July 30, 2019

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Financial Results of Astellas for the First Three Months of FY2019

Japan, July 30, 2019 – Astellas Pharma Inc. (TSE: 4503, President and CEO: Kenji Yasukawa, "the Company") today announced the financial results for the first three months (April 1, 2019 – June 30, 2019) of the fiscal year 2019 (FY2019) ending March 31, 2020.

Consolidated financial results for the first three months of FY2019 (core basis)

(Millions of yen)

	First three months of FY2018	**First three months of FY2019**	Change (%)
Revenue	329,085	**334,134**	+5,049 (+1.5%)
Core operating profit	84,038	**84,738**	+700 (+0.8%)
Core profit	70,350	**67,101**	-3,249 (-4.6%)

Cautionary Notes
In this material, statements made with respect to current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Astellas. These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to: (i) changes in general economic conditions and in laws and regulations, relating to pharmaceutical markets, (ii) currency exchange rate fluctuations, (iii) delays in new product launches, (iv) the inability of Astellas to market existing and new products effectively, (v) the inability of Astellas to continue to effectively research and develop products accepted by customers in highly competitive markets, and (vi) infringements of Astellas' intellectual property rights by third parties.
Information about pharmaceutical products (including products currently in development) which is included in this material is not intended to constitute an advertisement or medical advice.

1. Qualitative information on consolidated financial results for the first three months of FY2019

(1) Business performance

<Consolidated financial results (core basis [Note])>

Consolidated financial results (core basis) in the first three months of FY2019 are shown in the table below. Revenue and core operating profit increased, and core profit decreased.

Consolidated financial results (core basis)

(Millions of yen)

	First three months of FY2018	**First three months of FY2019**	Change (%)
Revenue	329,085	**334,134**	+5,049 (+1.5%)
Cost of sales	70,736	**70,512**	-223 (-0.3%)
Selling, general and administrative	112,888	**117,470**	+4,583 (+4.1%)
R&D expenses	52,132	**53,507**	+1,375 (+2.6%)
Amortisation of intangible assets	9,039	**7,178**	-1,861 (-20.6%)
Share of profit (loss) of investments accounted for using	-252	**-728**	-475 (–)
Core operating profit	84,038	**84,738**	+700 (+0.8%)
Core profit	70,350	**67,101**	-3,249 (-4.6%)
Basic core earnings per share (yen)	35.70	**35.58**	-0.12 (-0.3%)

(Note) The Company discloses financial results on a core basis as an indicator of its recurring profitability. Certain items reported in financial results on a full basis that are deemed to be non-recurring items by the Company are excluded as non-core items from these financial results on a core basis. These adjusted items include impairment losses, gain/loss on sales of property, plant and equipment, restructuring costs, loss on disaster, a large amount of losses on compensation or settlement of litigations and other legal disputes, and other items that are deemed to be excluded based on the Company’s judgment. A reconciliation table between results on a full basis and results on a core basis is provided of the “Supplementary Documents for Results Q1/FY2019.”

Revenue

Revenue in the first three months of FY2019 increased by 1.5% compared to those in the corresponding period of the previous fiscal year ("year-on-year") to ¥334.1 billion.

- Revenue increased due to expanding sales of main products and sales growth of new products, despite the impact of the end of exclusivity for overactive bladder ("OAB") treatment Vesicare and anticancer drug Tarceva.
- Contributing to this increase in revenue was the continuing expansion of sales of XTANDI for the treatment of prostate cancer and OAB treatments Betanis / Myrbetriq / BETMIGA, as well as the launch of FLT3 inhibitor XOSPATA in Japan and United States in December 2018.
- In addition, the new product groups in Japan are achieving sales growth, notably EVENITY for the treatment of osteoporosis, which was launched in March 2019.

Core operating profit / Core profit

- Gross profit increased by 2.0% year-on-year to ¥263.6 billion. The cost-to-revenue ratio fell by 0.4 percentage points year-on-year to 21.1%, mainly owing to the foreign exchange rate impact from the elimination of unrealized gains.
- Selling, general and administrative expenses increased by 4.1% year-on-year to ¥117.5 billion. Major factors included an increase in XTANDI co-promotion fees in United States, which accompanied sales growth. There was also the investment required to start up operations for new products, but various efforts were employed to keep the increase in costs down through improving cost efficiency and optimizing resource allocation.
- Research and development (R&D) expenses increased by 2.6% year-on-year to ¥53.5 billion. Expenses increased in relation to key post-POC pipeline projects and enhanced investment in new opportunities such as new areas and technologies. The R&D cost-to-revenue ratio was up 0.2 percentage points year-on-year to 16.0%.
- Amortisation of intangible assets decreased by 20.6% year-on-year to ¥7.2 billion.

As a result of the above, core operating profit increased by 0.8% year-on-year to ¥84.7 billion. Core profit decreased by 4.6% year-on-year to ¥67.1 billion mainly due to one-off decline in corporate taxes rate in the corresponding period of the previous fiscal year.

Impact of exchange rate on financial results

The exchange rates for the yen in the first three months of FY2019 are shown in the table below. The resulting impacts were a ¥5.1 billion decrease in revenue and a ¥0.4 billion increase in core operating profit compared with if the exchange rates of the first three months of FY2018 were applied.

Average rate	First three months of FY2018	**First three months of FY2019**	Change
US$/¥	109	**110**	¥1 (Weakening of yen)
€/¥	130	**123**	¥7 (Strengthening of yen)

Change from beginning to end of period	As of June 30, 2018	**As of June 30, 2019**
US$/¥	¥4 (Weakening of yen)	**¥3** **(Strengthening of yen)**
€/¥	¥3 (Strengthening of yen)	**¥2** **(Strengthening of yen)**

<Consolidated financial results (full basis)>

Consolidated financial results on a full basis in the first three months of FY2019 are shown in the table below. Revenue, operating profit, profit before tax and profit increased across the board.

The full basis financial results include “Other income,” “Other expense” (including impairment losses and net foreign exchange losses), which are excluded from the core basis financial results.
In the first three months of FY 2019, “Other income” was ¥4.5 billion (¥4.2 billion in the same period of the previous fiscal year) and “Other expense” was ¥12.2 billion (¥24.7 billion in the same period of the previous fiscal year). As a result of the development of selective neurokinin-3 (NK3) receptor antagonist fezolinetant advancing to Phase 3, there was an increase in the fair value of contingent consideration to former shareholders of Ogeda SA, which is paid commensurately with the progress of development, and this increased portion was recorded in “Other expense.”

Consolidated financial results (full basis)

(Millions of yen)

	First three months of FY2018	**First three months of FY2019**	Change (%)
Revenue	329,085	**334,134**	+5,049 (+1.5%)
Operating profit	63,548	**77,086**	+13,538 (+21.3%)
Profit before tax	64,495	**76,528**	+12,033 (+18.7%)
Profit	54,559	**58,518**	+3,959 (+7.3%)
Basic earnings per share (yen)	27.68	**31.03**	+3.35 (+12.1%)
Comprehensive income	70,861	**27,045**	-43,817 (-61.8%)

<Sales of Main Products>

(Billions of yen)

	First three months of FY2018	**First three months of FY2019**	Change
XTANDI	81.2	**96.0**	+18.2%
XOSPATA	–	**2.5**	–
OAB products in Urology	59.3	**53.5**	-9.8%
Betanis / Myrbetriq / BETMIGA	34.4	**39.9**	+16.1%
Vesicare	24.9	**13.6**	-45.6%
Prograf*	52.2	**50.4**	-3.4%

* Prograf: Includes Advagraf, Graceptor, and ASTAGRAF XL.

<XTANDI>

- Sales increased by 18.2% year-on-year to ¥96.0 billion. Sales grew in all regions of Japan, United States, Established Markets[*1], Greater China[*2], and International[*3].

<XOSPATA>

- Sales of XOSPATA, which was launched in Japan and United States in December 2018, were ¥2.5 billion.

<OAB products in Urology>

- Sales of Betanis / Myrbetriq / BETMIGA increased by 16.1% year-on-year to ¥39.9 billion. Sales increased in all regions. In addition, sales of Vesicare decreased by 45.6% year-on-year to ¥13.6 billion, impacted by the effect of generic drugs resulting from the end of exclusivity for the drug in United States and Europe.

<Prograf>

- Sales decreased by 3.4% year-on-year to ¥50.4 billion. While sales grew in Greater China, sales decreased in United States, Established Markets, and International.

<Other main products and new products>

- In Japan, sales of Suglat and SUJANU Combination Tablets for the treatment of type 2 diabetes mellitus, Repatha for the treatment of hypercholesterolemia and Linzess for the treatment of chronic constipation continued to grow. Also, sales of EVENITY, launched in March 2019 are proceeding strongly.
- In United States, sales of azole antifungal CRESEMBA grew.

*1 Established Markets: Europe, Canada, Australia.
*2 Greater China: China, Hong Kong, Taiwan.
*3 International: Russia, Latin America, Middle East, Africa, South East Asia, South Asia, Korea, Export sales, etc.

<Revenue by region>

Revenue by region is shown in the table below. Revenue in Japan, United States, Greater China, and International increased, while in Established Markets decreased.
Although the revenue of Established Markets decreased due to the foreign exchange rate impact, it increased when calculated excluding such adverse effects.

(Billions of yen)

	First three months of FY2018	**First three months of FY2019**	Change
Japan	94.1	**98.5**	+4.6%
United States	102.7	**105.3**	+2.5%
Established Markets	76.9	**75.8**	-1.4%
Greater China	13.7	**14.7**	+7.4%
International	32.1	**34.2**	+6.6%

(2) Financial position

i. Assets, equity and liabilities

An overview of the consolidated statement of financial position as of June 30, 2019 and the main changes from the end of the previous fiscal year are shown below.

Assets

Total assets as of June 30, 2019 saw an increase of ¥29.4 billion compared to the end of the previous fiscal year to ¥1,927.0 billion.

<Non-current assets> As of June 30, 2019: ¥1,106.9 billion (an increase of ¥66.4 billion)

- Goodwill decreased by ¥5.7 billion compared to the end of the previous fiscal year to ¥220.1 billion, and intangible assets decreased by ¥6.0 billion compared to the end of the previous fiscal year to ¥423.7 billion.
- Due to the application of IFRS 16 “Leases”, right-of-use assets of ¥83.1 billion was recognized at the beginning of the period. Consequently, property, plant and equipment increased by ¥78.4 billion compared to the end of the previous fiscal year to ¥251.9 billion.

<Current assets> As of June 30, 2019: ¥820.1 billion (a decrease of ¥37.0 billion)

- Cash and cash equivalents decreased by ¥51.7 billion compared to the end of the previous fiscal year to ¥259.4 billion.

Equity

Total equity as of June 30, 2019 saw a decrease of ¥8.7 billion compared to the end of the previous fiscal year to ¥1,249.7 billion, making the ratio of equity attributable to owners of the parent to gross assets 64.9%.

- While profit stood at ¥58.5 billion, the Company paid ¥35.8 billion of dividends of surplus.
- Exchange differences on translation of foreign operations decreased equity by ¥26.3 billion.
- Cancellation of treasury shares totaling ¥159.6 billion (91 million shares) was carried out on May 31, 2019.

Liabilities

Total liabilities increased by ¥38.1 billion compared to the end of the previous fiscal year to ¥677.3 billion.

<Non-current liabilities> As of June 30, 2019: ¥213.2 billion (an increase of ¥71.6 billion)

- Due to the application of IFRS 16 “Leases”, lease liabilities of ¥75.5 billion was recognized at the beginning of the period. Consequently, other financial liabilities increased by ¥76.7 billion compared to the end of the previous fiscal year to ¥129.6 billion.

<Current liabilities> As of June 30, 2019: ¥464.2 billion (a decrease of ¥33.5 billion)

- Due to the application of IFRS 16 “Leases”, lease liabilities of ¥16.9 billion was recognized at the beginning of the period. Consequently, other financial liabilities increased by ¥29.4 billion compared to the end of the previous fiscal year to ¥43.5 billion.

ii. Cash flow

Cash flows from operating activities

Net cash flows from operating activities in the first three months of FY2019 decreased year-on-year by ¥29.8 billion to ¥7.4 billion.

- Income tax paid was ¥10.6 billion.

Cash flows from investing activities

Net cash flows used in investing activities in the first three months of FY2019 was ¥14.0 billion, an increase in outflow of ¥16.4 billion year-on-year.

Cash flows from financing activities

Net cash flows used in financing activities in the first three months of FY2019 was ¥40.4 billion, a decrease in outflow of ¥22.9 billion year-on-year.

- Dividends paid increased by ¥0.3 billion year-on-year to ¥35.8 billion.

As a result, cash and cash equivalents totaled ¥259.4 billion as of June 30, 2019, a decrease of ¥51.7 billion compared to the end of the previous fiscal year.

(3) Consolidated business forecasts for FY2019 and other forward-looking statements

The Company's business forecasts for FY2019 are presented on a core basis and full basis.
The consolidated full-year business forecasts for FY2019 are shown below. The Company has chosen to leave its business forecasts unchanged from the consolidated full-year business forecasts announced in April 2019.

Consolidated full-year business forecasts (core basis)

(Millions of yen)

	FY2018 Results	**FY2019 Forecasts**	Change (%)
Revenue	1,306,348	**1,224,000**	-82,348 (-6.3%)
R&D expenses	208,682	**211,000**	+2,318 (+1.1%)
Core operating profit	278,514	**240,000**	-38,514 (-13.8%)
Core profit	249,343	**194,000**	-55,343 (-22.2%)
Basic core earnings per share (yen)	129.07	**102.87**	-26.20 (-20.3%)

Consolidated full-year business forecasts (full basis)

(Millions of yen)

	FY2018 Results	**FY2019 Forecasts**	Change (%)
Revenue	1,306,348	**1,224,000**	-82,348 (-6.3%)
Operating profit	243,912	**229,000**	-14,912 (-6.1%)
Profit before tax	248,967	**230,000**	-18,967 (-7.6%)
Profit	222,265	**182,000**	-40,265 (-18.1%)
Basic earnings per share (yen)	115.05	**96.51**	-18.54 (-16.1%)

Expected exchange rate for

FY2019 (Forecast)	**¥110/US$**	**¥125/€**
FY2018 (Result)	¥111/US$	¥128/€

2. Condensed Interim Consolidated Financial Statements and Notes
(1) Condensed Interim Consolidated Statement of Income

(Millions of yen)

	Three months ended 30 June 2018	Three months ended 30 June 2019
Revenue	329,085	334,134
Cost of sales	(70,736)	(70,512)
Gross profit	258,349	263,622
Selling, general and administrative expenses	(112,888)	(117,470)
Research and development expenses	(52,132)	(53,507)
Amortisation of intangible assets	(9,039)	(7,178)
Share of profit (loss) of investments accounted for using equity method	(252)	(728)
Other income	4,239	4,522
Other expense	(24,728)	(12,174)
Operating profit	63,548	77,086
Finance income	1,166	766
Finance expense	(219)	(1,325)
Profit before tax	64,495	76,528
Income tax expense	(9,935)	(18,010)
Profit	54,559	58,518
Profit attributable to:		
Owners of the parent	54,559	58,518
Earnings per share		
Basic (Yen)	27.68	31.03
Diluted (Yen)	27.65	31.00

(2) Condensed Interim Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended 30 June 2018	Three months ended 30 June 2019
Profit	54,559	58,518
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	7,289	(4,224)
Remeasurements of defined benefit plans	158	(908)
Subtotal	7,446	(5,132)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	8,856	(26,342)
Subtotal	8,856	(26,342)
Other comprehensive income	16,302	(31,473)
Total comprehensive income	70,861	27,045
Total comprehensive income attributable to:		
Owners of the parent	70,861	27,045

(3) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of 31 March 2019	As of 30 June 2019
Assets		
Non-current assets		
Property, plant and equipment	173,483	251,898
Goodwill	225,864	220,129
Intangible assets	429,707	423,704
Trade and other receivables	25,248	23,616
Investments accounted for using equity method	3,653	5,117
Deferred tax assets	92,958	90,886
Other financial assets	81,457	81,235
Other non-current assets	8,121	10,317
Total non-current assets	1,040,489	1,106,901
Current assets		
Inventories	151,511	150,539
Trade and other receivables	342,628	358,800
Income tax receivable	20,113	22,677
Other financial assets	2,607	3,934
Other current assets	25,080	24,756
Cash and cash equivalents	311,074	259,422
Subtotal	853,012	820,128
Assets held for sale	4,147	2
Total current assets	857,159	820,130
Total assets	1,897,648	1,927,031

(Millions of yen)

	As of 31 March 2019	As of 30 June 2019
Equity and liabilities		
Equity		
Share capital	103,001	103,001
Capital surplus	177,301	177,087
Treasury shares	(164,629)	(4,613)
Retained earnings	991,957	854,412
Other components of equity	150,767	119,821
Total equity attributable to owners of the parent	1,258,396	1,249,708
Total equity	1,258,396	1,249,708
Liabilities		
Non-current liabilities		
Trade and other payables	1,572	1,597
Deferred tax liabilities	5,175	5,072
Retirement benefit liabilities	40,163	41,085
Provisions	5,416	6,216
Other financial liabilities	52,882	129,626
Other non-current liabilities	36,379	29,565
Total non-current liabilities	141,587	213,161
Current liabilities		
Trade and other payables	185,280	140,035
Income tax payable	17,587	24,426
Provisions	22,843	10,946
Other financial liabilities	14,136	43,502
Other current liabilities	255,913	245,253
Subtotal	495,759	464,162
Liabilities directly associated with assets held for sale	1,906	—
Total current liabilities	497,665	464,162
Total liabilities	639,252	677,323
Total equity and liabilities	1,897,648	1,927,031

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Subscription rights to shares	Exchange differences on translation of foreign operations
As of 1 April 2018	103,001	177,219	(135,951)	976,076	1,477	128,179
Cumulative effect of accounting change	—	—	—	—	—	—
Restated balance	103,001	177,219	(135,951)	976,076	1,477	128,179
Comprehensive income						
Profit	—	—	—	54,559	—	—
Other comprehensive income	—	—	—	—	—	8,856
Total comprehensive income	—	—	—	54,559	—	8,856
Transactions with owners						
Acquisition of treasury shares	—	—	(27,786)	—	—	—
Disposals of treasury shares	—	(281)	340	(51)	(7)	—
Cancellation of treasury shares	—	—	130,419	(130,419)	—	—
Dividends	—	—	—	(35,571)	—	—
Share-based payments	—	127	—	—	—	—
Transfers	—	—	—	151	—	—
Total transactions with owners	—	(154)	102,973	(165,890)	(7)	—
As of 30 June 2018	103,001	177,064	(32,978)	864,746	1,469	137,035

As of 1 April 2019	103,001	177,301	(164,629)	991,957	1,127	125,656
Comprehensive income						
Profit	—	—	—	58,518	—	—
Other comprehensive income	—	—	—	—	—	(26,342)
Total comprehensive income	—	—	—	58,518	—	(26,342)
Transactions with owners						
Acquisition of treasury shares	—	—	(1)	—	—	—
Disposals of treasury shares	—	(313)	436	(87)	(37)	—
Cancellation of treasury shares	—	—	159,581	(159,581)	—	—
Dividends	—	—	—	(35,831)	—	—
Share-based payments	—	99	—	—	—	—
Transfers	—	—	—	(564)	—	—
Total transactions with owners	—	(214)	160,016	(196,063)	(37)	—
As of 30 June 2019	103,001	177,087	(4,613)	854,412	1,090	99,315

(Millions of yen)

	Equity attributable to owners of the parent					Total equity
	Other components of equity				Total	
	Fair value movements on available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
As of 1 April 2018	18,289	—	—	147,945	1,268,289	1,268,289
Cumulative effect of accounting change	(18,289)	18,289	—	—	—	—
Restated balance	—	18,289	—	147,945	1,268,289	1,268,289
Comprehensive income						
Profit	—	—	—	—	54,559	54,559
Other comprehensive income	—	7,289	158	16,302	16,302	16,302
Total comprehensive income	—	7,289	158	16,302	70,861	70,861
Transactions with owners						
Acquisition of treasury shares	—	—	—	—	(27,786)	(27,786)
Disposals of treasury shares	—	—	—	(7)	0	0
Cancellation of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	—	(35,571)	(35,571)
Share-based payments	—	—	—	—	127	127
Transfers	—	6	(158)	(151)	—	—
Total transactions with owners	—	6	(158)	(159)	(63,230)	(63,230)
As of 30 June 2018	—	25,584	—	164,088	1,275,921	1,275,921

As of 1 April 2019	—	23,984	—	150,767	1,258,396	1,258,396
Comprehensive income						
Profit	—	—	—	—	58,518	58,518
Other comprehensive income	—	(4,224)	(908)	(31,473)	(31,473)	(31,473)
Total comprehensive income	—	(4,224)	(908)	(31,473)	27,045	27,045
Transactions with owners						
Acquisition of treasury shares	—	—	—	—	(1)	(1)
Disposals of treasury shares	—	—	—	(37)	0	0
Cancellation of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	—	(35,831)	(35,831)
Share-based payments	—	—	—	—	99	99
Transfers	—	(343)	908	564	—	—
Total transactions with owners	—	(343)	908	528	(35,733)	(35,733)
As of 30 June 2019	—	19,416	—	119,821	1,249,708	1,249,708

(5) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended 30 June 2018	Three months ended 30 June 2019
Cash flows from operating activities		
Profit before tax	64,495	76,528
Depreciation and amortisation	16,080	17,012
Impairment losses (reversal of impairment losses)	3,004	—
Finance income and expense	(947)	558
(Increase) decrease in inventories	2,424	(3,482)
(Increase) decrease in trade and other receivables	(12,780)	(22,011)
Increase (decrease) in trade and other payables	(5,862)	(44,988)
Other	(4,962)	(5,627)
Subtotal	61,453	17,990
Income tax paid	(24,274)	(10,578)
Net cash flows from operating activities	37,179	7,412
Cash flows from investing activities		
Purchases of property, plant and equipment	(5,035)	(7,342)
Proceeds from sales of property, plant and equipment	14,255	30
Purchase of intangible assets	(4,979)	(3,156)
Payments for acquisition of subsidiaries	—	(5,138)
Interest and dividends received	738	646
Other	(2,534)	975
Net cash flows provided by (used in) investing activities	2,446	(13,985)
Cash flows from financing activities		
Acquisition of treasury shares	(27,786)	(1)
Dividends paid to owners of the parent	(35,571)	(35,831)
Repayments of lease liabilities	—	(4,003)
Other	68	(520)
Net cash flows used in financing activities	(63,289)	(40,354)
Effect of exchange rate changes on cash and cash equivalents	1,675	(4,725)
Net increase (decrease) in cash and cash equivalents	(21,990)	(51,652)
Cash and cash equivalents at the beginning of the year	331,731	311,074
Cash and cash equivalents at the end of the period	309,741	259,422

(6) Notes to condensed interim consolidated financial statements

Notes on going concern assumption

Not applicable.

Significant accounting policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those applied for the consolidated financial statements for the fiscal year ended 31 March 2019 with exception of the item described below.

Astellas Pharma Inc. and its subsidiaries (collectively, the “Group”) calculated income tax expense for the three months ended 30 June 2019 based on the estimated average annual effective tax rate.

The Group has newly adopted the following standard from the three months ended 30 June 2019:

IFRS		Summary of new or amended IFRS standard and interpretations
IFRS 16	Leases	Amendments related to accounting treatment for leases

With the application of IFRS 16, the Group adopts the practical expedient whereby the Group does not reassess whether a contract is, or contains, a lease at the date of initial application. The Group adopts the method whereby the cumulative effect of initially applying this standard is recognised at the date of initial application as a transitional measure.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease based on the substance of the contract. The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease and periods covered by an option to terminate the lease, as well as using hindsight at the date of initial application. The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics. For short-term leases and leases for which the underlying asset is of low value, the Group may recognise the lease payments as an expense over the lease term instead of recognising a right-of-use asset and a lease liability.

1) Right-of-use asset

The right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the corresponding lease liability adjusted for initial direct costs, etc.
Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease over the shorter of the useful life of the right-of-use asset or the end of the lease term.

2) Lease liability

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, which is discounted using the interest rate implicit in the lease. If that rate can not be readily determined, the Group uses its incremental borrowing rate.
After the commencement date, the lease liabilities are measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasured to reflect any reassessment or lease modifications when necessary.

Due to the application of IFRS 16, the Group recognises right-of-use assets of 83,061 million yen as “Property, plant and equipment”, lease liabilities of 75,455 million yen and 16,859 million yen as “other financial liabilities” in non-current liabilities and current liabilities, respectively, in the condensed interim consolidated statement of financial position at the date of initial application. There is no material impact on the other assets and liabilities. There is no impact on the beginning balance of retained earnings. There is no material impact on the condensed interim consolidated statement of income. The lease payments are recognised in the condensed interim consolidated statement of cash flows mainly as cash flows from financing activities, whereas previously such payments were recognised as cash flows from operating activities.