 million as of the Transition Date.

Certain transactions that were expensed based on contracts for consignment of manufacturing under Japanese GAAP have been capitalized as finance leases based on judgment of the substance of contracts under IFRS.

(2) Adjustment to the recorded amount of goodwill

Although goodwill is amortized under Japanese GAAP, it is not amortized under IFRS. Therefore, the amount that was already amortized was adjusted retrospectively up to the Transition Date.

Of expenditures for technology in-licensing agreements and others that were not identified in past business combinations, those which satisfy the recognition requirements of IFRS were recorded as “intangible assets” in accordance with the adoption of IFRS. Consequently, “goodwill” decreased.

(3) Adjustment to the recorded amount of intangible assets

Under Japanese GAAP, of expenses incurred due to agreements for in-licensing of products, development products and technologies and others, those for which approval for sale has not yet been obtained from regulatory authorities were expensed as research and development expenses; however, under IFRS, of such expenses, those which satisfy certain requirements have been recorded as “intangible assets.” As a result, “intangible assets” increased by ¥22,732 million as of the Transition Date. Of expenditures for technology in-licensing agreements and others that were not identified in past business combinations, those which satisfy the recognition requirements of IFRS were recorded as “intangible assets,” and at the same time, “goodwill” was reduced.

With regard to sales right and in-process research and development expenses (Pharmaceuticals segment), the method for identifying cash-generating units was reviewed from a consolidation perspective at the Transition Date in line with the adoption of IFRS. In addition, the Group made a decision to halt the development of some products. Consequently, since originally anticipated future cash flows are no longer expected for certain sales right, impairment losses of ¥21,911 million were deducted from “intangible assets” and “retained earnings.” The recoverable amount based on value in use (discount rate: 6.1 to 8.7%) is ¥11,730 million.

“Sales right,” which was separately presented under Japanese GAAP, has been reclassified to “intangible assets” under IFRS.

(4) Reclassification and adjustment to investments accounted for using equity method

As a result of the application of IFRS to entities accounted for using the equity method, adjustments were made in association with agreements for in-licensing of development products and technologies from the Company to such entities and income arising from the relevant transactions, which led to an increase in “investments accounted for using equity method.”

“Investments accounted for using equity method,” which were included in “investment securities” under Japanese GAAP, have been separately presented under IFRS.

(5) Reclassification to other financial assets and liabilities

Lease deposits, etc., which were included in “other” of investments and other assets under Japanese GAAP, have been reclassified to “other financial assets (non-current)” under IFRS, while “short-term loans receivable,” which were separately presented under Japanese GAAP, have been reclassified to “other financial assets (current)” under IFRS, except for loans receivable from parent and loans receivable from parent with the loan period of three months or less. Loans receivable from parent have been separately presented as “loans receivable from parent,” while loans receivable from parent with the loan period of three months or less were included in “cash and cash equivalents.”

Long-term deposits received, which were included in “other” of non-current liabilities under Japanese GAAP, have been reclassified to “other financial liabilities (non-current)” under IFRS, while “short-term loans payable,” which were separately presented under Japanese GAAP, have been reclassified to “other financial liabilities (current)” under IFRS.

Lease obligations, which were included in “other” of non-current liabilities and “other” of current liabilities under Japanese GAAP, have been reclassified to “other financial liabilities (non-current)” and “other financial liabilities (current),” respectively, under IFRS.

(6) Reclassification of deferred tax assets and deferred tax liabilities

Since IFRS requires all deferred tax assets and liabilities to be classified as non-current items without making a distinction between current and non-current items, deferred tax assets and liabilities which were previously recorded as current items have been reclassified as non-current items.

Deferred tax assets and liabilities are carried for temporary differences arising from adjustments for differences with IFRS.

(7) Adjustment related to retirement benefits

Under Japanese GAAP, actuarial gains or losses were recognized in “other comprehensive income” in the period when they occurred, and amortized by the straight-line method over a certain period within the average remaining service period of eligible employees at the time of occurrence (principally 10 years), beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in full in “other comprehensive income” in the period when they occur, and immediately transferred to “retained earnings.”

Under Japanese GAAP, past service cost was amortized by the straight-line method over a certain period within the average remaining service period of eligible employees at the time of occurrence (principally 5 years); however, under IFRS, since past service cost is recognized in profit or loss in the period when it occurs, the adjustment is recognized in “retained earnings.”

The mortality rate, which is one of assumptions for the calculation of defined benefit obligations, is recalculated under IFRS using figures anticipating future changes, and the adjustments are recognized in “retirement benefit asset,” “retirement benefit liability” and “retained earnings.”

(8) Reclassification of allowance for doubtful accounts

“Allowance for doubtful accounts,” which was separately presented under Japanese GAAP, has been reclassified under IFRS to be directly deducted from “trade and other receivables” to present the net amount.

(9) Reclassification to inventories

“Merchandise and finished goods,” “work in process” and “raw materials and supplies,” which were separately presented under Japanese GAAP, have been included in “inventories” under IFRS.

(10) Reclassification of accounts receivable - other and accounts payable - other

“Accounts receivable - other,” which were separately presented under Japanese GAAP, have been reclassified to “trade and other receivables” and “other current assets” under IFRS, while “accounts payable - other,” which were separately presented in current liabilities under Japanese GAAP, have been reclassified to “trade and other payables” under IFRS.

(11) Reclassification of cash and deposits

Time deposits with the deposit period of over three months, which were included in “cash and deposits” under Japanese GAAP, have been reclassified to “other financial assets (current)” under IFRS, while loans receivable from parent with the loan period of three months or less, which were included in “short-term loans receivable” under Japanese GAAP, have been included in “cash and cash equivalents” under IFRS.

(12) Adjustment to retained earnings

(Millions of yen)

	As of December 31, 2016	Transition Date As of January 1, 2016
Adjustment to the recorded amount of property, plant and equipment (refer to (1))	(32,855)	(31,895)
Adjustment to the recorded amount of contract liabilities (refer to (16))	(13,704)	(17,093)
Adjustment to the recorded amount of goodwill and intangible assets (refer to (2) and (3))	20,196	4,230
Adjustment related to retirement benefits (refer to (7))	(7,396)	(5,254)
Reclassification of accumulated exchange differences for overseas subsidiaries (refer to (13))	18,819	18,819
Adjustment to accrued paid absences (refer to (18))	(3,610)	(3,151)
Other	(1,365)	3,749
Subtotal	(19,915)	(30,595)
Adjustment of tax effect	8,583	9,729
Total	(11,332)	(20,866)

(13) Reclassification to other components of equity

Under Japanese GAAP, for actuarial gains or losses in regard to retirement benefit accounting, the amount was recognized in “other comprehensive income” in the period when they occurred, and amortized by the straight-line method over a certain period within the average remaining service period of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in full in “other comprehensive income” in the period when they occur, and immediately transferred to “retained earnings.”

The Group elected to apply exemptions provided in IFRS 1 in the first-time adoption of IFRS and reclassified all accumulated exchange differences as of the Transition Date to “retained earnings.”

“Subscription rights to shares,” which were separately presented under Japanese GAAP, have been included in “other components of equity” as “share acquisition rights” under IFRS.

(14) Reclassification of provision for directors' retirement benefits

"Provision for directors' retirement benefits," which was separately presented under Japanese GAAP, has been reclassified to "retirement benefit liability" under IFRS.

(15) Reclassification to provisions

Under Japanese GAAP, certain asset retirement obligations were deducted from "other" of investments and other assets; however, under IFRS, such obligations have been remeasured as "provisions."

"Allowance for loss on plants reorganization" and "asset retirement obligations," which were separately presented under Japanese GAAP, have been reclassified to "provisions" under IFRS.

(16) Adjustment to the recorded amount of contract liabilities

Under Japanese GAAP, revenue from upfront payment agreements and milestone revenue due to agreements for out-licensing of products, development products, technologies and others were recognized as revenue at a point in time; however, under IFRS, if performance obligations in contracts with customers are not satisfied at a point in time, revenue is recognized over a period of time according to the satisfaction of the related performance obligations. Accordingly, contract liabilities associated with such transactions are recorded in "other non-current liabilities" and "other current liabilities."

(17) Reclassification of provision for sales rebates and provision for point card certificates

"Provision for sales rebates," which was separately presented under Japanese GAAP, has been reclassified to "trade and other payables" as refund liabilities under IFRS. "Provision for point card certificates," which was separately presented under Japanese GAAP, has been reclassified to "other current liabilities" as contract liabilities under IFRS.

(18) Reclassification to other current liabilities

"Provision for bonuses," which was separately presented under Japanese GAAP, has been reclassified to "other current liabilities" under IFRS.

Accrued paid absences, which were not accounted for under Japanese GAAP, have been recognized in liabilities as "other current liabilities" under IFRS.

Reconciliation of profit (loss) and comprehensive income for the fiscal year ended December 31, 2016 (fiscal year of latest consolidated financial statements prepared in accordance with Japanese GAAP)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net sales	343,019	–	4,936	347,956	(1)	Revenue
Cost of sales	(134,526)	–	1,162	(133,364)	(1) (2) (3)	Cost of sales
Gross profit	208,493	–	6,098	214,592		Gross profit
Selling, general and administrative expenses	(176,855)	53,718	12,911	(110,225)	(2) (3) (4) (5)	Selling, general and administrative expenses
	–	(53,793)	893	(52,899)	(4) (5)	Research and development expenses
	–	(6,043)	(6,308)	(12,351)	(4) (6)	Share of profit (loss) of investments accounted for using equity method
	–	5,753	(1,498)	4,255	(4) (7)	Other income
	–	(1,394)	76	(1,319)	(4)	Other expenses
Operating profit	31,638	–	–	–		
Non-operating income	3,738	(3,738)	–	–		
Non-operating expenses	(8,979)	8,979	–	–		
Extraordinary income	4,707	(4,707)	–	–		
Extraordinary losses	(817)	817	–	–		
	–	1,224	–	1,224	(4)	Finance income
	–	(945)	546	(400)	(4)	Finance costs
Profit before income taxes	30,288	(129)	12,718	42,877		Profit before tax
Income taxes - current	(13,763)	2,273	(937)	(12,427)	(8)	Income tax expense
Income taxes - deferred	2,144	(2,144)	–	–		
Profit before minority interests	18,669	–	11,781	30,450		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	(942)	–	92	(850)		Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	(1,850)	–	(233)	(2,083)	(2)	Remeasurements of defined benefit plans
						Items that may be reclassified to profit or loss
Foreign currency translation adjustment	(16,364)	–	1,774	(14,590)	(9)	Exchange differences on translation of foreign operations
Share of other comprehensive income of entities accounted for using equity method	(69)	–	(34)	(103)		Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	(19,226)	–	1,599	(17,627)		Other comprehensive income
Comprehensive income	(556)	–	13,380	12,824		Comprehensive income

Notes to reconciliation of profit (loss) and comprehensive income

(1) Adjustment related to revenue

Under Japanese GAAP, revenue from upfront payment agreements and milestone revenue due to agreements for out-licensing of products, development products, technologies and others were recognized as revenue at a point in time; however, the Group has changed the accounting treatment since, under IFRS, if performance obligations in contracts with customers are not satisfied at a point in time, revenue is recognized over a period of time according to the satisfaction of the related performance obligations. Consequently, “revenue” in the comparative year increased by ¥3,023 million.

With regard to agreements for out-licensing of development products and technologies from the Company to entities accounted for using the equity method, adjustments were made to gains generated from such transactions.

Under Japanese GAAP, transactions in which the Group was acting as an agent were presented as “net sales” and “cost of sales” on a gross basis; however, under IFRS, the trading volume is presented on a net basis.

(2) Accounting for retirement benefit asset and liability

Under Japanese GAAP, actuarial gains or losses were recognized in “other comprehensive income” in the period when they occurred, and amortized by the straight-line method over a certain period within the average remaining service period of eligible employees at the time of occurrence, beginning from the next fiscal year of occurrence; however, under IFRS, such actuarial gains or losses are recognized in full in “other comprehensive income” in the period when they occur, and immediately transferred to “retained earnings.”

(3) Accrued paid absences

Accrued paid absences, which were not accounted for under Japanese GAAP, have been recognized as employee benefits expense under IFRS.

(4) Adjustment to accounts

Research and development expenses, which were included in “selling, general and administrative expenses” under Japanese GAAP, have been separately presented as “research and development expenses” under IFRS.

“Share of profit (loss) of investments accounted for using equity method,” which was presented in “non-operating expenses” under Japanese GAAP, has been separately presented under IFRS.

With regard to items that were presented in “non-operating income,” “non-operating expenses,” “extraordinary income” and “extraordinary losses” under Japanese GAAP, finance-related items (such as interest income, dividend income, interest expenses and foreign exchange gains or losses) have been presented as “finance income” and “finance costs,” and other items (such as gain on sale of non-current assets and impairment losses) have been presented in “other income” and “other expenses” under IFRS.

(5) Adjustment to the recorded amount of intangible assets

Expenditures associated with certain research and development expenses that were expensed under Japanese GAAP have been recorded as “intangible assets” under IFRS. Although “goodwill” was amortized under Japanese GAAP, it is not amortized under IFRS. Therefore, a retrospective adjustment was made to the amount that was already amortized of ¥12,643 million.

(6) Adjustment to share of profit (loss) of investments accounted for using equity method

As a result of the application of IFRS to entities accounted for using the equity method, adjustments were made in association with agreements for in-licensing of development products and technologies from the Company in the comparative year, which led to an increase in losses by ¥6,308 million.

(7) Adjustment to other income

Gains from forgiveness of debts were recorded as “extraordinary income” when the amount of debts was fixed under Japanese GAAP; however, under IFRS, such gains are recorded when it is reasonably assured that the terms of forgiveness of debts have been satisfied prior to the Transition Date. Accordingly, “other income” decreased.

(8) Income tax expense

“Income taxes - current” and “income taxes - deferred” were separately presented under Japanese GAAP; however, these items are collectively presented as “income tax expense” under IFRS.

(9) Adjustment to exchange differences on translation of foreign operations

Income and expenses of overseas subsidiaries and others were translated into Japanese yen using the average exchange rate during the year under Japanese GAAP; however, such income and expenses are translated into Japanese yen using the rate that approximates the exchange rates at the dates of transactions under IFRS.

Reconciliation of cash flows for the fiscal year ended December 31, 2016 (fiscal year of latest consolidated financial statements prepared in accordance with Japanese GAAP)

Significant differences between the consolidated statement of cash flows prepared and disclosed in accordance with Japanese GAAP and that prepared and disclosed in accordance with IFRS are as follows:

Research and development expenses were separately presented in “cash flows from operating activities” under Japanese GAAP; however, under IFRS, the expenditures associated with research and development have been separately presented in “cash flows from investing activities.”

Certain transactions that were expensed based on contracts for consignment of manufacturing were separately presented in “cash flows from operating activities” under Japanese GAAP; however, under IFRS, since they are accounted for as finance leases based on judgment of the substance of contracts, payments on such transactions have been separately presented as the repayment of finance lease obligations in “cash flows from financing activities.”