Consolidated Financial Statements under IFRS with Independent Auditor's Report

Astellas Pharma Inc. and Subsidiaries

For the year ended 31 March 2019

Consolidated Financial Statements

(1) Consolidated Statement of Income

	Note	Fiscal year ended 31 March 2018 (Millions of yen)	Fiscal year ended 31 March 2019 (Millions of yen)	Fiscal year ended 31 March 2019 (Millions of U.S. dollars)
Revenue	6	1,300,316	1,306,348	$11,769
Cost of sales		(294,250)	(292,050)	(2,631)
Gross profit		1,006,066	1,014,299	9,138
Selling, general and administrative expenses		(478,330)	(490,263)	(4,417)
Research and development expenses		(220,781)	(208,682)	(1,880)
Amortisation of intangible assets	17	(35,838)	(35,212)	(317)
Share of profit (loss) of investments accounted for using equity method		(2,419)	(1,627)	(15)
Other income	7	11,872	14,152	127
Other expense	8	(67,311)	(48,755)	(439)
Operating profit		213,258	243,912	2,197
Finance income	10	6,637	6,358	57
Finance expense	11	(1,782)	(1,302)	(12)
Profit before tax		218,113	248,967	2,243
Income tax expense	12	(53,434)	(26,702)	(241)
Profit		164,679	222,265	$2,002
Profit attributable to:				
Owners of the parent		164,679	222,265	2,002
Earnings per share		(Yen)	(Yen)	(U.S. dollars)
Basic	13	81.11	115.05	$1.04
Diluted	13	81.02	114.94	1.04

(2) Consolidated Statement of Comprehensive Income

	Note	(Millions of yen) Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019	(Millions of U.S. dollars) Fiscal year ended 31 March 2019
Profit		164,679	222,265	$2,002
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income		-	5,060	46
Remeasurements of defined benefit plans		1,611	(2,553)	(23)
Subtotal		1,611	2,508	23
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	14	28,590	(2,523)	(23)
Fair value movements on available-for-sale financial assets	14	3,660	-	-
Subtotal		32,250	(2,523)	(23)
Other comprehensive income		33,860	(15)	(0)
Total comprehensive income		198,539	222,250	$2,002
Total comprehensive income attributable to:				
Owners of the parent		198,539	222,250	$2,002

(3) Consolidated Statement of Financial Position

	Note	(Millions of yen) As of 31 March 2018	(Millions of yen) As of 31 March 2019	(Millions of U.S. dollars) As of 31 March 2019
Assets				
Non-current assets				
Property, plant and equipment	15	181,295	173,483	$1,563
Goodwill	16	212,976	225,864	2,035
Intangible assets	17	416,912	429,707	3,871
Trade and other receivables	22	25,282	25,248	227
Investments accounted for using equity method		3,138	3,653	33
Deferred tax assets	18	97,237	92,958	837
Other financial assets	19	67,375	81,457	734
Other non-current assets	20	8,372	8,121	73
Total non-current assets		1,012,587	1,040,489	9,374
Current assets				
Inventories	21	147,626	151,511	1,365
Trade and other receivables	22	319,512	342,628	3,087
Income tax receivable		8,412	20,113	181
Other financial assets	19	13,517	2,607	23
Other current assets	20	14,448	25,080	226
Cash and cash equivalents	23	331,731	311,074	2,802
Subtotal		835,245	853,012	7,685
Assets held for sale	24	10,374	4,147	37
Total current assets		845,619	857,159	7,722
Total assets		1,858,205	1,897,648	$17,096

	Note	(Millions of yen) As of 31 March 2018	As of 31 March 2019	(Millions of U.S. dollars) As of 31 March 2019
Equity and liabilities				
Equity				
Share capital	25	103,001	103,001	$928
Capital surplus	25	177,219	177,301	1,597
Treasury shares	25	(135,951)	(164,629)	(1,483)
Retained earnings		976,076	991,957	8,937
Other components of equity	25	147,945	150,767	1,358
Total equity attributable to owners of the parent		1,268,289	1,258,396	11,337
Total equity		1,268,289	1,258,396	11,337
Liabilities				
Non-current liabilities				
Trade and other payables	32	3,515	1,572	14
Deferred tax liabilities	18	26,426	5,175	47
Retirement benefit liabilities	28	36,673	40,163	362
Provisions	29	4,891	5,416	49
Other financial liabilities	30	49,422	52,882	476
Other non-current liabilities	31	47,370	36,379	328
Total non-current liabilities		168,296	141,587	$1,276
Current liabilities				
Trade and other payables	32	140,909	185,280	1,669
Income tax payable		25,184	17,587	158
Provisions	29	126,231	22,843	206
Other financial liabilities	30	7,559	14,136	127
Other current liabilities	31	121,737	255,913	2,306
Subtotal		421,620	495,759	4,466
Liabilities directly associated with assets held for sale	24	-	1,906	17
Total current liabilities		421,620	497,665	4,483
Total liabilities		589,916	639,252	5,759
Total equity and liabilities		1,858,205	1,897,648	$17,096

(4) Consolidated Statement of Changes in Equity

(Millions of yen)

	Note	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 2017		103,001	177,091	(138,207)	1,013,923	1,784	99,590
Comprehensive income							
Profit		-	-	-	164,679	-	-
Other comprehensive income		-	-	-	-	-	28,590
Total comprehensive income		-	-	-	164,679	-	28,590
Transactions with owners							
Acquisition of treasury shares	25	-	-	(130,712)	-	-	-
Disposals of treasury shares	25	-	(159)	819	(353)	(307)	-
Cancellation of treasury shares	25	-	-	132,150	(132,150)	-	-
Dividends	26	-	-	-	(71,634)	-	-
Share-based payments	27	-	286	-	-	-	-
Transfers		-	-	-	1,611	-	-
Total transactions with owners		-	127	2,257	(202,526)	(307)	-
As of 31 March 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		-	-	-	222,265	-	-
Other comprehensive income		-	-	-	-	-	(2,523)
Total comprehensive income		-	-	-	222,265	-	(2,523)
Transactions with owners							
Acquisition of treasury shares	25	-	-	(160,442)	-	-	-
Disposals of treasury shares	25	-	(281)	1,345	(713)	(350)	-
Cancellation of treasury shares	25	-	-	130,419	(130,419)	-	-
Dividends	26	-	-	-	(72,066)	-	-
Share-based payments	27	-	364	-	-	-	-
Transfers		-	-	-	(3,187)	-	-
Total transactions with owners		-	82	(28,678)	(206,384)	(350)	-
As of 31 March 2019		103,001	177,301	(164,629)	991,957	1,127	125,656

(Millions of yen)

	Note	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 2017		14,629	-	-	116,002	1,271,810	1,271,810
Comprehensive income							
Profit		-	-	-	-	164,679	164,679
Other comprehensive income		3,660	-	1,611	33,860	33,860	33,860
Total comprehensive income		3,660	-	1,611	33,860	198,539	198,539
Transactions with owners							
Acquisition of treasury shares	25	-	-	-	-	(130,712)	(130,712)
Disposals of treasury shares	25	-	-	-	(307)	1	1
Cancellation of treasury shares	25	-	-	-	-	-	-
Dividends	26	-	-	-	-	(71,634)	(71,634)
Share-based payments	27	-	-	-	-	286	286
Transfers		-	-	(1,611)	(1,611)	-	-
Total transactions with owners		-	-	(1,611)	(1,918)	(202,060)	(202,060)
As of 31 March 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		-	-	-	-	222,265	222,265
Other comprehensive income		-	5,060	(2,553)	(15)	(15)	(15)
Total comprehensive income		-	5,060	(2,553)	(15)	222,250	222,250
Transactions with owners							
Acquisition of treasury shares	25	-	-	-	-	(160,442)	(160,442)
Disposals of treasury shares	25	-	-	-	(350)	1	1
Cancellation of treasury shares	25	-	-	-	-	-	-
Dividends	26	-	-	-	-	(72,066)	(72,066)
Share-based payments	27	-	-	-	-	364	364
Transfers		-	635	2,553	3,187	-	-
Total transactions with owners		-	635	2,553	2,837	(232,143)	(232,143)
As of 31 March 2019		-	23,984	-	150,767	1,258,396	1,258,396

(Millions of U.S. dollars)

	Note	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 31 March 2018		$928	$1,597	$ (1,225)	$8,793	$13	$1,155
Cumulative effect of accounting change		-	-	-	-	-	-
Restated balance		928	1,597	(1,225)	8,793	13	1,155
Comprehensive income							
Profit		-	-	-	2,002	-	-
Other comprehensive income		-	-	-	-	-	(23)
Total comprehensive income		-	-	-	2,002	-	(23)
Transactions with owners							
Acquisition of treasury shares	25	-	-	(1,445)	-	-	-
Disposals of treasury shares	25	-	(3)	12	(6)	(3)	-
Cancellation of treasury shares	25	-	-	1,175	(1,175)	-	-
Dividends	26	-	-	-	(649)	-	-
Share-based payments	27	-	3	-	-	-	-
Transfers		-	-	-	(29)	-	-
Total transactions with owners		-	1	(258)	(1,859)	(3)	-
As of 31 March 2019		$928	$1,597	$ (1,483)	$8,937	$10	$1,132

(Millions of U.S. dollars)

	Note	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 31 March 2018		$165	$-	$-	$1,333	$11,426	$11,426
Cumulative effect of accounting change		(165)	165	-	-	-	-
Restated balance		-	165	-	1,333	11,426	11,426
Comprehensive income							
Profit		-	-	-	-	2,002	2,002
Other comprehensive income		-	46	(23)	(0)	(0)	(0)
Total comprehensive income		-	46	(23)	(0)	2,002	2,002
Transactions with owners							
Acquisition of treasury shares	25	-	-	-	-	(1,445)	(1,445)
Disposals of treasury shares	25	-	-	-	(3)	0	0
Cancellation of treasury shares	25	-	-	-	-	-	-
Dividends	26	-	-	-	-	(649)	(649)
Share-based payments	27	-	-	-	-	3	3
Transfers		-	6	23	29	-	-
Total transactions with owners		-	6	23	26	(2,091)	(2,091)
As of 31 March 2019		$-	$216	$-	$1,358	$11,337	$11,337

(5) Consolidated Statement of Cash Flows

	Note	Fiscal year ended 31 March 2018 (Millions of yen)	Fiscal year ended 31 March 2019 (Millions of yen)	Fiscal year ended 31 March 2019 (Millions of U.S. dollars)
Cash flows from operating activities				
Profit before tax		218,113	248,967	$2,243
Depreciation and amortisation		64,863	63,458	572
Impairment losses (reversal of impairment losses)		42,398	11,446	103
Finance income and expense		(4,854)	(5,055)	(46)
(Increase) decrease in inventories		37,830	(5,480)	(49)
(Increase) decrease in trade and other receivables		(6,634)	(25,640)	(231)
Increase (decrease) in trade and other payables		(43,804)	40,828	368
Other		69,723	20	0
Subtotal		377,635	328,543	2,960
Income tax paid		(65,021)	(69,913)	(630)
Net cash flows from operating activities		312,614	258,630	2,330
Cash flows from investing activities				
Purchases of property, plant and equipment		(25,077)	(25,190)	(227)
Proceeds from sales of property, plant and equipment		1,209	20,949	189
Purchase of intangible assets		(15,208)	(26,938)	(243)
Proceeds from sales of available-for-sale financial assets		6,970	-	-
Payments for acquisition of subsidiaries	37	(83,723)	(19,292)	(174)
Interest and dividends received		1,849	2,798	25
Other		(7,818)	5,916	53
Net cash flows used in investing activities		(121,799)	(41,757)	(376)
Cash flows from financing activities				
Acquisition of treasury shares	25	(130,712)	(160,442)	(1,445)
Dividends paid to owners of the parent	26	(71,634)	(72,066)	(649)
Other		(1,083)	(1,173)	(11)
Net cash flows used in financing activities		(203,429)	(233,681)	(2,105)
Effect of exchange rate changes on cash and cash equivalents		3,421	(2,118)	(19)
Cash and cash equivalents reclassified to assets held for sale		-	(1,732)	(16)
Net increase (decrease) in cash and cash equivalents		(9,192)	(20,657)	(186)
Cash and cash equivalents at the beginning of the year	23	340,923	331,731	2,989
Cash and cash equivalents at the end of the year	23	331,731	311,074	$2,802

Notes to consolidated financial statements

1. Reporting Entity

Astellas Pharma Inc. and its subsidiaries (collectively, the “Group”) are engaged in the manufacture and sales of pharmaceutical products. The parent company of the Group, Astellas Pharma Inc. (the “Company”), is incorporated in Japan, and the registered address of headquarters and principal business offices are available on the Company’s website (https://www.astellas.com/en/). Also, shares of the Company are publicly traded on the Tokyo Stock Exchange (First Section).

The Group’s consolidated financial statements for the year ended 31 March 2019 were authorised for issue on 18 June 2019 by Kenji Yasukawa, Representative Director, President and Chief Executive Officer, and Chikashi Takeda, Senior Corporate Executive and Chief Financial Officer.

2. Basis of Preparation

(1) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board.

(2) Basis of measurement

The Group’s consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value.

(3) 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, except as otherwise indicated.

For the convenience of readers outside Japan, the accompanying consolidated financial statements are also presented in U.S. dollars by translating Japanese yen amounts at the exchange rate of ¥111 to U.S. $1, the approximate rate of exchange at the end of 31 March 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

(4) Changes in accounting policies

The Group has newly adopted the following accounting standards from the fiscal year ended 31 March 2019.

IFRSs		Effective date (fiscal year beginning on or after)	The Group’s application date (fiscal year ended)	Summaries of new or amended IFRS standards and interpretations
IFRS 9	Financial Instruments	1 January 2018	31 March 2019	Amendments related to classification and measurement of financial assets and financial liabilities, impairment, and hedge accounting
IFRS 15	Revenue from Contracts with Customers	1 January 2018	31 March 2019	Comprehensive framework for revenue recognition

The nature and the effects of the changes in the significant accounting policies relevant to the consolidated financial statements are as follows. With the application of IFRS 9 and IFRS 15, the Group has adopted the method whereby the cumulative effect of initially applying these standards is recognised at the date of initial application as a transition measure. There is no impact on the beginning balance of retained earnings for the fiscal year ended 31 March 2019.

There is no material impact on the Group's consolidated financial statements due to the application of IFRS 9.

Accounting policies on financial instruments are described in "3. Significant Accounting Policies (14)". The classifications of financial assets and financial liabilities as of the date of initial application of IFRS 9 are as follows.

IAS 39	31 March 2018	IFRS 9	1 April 2018
Financial assets		Financial assets	
Financial assets at FVTPL			
Others	13,334	Financial assets at FVTPL	13,334
Loans and receivables			
Trade and other receivables	344,794	Financial assets measured at amortised cost	344,794
Loans and other financial assets	24,249	Financial assets measured at amortised cost	24,249
Cash and cash equivalents	331,731	Financial assets measured at amortised cost	331,731
Available-for-sale financial assets	43,308	Financial assets at FVTOCI	43,308
Total financial assets	757,416	Total financial assets	757,416
Financial liabilities		Financial liabilities	
Financial liabilities at FVTPL			
Forward foreign exchange contracts	481	Financial liabilities at FVTPL	481
Contingent consideration	54,172	Financial liabilities at FVTPL	54,172
Financial liabilities measured at amortised cost			
Trade and other payables	144,424	Financial liabilities measured at amortised cost	144,424
Others	2,328	Financial liabilities measured at amortised cost	2,328
Total financial liabilities	201,405	Total financial liabilities	201,405

There is no material impact on the Group's consolidated financial statements due to the application of IFRS 15.

Accounting policies on revenue are described in "3. Significant Accounting Policies (4)". With the application of IFRS 15, certain trade-related provisions previously classified as "Provisions" have been classified as refund liabilities under "Other non-current liabilities" and "Other current liabilities" from the fiscal year ended 31 March 2019.

As a result, compared with what would have been recorded under the previous accounting standard, "Other non-current liabilities" and "Other current liabilities" have increased by ¥1,519 million and ¥127,913 million, respectively, and "Provisions" under non-current liabilities and "Provisions" under current liabilities have decreased by ¥1,519 and ¥127,913 million, respectively, as of the end of the fiscal year.

(5) New or amended IFRS standards and interpretations not yet adopted

The following is a list of the major new or amended IFRS standards and interpretations that the Group had not early adopted among those issued by the date of the approval of the Group's consolidated financial statements.

IFRSs		Effective date (fiscal year beginning on or after)	The Group's application date (fiscal year ending)	Summaries of new or amended IFRS standards and interpretations
IFRS 16	Leases	1 January 2019	31 March 2020	Amendments related to accounting treatment for leases

With the application of IFRS 16, the Group plans to adopt the method, whereby the cumulative effect of initially applying this standard is recognised at the date of initial application, as a transitional measure to leases previously classified as operating leases. The main impacts on the Group's consolidated financial statements are expected to be the additional recognition of right-of-use assets of ¥83,061 million and lease liabilities of ¥92,315 million on the consolidated statement of financial position.

3. Significant Accounting Policies

The significant accounting policies of the Group set forth below are applied continuously to all periods indicated in the consolidated financial statements.

(1) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group has power over the entity, is exposed to, or has rights, to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and they are deconsolidated from the date on which the Group loses control.

All intragroup assets and liabilities, transactions and unrealised gains or losses arising from intragroup transactions are eliminated on consolidation.

(ii) Associates

Associates are entities over which the Group has significant influence on their financial and operating policies but does not have control or joint control. If the Group owns between 20% and 50% of the voting power of an entity, it is presumed that the Group has significant influence over the entity. The Group accounts for investments in associates using the equity method.

(iii) Joint arrangements

A joint arrangement is an arrangement in which the Group has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control. Joint arrangements in which the Group has an interest are classified and accounted for as follows:

- Joint operation—when the Group has rights to the assets and obligations for the liabilities relating to an arrangement, it accounts for each of its assets, liabilities, revenue and expenses, in relation to its interest in the joint operation.
- Joint venture—when the Group has rights only to the net assets of the arrangement, it accounts for its interest in the joint venture using the equity method in the same way as associates.

(2) Business combinations

Business combinations are accounted for using the acquisition method.

The consideration transferred is measured at fair value and calculated as the aggregate of the fair values of the assets transferred, liabilities assumed, and the equity interests issued by the Group. The consideration transferred also includes any assets or liabilities resulting from a contingent consideration arrangement.

The identifiable assets acquired, the liabilities and contingent liabilities assumed that meet the recognition principles of IFRS 3 “Business Combinations” are measured at their acquisition-date fair values, except:

- Deferred tax assets or liabilities, liabilities (or assets, if any) related to employee benefits, and liabilities related to share-based payment transactions are recognised and measured in accordance with IAS 12 “Income Taxes”, IAS 19 “Employee Benefits”, and IFRS 2 “Share-based Payment”, respectively; and
- Non-current assets and disposal groups classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

The excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest in the acquiree over the acquisition-date fair value of the identifiable net assets acquired is recorded as goodwill. If the excess is negative, then a gain is immediately recognised in profit or loss.

Acquisition-related costs incurred in connection with business combinations, such as finder’s fees and advisory fees, are expensed when incurred.

(3) Foreign currency translation

(i) Functional and presentation currency

The financial statements of an entity of the Group are prepared using the functional currency of the entity. The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company.

(ii) Transactions in foreign currencies

Foreign currency transactions 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 reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates at the closing date and exchange differences arising from translation are recognised in profit or loss.

(iii) Foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the end of fiscal year. Income and expenses are translated into Japanese yen using the average exchange rate for the period.

Exchange differences arising on translating the financial statements of foreign operations are recognised in other comprehensive income. On the disposal of the interest in a foreign operation, the cumulative amount of the exchange differences is reclassified to profit or loss.

(4) Revenue

The Group generates revenue from the sale of pharmaceuticals and royalty income from agreements under which third parties have been granted rights to produce or market pharmaceutical products or rights to use technologies.

(i) Sales of pharmaceutical products

Revenue from sales of pharmaceuticals is recognised when control of the promised pharmaceutical product is transferred to the customer by the Group. The Group determines that control of a pharmaceutical product is usually transferred to the customer upon delivery.

There are no contracts for which the payment terms of consideration are longer than one year, in principle. If the transaction price in a contract includes variable amounts such as rebates, discounts or other consideration payable to a customer, the variable consideration is estimated by using either of the expected value method or the most likely amount method, and is reduced from the consideration received from the customer.

In certain transactions, the Group may be deemed to be contracted by other companies to sell pharmaceuticals on their behalf. For such transactions in which the Group acts as an agent, the Group recognises revenue as the net amount of the remuneration or fees for which it expects to obtain rights.

(ii) Royalty income

Royalty income includes upfront payments, milestone payments received when certain contractual conditions are fulfilled, and running royalties based on net sales and other factors.

For upfront payments, if there are several identifiable performance obligations, the transaction price is allocated to each performance obligation, and revenue is recognised at a point in time when each performance obligation is satisfied or over time as the performance obligation is satisfied. For performance obligations satisfied at a point in time, revenue is recognised when control of the promised right is transferred to the customer by the Group in accordance with the contract. For performance obligations satisfied over time, revenue is recognised based on the ratio between the elapsed period and the remaining period available to provide the promised services in the contract.

Revenue is recognised for milestone payments at a point in time when the conditions for the milestone payments have been fulfilled, in principle.

Running royalties based on net sales and other factors are recognised at a point in time when the later of either of the following events occurs: subsequent sales, etc. are realised, or performance obligations with allocated running royalties based on net sales and other factors are satisfied.

Revenue is recognised for upfront payments and milestone payments at the amounts stipulated by the contracts, in principle. Revenue from running royalities is calculated as the amount of net sales, etc. for the calculation period reported by the customer, multiplied by the contractual fee rate. In almost all of the contracts, a payment deadline has been set within a short period after the conclusion of contracts, fulfillment of conditions or the final day of the calculation period for running royalties.

(5) Research and development expenses

Expenditure on research and development of an internal project is fully expensed as “Research and development expenses” in the consolidated statement of income when incurred.

Internally generated development expenses are recognised as an intangible asset only if the capitalisation criteria under IAS 38 are satisfied. Therefore, internal expenditure incurred for ongoing internal development projects is not capitalised until marketing approval is obtained from the regulatory authorities in a major market, which is considered the time at which the criteria of capitalisation under IAS 38 are met.

In addition to the Group’s internal research and development activities, the Group has entered into research and development collaboration agreements with some alliance partners. The expenses and income associated with the settlement of the expenditure incurred for the research and development collaboration activities are accounted for as research and development expenses on an accrual basis in the same way as research and development expenses incurred within the Group.

(6) Finance income and finance expense

Finance income mainly comprises interest income and dividend income. Interest income is recognised using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Financial expenses mainly comprise interest expense and fees.

(7) Income tax expense

Income tax expense is comprised of current and deferred taxes, and recognised in profit or loss, except for taxes related to business combinations and to items that are recognised in other comprehensive income or directly in equity.

Current taxes are calculated at the amount expected to be paid to or recovered from the taxation authority by applying the statutory tax rate and tax laws enacted or substantially enacted at the end of the fiscal year.

Deferred tax assets and deferred tax liabilities are recognised for temporary differences between the carrying amounts of certain assets or liabilities in the consolidated statement of financial position and their tax base. However, deferred tax assets and liabilities are not recognised for:

- taxable temporary differences arising from the initial recognition of goodwill.
- taxable or deductible temporary differences arising from the initial recognition of assets and liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit (tax loss).
- deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements when it is not probable that the temporary difference will reverse in the foreseeable future or there will not be sufficient taxable profits against which the deductible temporary differences can be utilised.
- taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements when the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses, and unused tax credits can be utilised.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year.

Deferred tax assets and deferred tax 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 tax expense levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and current tax liabilities on a net basis.

(8) Earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to owners of the parent by the weighted-average number of ordinary shares outstanding during the year, adjusting treasury shares.

For the purpose of calculating diluted earnings per share, profit for the year attributable to owners of the parent and the weighted average number of shares outstanding, adjusting treasury shares, is calculated for the effects of all dilutive potential ordinary shares.

(9) Property, plant and equipment

Property, plant, and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses.

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

Costs incurred after initial recognition are recognised as an asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and its cost can be reliably measured. Costs of day-to-day servicing for items of property, plant and equipment, such as repairs and maintenance, are expensed when incurred.

When an item of property, plant and equipment has a significant component, such component is accounted for as a separate item of property, plant and equipment. Depreciation of an asset begins when it is available for use. The depreciable amount of items of property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of each component. The depreciable amount of an asset is determined by deducting its residual value from its cost.

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

Buildings and structures	2 to 60 years
Machinery and vehicles	2 to 20 years
Tools, furniture and fixtures	2 to 20 years

The useful lives, residual values, and depreciation methods of property, plant and equipment are reviewed at the end of fiscal year, and changed, if any.

(10) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership of an asset are transferred to the Group. All other leases are classified as operating leases.

Under finance lease transactions, leased assets and lease obligations are initially recognised at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or lease terms. Minimum lease payments made under finance leases are allocated to finance expense and the repayment amount of the lease obligations. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liabilities.

Under operating lease transactions, lease payments are recognised as an expense on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease, based on the substance of the arrangement at the date of commencement of the lease. The substance of the arrangement is determined based on the following factors:

(a) whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and,

(b) whether the arrangement conveys a right to use the asset.

(11) Goodwill

Measurement of goodwill on initial recognition is described in “(2) Business combinations”. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

Impairment of goodwill is described in “(13) Impairment of property, plant and equipment, goodwill, and intangible assets”.

(12) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, other than goodwill, including patents and technologies, marketing rights, and in-process research and development (IPR&D) acquired in a business combination or acquired separately.

Intangible assets acquired separately are measured at cost upon initial recognition, and those acquired in a business combination are measured at fair value at the acquisition date. After initial recognition, the Group applies the cost model and intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised over their estimated useful lives (2-25 years) on a straight-line basis beginning at the time when they are available for use. Amortisation of intangible assets acquired through business combinations or through the in-licensing of products or technologies is presented in the consolidated statement of income under "Amortisation of intangible assets". The estimated useful life of intangible assets is the shorter of the period of legal protection or its economic life, and it is also regularly reviewed.

Among rights related to products or research and development through the in-licensing of products or technologies or acquired through business combinations, those that are still in the research and development stage or have not yet obtained marketing approval from the regulatory authorities are recognised under "Intangible assets" as IPR&D.

Subsequent expenditure, including initial upfront and milestone payments to the third parties, on an acquired IPR&D is capitalised if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the asset is identifiable.

An intangible asset recognised as IPR&D is not amortised because it is not yet available for use, but instead, it is tested for impairment whenever there is an indication of impairment or at least on an annual basis irrespective of whether there is any indication.

Once marketing approval from the regulatory authorities is obtained and the asset is available for use, IPR&D is transferred to "Patents and technologies" or "Marketing rights" and amortisation begins from that time on a straight-line basis over its useful life.

(13) Impairment of property, plant and equipment, goodwill, and intangible assets

(i) Impairment of property, plant and equipment and intangible assets

At the end of each quarter, the Group assesses whether there is any indication that its property, plant and equipment and intangible assets may be impaired.

If there is an indication of impairment, the recoverable amount of the asset is estimated. Intangible assets not yet available for use or with indefinite useful lives are tested for impairment annually irrespective of whether there is any indication of impairment.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In measuring the value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects the time value of money and the risks specific to the asset. The discount rate used for calculating the recoverable amount is set at a rate appropriate to each geographical area of operations.

If the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, the carrying amount of the asset or the cash-generating unit is reduced to its recoverable amount, and the reduction is recognised in profit or loss as an impairment loss.

(ii) Impairment of goodwill

Goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the business combination, and it is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. If, at the time of the impairment test, the recoverable amount of a cash-generating unit is less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount, and the reduction is recognised in profit or loss as an impairment loss.

Impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit or group of cash-generating units and then to the other assets on a pro rata basis of the carrying amount of each asset in the cash-generating unit or group of cash-generating units.

(iii) Reversal of impairment loss

At the end of each quarter, the Group assesses whether there is any indication that an impairment loss recognised in prior years for intangible assets may no longer exist or may have decreased. If such indication exists, the recoverable amount of the asset or the cash-generating unit is estimated. If the recoverable amount of the asset or the cash-generating unit is greater than its carrying amount, a reversal of an impairment loss is recognised, to the extent the increased carrying amount does not exceed the lower of the recoverable amount or the carrying amount (net of depreciation or amortisation) that would have been determined had no impairment loss been recognised in prior years.

Any impairment loss recognised for goodwill is not reversed in a subsequent period.

(14) Financial instruments

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised on the trade date when the Group becomes a party to the contractual provisions of the instrument.

Except for trade receivables which do not contain a significant financing component, financial assets and financial liabilities are measured at fair value at initial recognition. Transaction costs directly attributable to the acquisition of financial assets or issuance of financial liabilities other than financial assets measured at fair value through profit or loss (“financial assets at FVTPL”) and financial liabilities measured at fair value through profit or loss (“financial liabilities at FVTPL”), are added to the fair value of the financial assets or deducted from the fair value of financial liabilities at initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL and financial liabilities at FVTPL are recognised in profit or loss.

(ii) Financial assets

At initial recognition, all financial assets are classified as “financial assets measured at amortised cost”, “financial assets measured at fair value through other comprehensive income (“financial assets at FVTOCI”)” or “financial assets at FVTPL”.

(a) Financial assets measured at amortised cost

Financial assets are classified as financial assets measured at amortised cost if both of the following conditions are met:

・ the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
・ the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest revenue using the effective interest method is recognised in profit or loss.

(b) Financial assets at FVTOCI (debt instruments)

Financial assets are classified as financial assets at FVTOCI (debt instruments) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

After initial recognition, the financial assets are measured at fair value, and any gain or loss resulting from changes in fair value is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains or losses. When the financial asset is derecognised, the cumulative gain or loss recognised in other components of equity is reclassified from equity to profit or loss as a reclassification adjustment.

(c) Financial assets at FVTOCI (equity instruments)

The Group has made an irrevocable election for equity instruments, with some exceptions, to present subsequent changes in fair value in other comprehensive income, and classifies such instruments as financial assets at FVTOCI.

After initial recognition, the financial assets are measured at fair value, and any gain or loss resulting from changes in fair value is recognised in other comprehensive income. When the financial asset is derecognised or the fair value has significantly decreased, the cumulative gain or loss recognised in other component of equity is transferred to retained earnings. Dividends on such financial assets are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

(d) Financial assets at FVTPL

Financial assets not classified as financial assets measured at amortised cost or financial assets at FVTOCI are classified as financial assets at FVTPL.

After initial recognition, the financial assets are measured at fair value with subsequent changes in fair value recognised in profit or loss.

(iii) Impairment of financial assets

Loss allowances are recognised for expected credit losses for financial assets measured at amortised cost or debt instruments classified as financial assets at FVTOCI.

At the end of each quarter, the loss allowance is measured for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. The loss allowance is measured for a financial instrument at an amount equal to 12-month expected credit losses if the credit risk on that financial instrument has not increased significantly since initial recognition.

However, for trade receivables and contract assets, the loss allowance is always measured at an amount equal to lifetime expected credit losses.

If all or part of a financial asset is determined to be unrecoverable based on reasonable grounds, the financial asset is considered to be default.

The amounts of loss allowances are calculated to reflect the following factors:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

When evaluating whether credit risk has increased significantly, the Group considers reasonable and supportable information that is available, as well as past-due information. Moreover, if there is objective evidence of credit impairment such as legal liquidation procedures due to the bankruptcy of a borrower, the Group considers the financial asset to be a credit-impaired financial asset. The carrying amount of such financial asset is directly reduced by the amount that clearly cannot be recovered in the future and the corresponding loss allowance is also reduced.

(iv) Financial liabilities

At initial recognition, all financial liabilities are classified as “financial liabilities at FVTPL” or “financial liabilities measured at amortised cost”.

(a)Financial liabilities at FVTPL

Derivative financial liabilities, financial liabilities designated as financial liabilities at FVTPL and contingent consideration recognised in a business combination that meets the definition of financial liabilities, are classified as financial liabilities at FVTPL.

After initial recognition, the financial liabilities are measured at fair value with subsequent changes in fair value recognised in profit or loss.

(b) Financial liabilities measured at amortised cost

Financial liabilities not classified as financial liabilities at FVTPL are classified as financial liabilities at amortised cost.

After initial recognition, the financial liabilities are measured at amortised cost using the effective interest method.

(v) Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or the contractual rights to receive the cash flows of the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset are transferred or the contractual rights to receive the cash flows of the financial asset have been transferred but substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained and control of the financial asset has not been retained.

Financial liabilities are derecognised when a financial liability is extinguished, i.e., when the obligation specified in the contract is discharged or cancelled or expired.

(15) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and highly liquid short-term investments with maturities of three months or less from the date of acquisition which are subject to an insignificant risk of changes in value.

(16) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes costs of purchase, costs of conversion and all other costs incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell. Cost of inventories is calculated mainly using the first-in, first-out (FIFO) method.

(17) Assets held for sale

Non-current assets or disposal groups are classified as “Assets held for sale” if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. To be classified as assets held for sale, the asset must be available for immediate sale in its present condition, and the sale must be highly probable. Specifically, management of the Group must have a firm commitment to execute the plan to sell the asset and the sale is expected to be completed within one year from the date of classification, as a general rule. Assets held for sale are measured at the lower of their carrying amounts and fair values less costs to sell, and they are not depreciated or amortised while they are classified as held for sale.

(18) Equity

(i) Ordinary shares

Proceeds from the issuance of ordinary shares by the Company are included in share capital and capital surplus. Transaction costs of issuing ordinary shares (net of tax) are deducted from capital surplus.

(ii) Treasury shares

When the Company reacquires its own ordinary shares, the amount of the consideration paid including transaction costs is deducted from equity. When the Company sells treasury shares, the difference between the carrying amount and the consideration received from the sale is recognised in equity.

(19) Share-based payment

The Group operates an equity-settled share-based payment plan and a cash-settled share-based payment plan as share-based payment plans.

(i)Equity-settled share-based payment plan

Under the equity-settled share-based payment plan, services received are measured at the fair value of the equity instruments at the grant date, and are recognised as expenses from the grant date over the vesting period, with a corresponding increase in equity.

(ii)Cash-settled share-based payment plan

Under the cash-settled share-based payment plan, services received are measured at the fair value of the liabilities incurred and recognised as expenses over the vesting period, with a corresponding increase in liabilities. Until the liabilities are settled, the fair value of liabilities are remeasured at the end of each quarter and at the settlement date, with changes in fair value recognised in profit or loss.

(20) Employee benefits

(i) Retirement benefits

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

(a) Defined benefit plans

Net defined benefit assets or liabilities are calculated as the present value of the defined benefit obligation less the fair value of plan assets and they are recognised in the consolidated statement of financial position as assets or liabilities. The defined benefit obligation is calculated by using the projected unit credit method. The present value of the defined benefit obligation is calculated by the expected future payments using discount rate. The discount rate is determined by reference to market yield on high-quality corporate bonds having maturity terms consistent with the estimated term of the related pension obligations.

Service cost and net interest expense (income) on the net defined benefit liabilities (assets) are recognised in profit or loss.

Actuarial gains and losses, the return on plan assets, excluding amounts included in net interest expense, and any change in the effect of the asset ceiling are recognised immediately in other comprehensive income under “Remeasurements of defined benefit plans”, and transferred from other components of equity to retained earnings immediately.

(b) Defined contribution plans

Contributions paid for defined contribution plans are expensed in the period in which the employees provide the related service.

(ii) Short-term employee benefits

Short-term employee benefits are expensed when the related service is provided. Bonus accrual is recognised as a liability when the Group has present legal or constructive obligations resulting from past service rendered by the employees and reliable estimates of the obligations can be made.

(21) Provisions

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

When the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligations.

(22) Government grants

Government grants are recognised and measured at fair value, if there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Government grants that are intended to compensate for specific costs are recognised as income in the period in which the Group recognises the corresponding expenses. Government grants related to assets are recognised as deferred income and then recognised in profit over the expected useful life of the relevant asset on a regular basis.

4. Significant Accounting Estimates, Judgments and Assumptions

The preparation of the consolidated financial statements requires management of the Group to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses.

Given their nature, actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis, and the effects resulting from revisions of accounting estimates are recognised in the period in which the estimates are revised and in future periods affected by the revision.

Estimates and underlying assumptions representing a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next fiscal year are as follows:

- Impairment of property, plant and equipment, goodwill and intangible assets (Notes 15, 16 and 17)
- Provisions (Note 29)
- Retirement benefits (Note 28)
- Recoverability of deferred tax assets (Note 18)
- Income tax expense (Note 12)
- Financial instruments measured at fair value which have no market price in active markets (Notes 33 and 37)

5. Segment Information

The main activities of the Group are the manufacture and sale of pharmaceutical products, and there are no separate operating segments. Therefore, the Group has a single reporting segment, “Pharmaceutical”.

Information about products and services

Revenue by type of product and service are as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
XTANDI	294,302	333,050
Prograf	198,471	195,706
Betanis/Myrbetriq/BETMIGA	125,745	147,178
Vesicare	102,306	94,974
Other	579,492	535,439
Total	1,300,316	1,306,348

Information about geographical areas

Revenue and non-current assets by geographical areas are as follows:

Revenue by geographical areas

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Japan	406,414	376,157
Americas	435,108	459,646
U.S.A. (included in Americas)	404,409	428,776
EMEA	351,280	357,013
Asia and Oceania	107,513	113,532
Total	1,300,316	1,306,348

Note: Revenue by geographical areas are categorised by country or areas based on the geographical location of customers.

Non-current assets by geographical areas (Property, plant and equipment, goodwill and intangible assets)

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Japan	424,603	408,922
Americas	240,566	325,312
U.S.A. (included in Americas)	240,313	325,023
EMEA	141,952	91,036
Asia and Oceania	4,061	3,783
Total	811,183	829,053

Information about major customers

The following external customer accounts for 10% or more of the consolidated revenue of the Group:

(Millions of yen)

	Segment	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
McKesson Corporation	Pharmaceutical	148,962	151,260

6. Revenue

(1) Breakdown of revenue

The breakdown of revenue is as follows:

Fiscal year ended 31 March 2019

(Millions of yen)

	Japan	Americas	EMEA	Asia and Oceania	Total
Sales of pharmaceutical products					
XTANDI	32,317	178,093	115,933	6,708	333,050
Prograf	45,445	25,302	77,271	47,687	195,706
Betanis/Myrbetriq/BETMIGA	32,694	85,718	21,632	7,135	147,178
Vesicare	22,256	37,996	30,167	4,554	94,974
Other	237,580	119,945	86,463	45,873	489,862
Total	370,293	447,055	331,466	111,957	1,260,771
Royalty income					33,319
Other					12,258
Total					1,306,348

(Note) Revenue from sales of pharmaceutical products is categorised by areas based on the geographical location of customers.

(2) Contract balances

The breakdown of contract balances is as follows:

(Millions of yen)

	As of 1 April 2018	As of 31 March 2019
Receivables from contracts with customers		
Trade notes and receivables	305,930	320,426
Loss allowance	(1,669)	(1,470)
Total	304,261	318,956
Contract liabilities	40,321	24,725

(Note) With regard to upfront payments mainly related to licensing contracts, the Group recognises the portion as contract liabilities for which it has received consideration from customers, but has not yet satisfied the corresponding performance obligations. Of the revenue recognised in the year ended 31 March 2019, the amount included in the balance of contract liabilities as of 1 April 2018 was ¥16,589 million.

(3) Performance obligations

The transaction price allocated to remaining performance obligations are as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019
Total amount of transaction price allocated to unsatisfied performance obligations	24,725
Scheduled period for satisfying performance obligations	
Within 1 year	13,320
1 year to 3 years	11,027
More than 3 years	378

7. Other Income

The breakdown of other income is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Gain from remeasurement relating to business combinations	5,877	5,812
Net foreign exchange gains	-	735
Other	5,995	7,606
Total other income	11,872	14,152

(Notes) 1. "Gain from remeasurement relating to business combinations" for the year ended 31 March 2018 was due to Mitobridge, Inc. becoming a wholly owned subsidiary.

2. "Gain from remeasurement relating to business combinations" for the year ended 31 March 2019 was due to Potenza Therapeutics, Inc. becoming a wholly owned subsidiary.

3. The amount of "Net foreign exchange gains" for the year ended 31 March 2019 includes foreign exchange losses resulting from forward foreign exchange contracts (¥6,405 million).

8. Other Expense

The breakdown of other expense is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Impairment losses for property, plant and equipment	2,533	4,114
Impairment losses for goodwill	7,200	-
Impairment losses for intangible assets	32,665	7,332
Restructuring costs	9,151	19,678
Litigation costs	281	12,301
Net foreign exchange losses	10,468	-
Other	5,013	5,330
Total other expense	67,311	48,755

(Notes) 1. “Impairment losses for goodwill” for the year ended 31 March 2018 were principally due to impairment of the goodwill that had been recorded at the time of the acquisition of U.S. subsidiary Agensys, Inc., as a result of the termination of the research operation of Agensys.

2. The main item of “Impairment losses for intangible assets” for the year ended 31 March 2018 was due to reviewing development project plans for IMAB362.
3. The main item of “Restructuring costs” for the year ended 31 March 2018 was principally due to the integration of the R&D function in Europe into the R&D function in Japan and the U.S.
4. The amount of “Net foreign exchange losses” for the year ended 31 March 2018 includes foreign exchange gains resulting from forward foreign exchange contracts (¥2,147 million).
5. The main item of “Impairment losses for intangible assets” for the year ended 31 March 2019 was due to the discontinuation of development activities for projects.
6. The main item of “Restructuring costs” for the year ended 31 March 2019 was due to the implementation of an early retirement incentive program for employees of the Company and its domestic subsidiaries .
7. The main item of “Litigation costs” for the year ended 31 March 2019 was due to a government investigation of patient assistance foundations in connection with a U.S. subsidiary.

9. Employee Benefit Expenses

The breakdown of employee benefit expenses is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Rewards and salaries	152,523	156,044
Bonuses	55,654	57,523
Social security and welfare expenses	31,117	30,767
Retirement benefit expenses—Defined contribution plan	14,411	14,578
Retirement benefit expenses—Defined benefit plan	6,302	6,621
Restructuring and termination benefits	6,230	17,180
Other employee benefit expenses	2,664	2,859
Total employee benefit expenses	268,902	285,571

(Note) Employee benefit expenses are included in “Cost of sales”, “Selling, general and administrative expenses”, “Research and development expenses” and “Other expense” in the consolidated statement of income.

10. Finance Income

The breakdown of finance income is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Interest income	1,648	2,690
Dividend income	227	80
Gain on sale of available-for-sale financial assets	4,744	-
Other	17	3,588
Total finance income	6,637	6,358

(Note) Dividend income in the year ended 31 March 2019 was related to equity instruments classified as financial assets at FVTOCI held as of the end of the fiscal year.

11. Finance Expense

The breakdown of finance expense is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Impairment losses for available-for-sale financial assets	474	-
Other	1,309	1,302
Total finance expense	1,782	1,302

12. Income Tax Expense

The breakdown of income tax expense recognised in profit or loss is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Current income tax expense	81,409	50,834
Deferred income tax expense	(27,975)	(24,132)
Income tax expense recognised on the consolidated statement of income	53,434	26,702

(Note) Deferred income tax expense increased by ¥9,800 million for the year ended 31 March 2018, due to the effect of the U.S. Tax Cuts and Jobs Act, which came into force in December 2017.

Income tax expense recognised in other comprehensive income is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018			Fiscal year ended 31 March 2019		
	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax benefit (expense)	Net of tax
Remeasurements of defined benefit plans	2,271	(661)	1,611	(3,885)	1,333	(2,553)
Exchange differences on translation of foreign operations	28,590	-	28,590	(2,523)	-	(2,523)
Fair value movements on available-for-sale financial assets	5,168	(1,508)	3,660	-	-	-
Financial assets at FVTOCI	-	-	-	7,348	(2,288)	5,060
Total other comprehensive income	36,029	(2,169)	33,860	940	(955)	(15)

Reconciliation of effective tax rate

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax on its income and the effective statutory tax rates calculated based on those taxes for the years ended 31 March 2018 and 2019 were 30.7% and 30.5%, respectively. Foreign subsidiaries are subject to income taxes on their income in their respective countries of domicile.

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
	%	%
Effective statutory tax rate	30.7	30.5
Tax credit for research and development expenses	(3.9)	(2.5)
Non-deductible expenses	4.3	3.3
Tax-exempt income	(0.8)	(7.5)
Difference in tax rates applied to foreign subsidiaries	(12.6)	(10.2)
Undistributed earnings of foreign subsidiaries	(0.3)	0.4
Effect of U.S. tax reforms	3.9	-
Other	3.3	(3.2)
Actual tax rate	24.5	10.7

13. Earnings per Share

The basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Basis of calculating basic earnings per share		
Profit attributable to owners of the parent (Millions of yen)	164,679	222,265
Profit not attributable to ordinary shareholders of the parent (Millions of yen)	-	-
Profit used to calculate basic earnings per share (Millions of yen)	164,679	222,265
Weighted average number of shares during the year (Thousands of shares)	2,030,203	1,931,882
Basis of calculating diluted earnings per share		
Profit used to calculate basic earnings per share (Millions of yen)	164,679	222,265
Adjustment (Millions of yen)	-	-
Profit used to calculate diluted earnings per share (Millions of yen)	164,679	222,265
Weighted average number of shares during the year (Thousands of shares)	2,030,203	1,931,882
Subscription rights to shares (Thousands of shares)	2,268	1,861
Weighted average number of diluted ordinary shares during the year (Thousands of shares)	2,032,472	1,933,743
Earnings per share (attributable to owners of the parent)		
Basic (Yen)	81.11	115.05
Diluted (Yen)	81.02	114.94

14. Other Comprehensive Income

Reclassification adjustments of other comprehensive income are as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Other comprehensive income that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Amount arising during the year	28,563	(2,576)
Reclassification adjustment	27	53
Subtotal	28,590	(2,523)
Fair value movements on available-for-sale financial assets		
Amount arising during the year	9,860	-
Reclassification adjustment	(4,692)	-
Subtotal	5,168	-
Other comprehensive income that may be reclassified to profit or loss before tax effect	33,758	(2,523)
Tax effect	(1,508)	-
Other comprehensive income that may be reclassified to profit or loss	32,250	(2,523)

15. Property, Plant and Equipment

Movement of cost, accumulated depreciation and impairment losses for property, plant and equipment

The movement of property, plant and equipment for the year ended 31 March 2018 is as follows:

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Cost						
Balance at 1 April 2017	204,722	154,692	78,687	17,762	13,325	469,188
Acquisitions	3,765	4,646	3,624	-	12,071	24,107
Business combinations	488	155	21	36	-	700
Disposals	(8,473)	(5,939)	(4,159)	-	(7)	(18,577)
Reclassification from construction in progress	5,979	3,301	432	-	(9,712)	-
Reclassification to assets held for sale	(10,149)	(4,102)	(127)	-	(95)	(14,473)
Other	687	3,502	470	24	(920)	3,764
Balance at 31 March 2018	197,020	156,254	78,949	17,822	14,664	464,709
Accumulated depreciation and accumulated impairment losses						
Balance at 1 April 2017	(93,907)	(120,739)	(63,427)	-	-	(278,073)
Depreciation	(7,468)	(8,780)	(5,792)	-	-	(22,039)
Impairment losses (or reversal of impairment losses)	(1,837)	(319)	(21)	-	-	(2,177)
Disposals	8,277	5,407	4,086	-	-	17,771
Reclassification to assets held for sale	1,933	3,056	87	-	-	5,076
Other	(628)	(2,856)	(488)	-	-	(3,972)
Balance at 31 March 2018	(93,629)	(124,231)	(65,554)	-	-	(283,414)
Carrying amounts						
Balance at 1 April 2017	110,815	33,953	15,260	17,762	13,325	191,115
Balance at 31 March 2018	103,390	32,023	13,395	17,822	14,664	181,295

(Notes) 1. The increase due to business combinations reflected the acquisition of Ogeda SA, Mitobridge, Inc., and Universal Cells, Inc. For details on these business combinations, please refer to Note “37. Business Combinations”.

2. “Other” mainly includes exchange differences.

The movement of property, plant and equipment for the year ended 31 March 2019 is as follows:

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Cost						
Balance at 1 April 2018	197,020	156,254	78,949	17,822	14,664	464,709
Acquisitions	3,879	3,558	3,381	2,670	14,259	27,748
Business combinations	-	36	-	-	-	36
Disposals	(4,693)	(5,910)	(7,946)	(4,725)	(5)	(23,280)
Reclassification from construction in progress	2,515	5,558	576	2,013	(10,663)	-
Reclassification to assets held for sale	(8,403)	(6,410)	(932)	(878)	(203)	(16,825)
Other	41	(2,169)	(265)	15	(1,764)	(4,143)
Balance at 31 March 2019	190,359	150,917	73,764	16,917	16,288	448,245
Accumulated depreciation and accumulated impairment losses						
Balance at 1 April 2018	(93,629)	(124,231)	(65,554)	-	-	(283,414)
Depreciation	(7,432)	(8,476)	(5,097)	-	-	(21,004)
Impairment losses (or reversal of impairment losses)	(1,951)	(1,271)	(201)	(667)	(25)	(4,114)
Disposals	2,999	5,654	7,363	-	-	16,016
Reclassification to assets held for sale	7,859	6,027	881	667	25	15,460
Other	327	1,694	274	-	-	2,294
Balance at 31 March 2019	(91,826)	(120,602)	(62,334)	-	-	(274,763)
Carrying amounts						
Balance at 1 April 2018	103,390	32,023	13,395	17,822	14,664	181,295
Balance at 31 March 2019	98,533	30,315	11,430	16,917	16,288	173,483

(Notes) 1. The increase due to business combinations mainly reflected the acquisition of Potenza Therapeutics, Inc. For details on business combinations, please refer to Note “37. Business Combinations”.

2. “Other” mainly includes exchange differences.

The Group recognised impairment losses (or reversal of impairment losses) of ¥2,177 million for the year ended 31 March 2018 and ¥4,114 million for the year ended 31 March 2019, and they are included in “Other expense” in the consolidated statement of income.

The carrying amounts of the assets held under finance leases included in “Property, plant and equipment” are as follows:

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance at 1 April 2017	37	6	1,630	1,672
Balance at 31 March 2018	41	1	1,344	1,386
Balance at 31 March 2019	32	1,823	1,194	3,049

16. Goodwill

The movement of cost and accumulated impairment losses for goodwill is as follows:

(Millions of yen)

	Cost	Accumulated impairment losses	Carrying amount
Balance at 1 April 2017	168,521	-	168,521
Business combinations	58,288	-	58,288
Impairment losses	-	(7,200)	(7,200)
Disposals	(7,200)	7,200	-
Exchange differences	(6,632)	-	(6,632)
Balance at 31 March 2018	212,976	-	212,976
Business combinations	6,997	-	6,997
Exchange differences	5,891	-	5,891
Balance at 31 March 2019	225,864	-	225,864

(Notes) 1. The increase due to business combinations in the year ended 31 March 2018 reflected the acquisition of Ogeda SA, Mitobridge, Inc., and Universal Cells, Inc. For details on business combinations, please refer to Note “37. Business Combinations”.

2. The increase due to business combinations in the year ended 31 March 2019 mainly reflected the acquisition of Potenza Therapeutics, Inc. For details on business combinations, please refer to Note “37. Business Combinations”.

Goodwill recognised in the consolidated statement of financial position mainly resulted from the acquisition of OSI Pharmaceuticals, Inc. in 2010.

The Group, in principle, regards the geographical business units, which are managed for internal reporting purposes, as cash-generating units.

For the year ended 31 March 2018, goodwill is allocated to the Americas cash-generating unit and the whole pharmaceutical business, and the carrying amount of goodwill were ¥113,632 million and ¥68,571 million, respectively. For the year ended 31 March 2019, goodwill is allocated to the Americas cash-generating unit and the whole pharmaceutical business, and the carrying amounts of goodwill were ¥118,712 million and ¥107,151 million, respectively.

For the impairment test, the value in use, which is calculated based on the three-year business plan approved at the board of directors meeting, is used as the recoverable amount. The Group uses a discount rate calculated based on a weighted average cost of capital (WACC) determined for each geographical area. The after-tax discount rates used for the impairment test of the Americas cash-generating unit and the whole pharmaceutical business are 8.0% and 6.0%, respectively. The pre-tax discount rates used for the impairment test of the Americas cash-generating unit and the whole pharmaceutical business are 10.4% and 7.6%, respectively.

Also, a growth rate of 2.0% for the Americas cash-generating unit and 1.0% for the whole pharmaceutical business is reflected in calculating the terminal value after the three-year business plan. The growth rate reflects the status of the country and the industry to which the cash-generating unit belongs.

The value in use sufficiently exceeds the carrying amount of the cash-generating unit. Therefore, even if the key assumptions used in the calculation of the value in use fluctuate within a reasonable range, the Group assumes that the possibility that the value in use will be lower than the carrying amount is remote.

The Group recognised impairment losses of ¥7,200 million for the year ended 31 March 2018 and they are included in “Other expense” in the consolidated statement of income. The impairment losses for the year ended 31 March 2018 were recognised on the goodwill resulting from the acquisition of U.S. subsidiary Agensys, Inc., in connection with the termination of research operation of Agensys, deeming the recoverable amount to be zero.

17. Intangible Assets

Movement of cost, accumulated amortisation and impairment losses for intangible assets

The movement of intangible assets for the year ended 31 March 2018 is as follows:

(Millions of yen)

	Patents and technologies	Marketing rights	IPR&D	Software	Other	Total
Cost						
Balance at 1 April 2017	348,492	50,454	232,949	48,520	1,843	682,258
Acquisitions	569	602	3,365	10,641	21	15,198
Business combinations	6,594	-	74,303	-	2	80,899
Disposals	(1,360)	-	-	(1,344)	-	(2,704)
Reclassification to assets held for sale	-	-	-	(93)	-	(93)
Other	(9,574)	1,469	9,740	1,315	6	2,956
Balance at 31 March 2018	344,722	52,525	320,357	59,039	1,871	778,514
Accumulated amortisation and accumulated impairment losses						
Balance at 1 April 2017	(204,775)	(39,441)	(20,315)	(30,104)	(204)	(294,839)
Amortisation	(32,802)	(3,037)	-	(6,975)	(11)	(42,824)
Impairment losses (or reversal of impairment losses)	(529)	-	(30,592)	(0)	(1,520)	(32,642)
Disposals	1,359	-	-	1,319	-	2,678
Reclassification to assets held for sale	-	-	-	70	-	70
Other	7,626	(1,371)	(56)	(237)	(6)	5,955
Balance at 31 March 2018	(229,121)	(43,849)	(50,964)	(35,927)	(1,742)	(361,602)
Carrying amounts						
Balance at 1 April 2017	143,717	11,013	212,634	18,416	1,639	387,419
Balance at 31 March 2018	115,601	8,676	269,393	23,112	130	416,912

(Notes) 1. The increase due to business combinations reflected the acquisition of Ogeda SA and Universal Cells, Inc.. For details on business combinations, please refer to Note “37. Business Combinations”. The increase due to business combinations was retrospectively revised due to the completion of the purchase price allocation in the year ended 31 March 2019. As a result, patents and technologies increased by ¥5,543 million and IPR&D decreased by ¥5,543 million.

2. “Other” mainly includes exchange differences.

The movement of intangible assets for the year ended 31 March 2019 is as follows:

(Millions of yen)

	Patents and technologies	Marketing rights	IPR&D	Software	Other	Total
Cost						
Balance at 1 April 2018	344,722	52,525	320,357	59,039	1,871	778,514
Acquisitions	3,621	-	10,794	14,856	2	29,273
Business combinations	-	-	34,157	-	-	34,157
Disposals	(3)	(66)	(10,357)	(3,388)	-	(13,813)
Reclassification	3,683	-	(3,683)	-	-	-
Reclassification to assets held for sale	-	-	-	(66)	-	(66)
Other	7,658	(780)	(2,298)	(372)	(12)	4,197
Balance at 31 March 2019	359,681	51,680	348,971	70,070	1,861	832,262
Accumulated amortisation and accumulated impairment losses						
Balance at 1 April 2018	(229,121)	(43,849)	(50,964)	(35,927)	(1,742)	(361,602)
Amortisation	(32,158)	(3,054)	-	(7,230)	(12)	(42,454)
Impairment losses (or reversal of impairment losses)	-	-	(7,312)	(19)	-	(7,332)
Disposals	-	66	10,357	3,347	-	13,770
Reclassification	(198)	-	198	-	-	-
Reclassification to assets held for sale	-	-	-	60	-	60
Other	(6,253)	760	5	486	5	(4,997)
Balance at 31 March 2019	(267,730)	(46,077)	(47,716)	(39,284)	(1,748)	(402,556)
Carrying amounts						
Balance at 1 April 2018	115,601	8,676	269,393	23,112	130	416,912
Balance at 31 March 2019	91,951	5,602	301,254	30,786	113	429,707

(Notes) 1. The increase due to business combinations mainly reflected the acquisition of Potenza Therapeutics, Inc. For details on business combinations, please refer to Note “37. Business Combinations”.

2. “Other” mainly includes exchange differences.

Amortisation of intangible assets related to the rights of product or research and development arising from in-licensing agreements is recognised in the consolidated statement of income under “Amortisation of intangible assets”.

Impairment losses (or reversal of impairment losses) for intangible assets are recognised in the consolidated statement of income under “Other expense” and “Other income.”

Impairment test and impairment losses for intangible assets

For intangible assets, the Group assesses the necessity of impairment by individual asset. Also, intangible assets not yet being amortised are tested for impairment annually whether or not there is any indication of impairment. For the impairment test, the value in use is mainly used as the recoverable amount. The discount rate is calculated based on the WACC, and the range of post-tax discount rate used for the calculation of the value in use is 6.0% to 9.0%, and that of the pre-tax discount rate is 7.7% to 13.6%.

As a result of the impairment test, the Group recognised the following impairment losses for the years ended 31 March 2018 and 2019.

For the year ended 31 March 2018, impairment losses (or reversal of impairment losses) recognised for intangible assets were ¥32,642 million, and details of the main items are as follows:

The Company recognised an impairment loss of ¥27,548 million on IPR&D pertaining to IMAB362, resulting from the acquisition of Ganymed Pharmaceuticals AG, due to reviewing development project plans. The recoverable amount represented the value in use, calculated based on discounted future cash flows. The post-tax and pre-tax discount rates used for the calculation of the value in use are 10.0% and 14.3%, respectively.

For the year ended 31 March 2019, impairment losses of ¥7,332 million were recognised mainly as a result of the discontinuation of development activities for projects.

Significant intangible assets

Significant intangible assets recognised in the consolidated statement of financial position as of 31 March 2018 are mainly composed of the rights related to fezolinetant resulting from the acquisition of Ogeda SA in 2017, the rights related to IMAB362 resulting from the acquisition of Ganymed Pharmaceuticals AG in 2016, the rights related to the research and development of enzalutamide (XTANDI) acquired through the license agreement with Medivation, Inc., and the rights related to the research and development of YM311/roxadustat acquired through the license agreement with FibroGen, Inc. The carrying amounts of those intangible assets were ¥77,609 million, ¥64,017 million, ¥60,930 million, and ¥51,656 million, respectively.

Significant intangible assets recognised in the consolidated statement of financial position as of 31 March 2019 are mainly composed of the rights related to fezolinetant resulting from the acquisition of Ogeda SA in 2017, the rights related to IMAB362 resulting from the acquisition of Ganymed Pharmaceuticals AG in 2016, the rights related to the research and development of enzalutamide (XTANDI) acquired through the license agreement with Medivation, Inc., and the rights related to the research and development of YM311/roxadustat acquired through the license agreement with FibroGen, Inc. The carrying amounts of those intangible assets were ¥74,778 million, ¥64,017 million, ¥54,629 million and ¥53,322 million, respectively.

For intangible assets already starting amortisation, the remaining amortisation period was 11 years in the year ended 31 March 2018 and 10 years in the year ended 31 March 2019. The intangible assets not yet being amortised are tested for impairment annually.

18. Deferred Taxes

The breakdown and movement of deferred tax assets and deferred tax liabilities are as follows:

For the year ended 31 March 2018

(Millions of yen)

	As of 1 April 2017	Recognised in profit or loss	Recognised in other comprehensive income	Business combinations	Other	As of 31 March 2018
Available-for-sale financial assets	(4,807)	73	(1,508)	-	(41)	(6,283)
Retirement benefit assets and liabilities	9,343	809	(661)	-	63	9,553
Property, plant and equipment	996	1,376	-	(20)	132	2,484
Intangible assets	(69,266)	36,805	-	(26,615)	(2,303)	(61,380)
Accrued expenses	24,007	(4,452)	-	1	(433)	19,123
Inventories	55,223	7,556	-	3	967	63,749
Tax loss carry-forwards	14,401	(11,821)	-	1,406	386	4,372
Other	41,939	(2,371)	-	209	(584)	39,193
Total	71,836	27,975	(2,169)	(25,016)	(1,814)	70,812

(Note) The increases in deferred tax assets and deferred tax liabilities due to business combinations reflected the acquisition of Ogeda SA, Mitobridge, Inc., and Universal Cells, Inc. For details on business combinations, please refer to Note “37. Business Combinations”.

For the year ended 31 March 2019

(Millions of yen)

	As of 1 April 2018	Recognised in profit or loss	Recognised in other comprehensive income	Business combinations	Other	As of 31 March 2019
Financial assets at FVTOCI	(6,283)	(0)	(2,288)	-	(1,930)	(10,502)
Retirement benefit assets and liabilities	9,553	(341)	1,333	-	(194)	10,352
Property, plant and equipment	2,484	(490)	-	(8)	(33)	1,952
Intangible assets	(61,380)	23,562	-	(7,134)	260	(44,693)
Accrued expenses	19,123	3,566	-	131	40	22,860
Inventories	63,749	(681)	-	-	(668)	62,400
Tax loss carry-forwards	4,372	(827)	-	1,347	302	5,194
Other	39,193	(656)	-	0	1,682	40,220
Total	70,812	24,132	(955)	(5,665)	(541)	87,782

(Note) The increases in deferred tax assets and deferred tax liabilities due to business combinations mainly reflected the acquisition of Potenza Therapeutics, Inc. For details on these business combinations, please refer to Note “37. Business Combinations”.

Deductible temporary differences, tax loss carry-forwards, and unused tax credits for which no deferred tax asset is recognised are as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Deductible temporary differences	33,446	32,389
Tax loss carry-forwards	13,423	3,999
Unused tax credits	2,708	2,218
Total	49,577	38,606

The expiration date and amount of tax loss carry-forwards for which no deferred tax asset is recognised are as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Year 1	72	279
Year 2	271	367
Year 3	356	159
Year 4	152	189
Year 5 or later	12,571	3,005
Total	13,423	3,999

19. Other Financial Assets

The breakdown of other financial assets is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Other financial assets (non-current)		
Financial assets at FVTPL	13,334	19,482
Financial assets measured at amortised cost	10,745	9,664
Loss allowances	(13)	(15)
Available-for-sale financial assets	43,308	-
Financial assets at FVTOCI	-	52,327
Total other financial assets (non-current)	67,375	81,457
Other financial assets (current)		
Financial assets measured at amortised cost	13,517	2,607
Total other financial assets (current)	13,517	2,607
Total other financial assets	80,891	84,064

(Note) As described in "(4) Changes in accounting policies" under "2. Basis of Preparation," with the application of IFRS 9, financial assets previously classified as available-for-sale financial assets have been classified as financial assets at FVTOCI from the fiscal year ended 31 March 2019.

20. Other Assets

The breakdown of other assets is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Other non-current assets		
Long-term prepaid expenses	5,155	3,794
Retirement benefit assets	2,544	3,868
Other	673	459
Total other non-current assets	8,372	8,121
Other current assets		
Prepaid expenses	9,149	12,743
Other	5,299	12,337
Total other current assets	14,448	25,080

21. Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Raw materials	39,302	42,469
Work in progress	15,512	17,020
Merchandise and finished goods	92,813	92,023
Total	147,626	151,511

The carrying amounts of inventories are measured at the lower of cost and net realisable value.

The cost of inventories recognised as an expense in "Cost of sales" for the years ended 31 March 2018 and 2019 amounted to ¥237,717 million and ¥229,994 million, respectively.

The write-down of inventories recognised as an expense for the years ended 31 March 2018 and 2019 amounted to ¥6,737 million and ¥2,784 million, respectively.

22. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Notes and accounts receivable	305,930	320,426
Other accounts receivable	48,711	57,132
Loss allowances	(9,848)	(9,682)
Total trade and other receivables	344,794	367,876
Non-current assets	25,282	25,248
Current assets	319,512	342,628

23. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Cash and deposits	328,669	297,477
Short-term investments (cash equivalents)	3,062	13,597
Cash and cash equivalents in the consolidated statement of financial position	331,731	311,074
Cash and cash equivalents in the consolidated statement of cash flows	331,731	311,074

24. Assets Held for Sale and Liabilities Directly Associated with Assets Held for Sale

The breakdown of assets held for sale and liabilities directly associated with assets held for sale is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Assets		
Property, plant and equipment		
Buildings and structures	7,789	543
Other tangible assets	164	822
Cash and cash equivalents	-	1,732
Other	2,422	1,049
Total assets	10,374	4,147
Liabilities		
Other	-	1,906
Total liabilities	-	1,906

Assets held for sale as of 31 March 2018 mainly consist of facilities and leasehold rights connected with the research operations of Agensys, Inc., a U.S. consolidated subsidiary. The Company completed the sale of those assets in April 2018.

25. Equity and Other Components of Equity

(1) Share capital and capital surplus

The movement of the number of issued shares and share capital is as follows:

	Number of authorised shares (Thousands of shares)	Number of ordinary issued shares (Thousands of shares)	Share capital (Millions of yen)	Capital surplus (Millions of yen)
As of 1 April 2017	9,000,000	2,153,823	103,001	177,091
Increase	-	-	-	286
Decrease	-	(85,000)	-	(159)
As of 31 March 2018	9,000,000	2,068,823	103,001	177,219
Increase	-	-	-	364
Decrease	-	(89,000)	-	(281)
As of 31 March 2019	9,000,000	1,979,823	103,001	177,301

(Note) Decrease in the number of ordinary issued shares during the years ended 31 March 2018 and 2019 resulted from the cancellation of treasury shares.

(2) Treasury shares

The movement of treasury shares is as follows:

	Number of shares (Thousands of shares)	Amount (Millions of yen)
As of 1 April 2017	88,817	138,207
Increase	89,379	130,712
Decrease	(85,526)	(132,969)
As of 31 March 2018	92,670	135,951
Increase	91,085	160,442
Decrease	(89,769)	(131,763)
As of 31 March 2019	93,986	164,629

(3) Other components of equity

Subscription rights to shares

The Company had adopted share option plans through the year ended 31 March 2015, and has issued subscription rights to shares under the former Commercial Code and the Companies Act of Japan. Contract conditions and amounts are described in Note "27. Share-based Payment".

26. Dividends

For the year ended 31 March 2018

(1) Dividends paid

Resolution	Class of shares	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on 19 June 2017	Ordinary shares	35,120	17.00	31 March 2017	20 June 2017
Board of directors meeting held on 31 October 2017	Ordinary shares	36,552	18.00	30 September 2017	1 December 2017

(Notes) 1. The amount of dividends approved by resolution of the ordinary general meeting of shareholders on 19 June 2017 includes dividends of ¥15 million corresponding to the Company's shares held in the executive compensation BIP trust.

2. The amount of dividends approved by resolution of the board of directors meeting on 31 October 2017 includes dividends of ¥23 million corresponding to the Company's shares held in the executive compensation BIP trust.

(2) Dividends whose record date is in the fiscal year ended 31 March 2018 but whose effective date is in the following fiscal year are as follows:

Resolution	Class of shares	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on 15 June 2018	Ordinary shares	35,594	18.00	31 March 2018	18 June 2018

(Note) The amount of dividends above includes dividends of ¥23 million corresponding to the Company's shares held in the executive compensation BIP trust.

For the year ended 31 March 2019

(1) Dividends paid

Resolution	Class of shares	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on 15 June 2018	Ordinary shares	35,594	18.00	31 March 2018	18 June 2018
Board of directors meeting held on 31 October 2018	Ordinary shares	36,521	19.00	30 September 2018	3 December 2018

(Notes) 1. The amount of dividends approved by resolution of the ordinary general meeting of shareholders on 15 June 2018 includes dividends of ¥23 million corresponding to the Company's shares held in the executive compensation BIP trust.

2. The amount of dividends approved by resolution of the board of directors meeting on 31 October 2018 includes dividends of ¥26 million corresponding to the Company's shares held in the executive compensation BIP trust.

(2) Dividends whose record date is in the fiscal year ended 31 March 2019 but whose effective date is in the following fiscal year are as follows:

Resolution	Class of shares	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary general meeting of shareholders held on 18 June 2019	Ordinary shares	35,856	19.00	31 March 2019	19 June 2019

(Note) The amount of dividends above includes dividends of ¥26 million corresponding to the Company's shares held in the executive compensation BIP trust.

27. Share-based Payment

(1) Performance-linked Stock Compensation Scheme

(i) Outline of the Performance-linked Stock Compensation Scheme

From the fiscal year ended 31 March 2016, the Group has introduced a Performance-linked Stock Compensation Scheme for directors (excluding outside directors and directors who are Audit & Supervisory Committee members) and corporate executives for the purpose of increasing their awareness of contributing to the sustainable growth in business results and corporate value.

The Scheme employs a framework referred to as the executive compensation BIP (Board Incentive Plan) trust (hereinafter the "BIP Trust") for directors and corporate executives other than those residing overseas. The BIP Trust acquires the Company's shares and delivers those shares to directors and other executives based on the level of attainment of the medium-term management targets. The Performance-linked Stock Compensation Scheme under which the Company's shares are delivered from the BIP Trust is accounted for as an equity-settled share-based payment transaction.

In addition, the Company will provide cash benefits determined based on stock price of the Company to corporate executives residing overseas based on the level of attainment of the medium-term management targets. The Performance-linked Stock Compensation Scheme that provides cash benefits from the Company is accounted for as a cash-settled share-based payment transaction.

(ii) Expenses recognised in the consolidated statement of income

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Total expenses recognised for the Performance-linked Stock Compensation Scheme	304	392

(iii) Measurement approach for the fair value of the Company's shares granted during the fiscal year based on the Performance-linked Stock Compensation Scheme

The weighted average fair value of the Company's shares granted during the period is calculated based on the following assumptions.

		Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Share price at the grant date		1,383.0 yen	1,884.0 yen
Vesting period	(Note 1)	3 years	3 years
Expected annual dividend	(Note 2)	36 yen/share	38 yen/share
Discount rate	(Note 3)	(0.1%)	(0.1%)
Weighted average fair value		1,275 yen	1,770 yen

(Notes) 1. Refers to the number of years from the grant date until the shares are expected to be delivered.
2. Calculated based on the latest dividends paid.
3. Based on the yield on Japanese government bonds corresponding to the vesting period.

(2) Share option plans

(i)Outline of share option plans

The Company had adopted share option plans through the year ended 31 March 2015, and has granted share options to directors and corporate executives of the Company. The purpose of share option plans is to improve the sensitivity to the share price and the Group's financial results and also increase the value of the Group by motivating the members to whom share options are granted.

After obtaining approval at the meeting of shareholders, share options are granted as subscription rights to shares to individuals approved at the Company's board of directors meeting.

Holders of subscription rights to shares can exercise their share subscription rights only from the day following the date of resignation from their position as director or corporate executive of the Company.

Share options not exercised during the exercise period defined in the allocation contract will be forfeited.

The Company accounts for those share option plans as equity-settled share-based payment transactions.

(ii) Movement of the number of share options outstanding and their weighted average exercise price

	Fiscal year ended 31 March 2018		Fiscal year ended 31 March 2019	
	Weighted average exercise price (Yen)	Number of shares	Weighted average exercise price (Yen)	Number of shares
Outstanding, beginning of the period	1	2,531,500	1	2,108,000
Granted	-	-	-	-
Exercised	1	(423,500)	1	(580,600)
Forfeited or expired	-	-	-	-
Outstanding, end of the period	1	2,108,000	1	1,527,400
Options exercisable, end of the period	1	2,108,000	1	1,527,400

(Notes) 1. The number of share options is presented as the number of underlying shares.
2. The weighted average share prices at the date of exercise for share options exercised during the years ended 31 March 2018 and 2019 are ¥1,415 and ¥1,670, respectively.

(iii) Expiration dates and exercise prices of share options outstanding at the end of the period

	Expiration date	Exercise price per share (Yen)	Number of shares	
			Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Granted on August 2005	24 June 2025	1	46,000	10,000
Granted on February 2007	27 June 2026	1	16,500	8,500
Granted on August 2007	26 June 2027	1	27,500	16,500
Granted on September 2008	24 June 2028	1	50,500	23,500
Granted on July 2009	23 June 2029	1	143,000	94,000
Granted on July 2010	23 June 2030	1	332,000	183,000
Granted on July 2011	20 June 2031	1	460,500	315,000
Granted on July 2012	20 June 2032	1	498,000	413,000
Granted on July 2013	19 June 2033	1	316,500	275,500
Granted on July 2014	18 June 2034	1	217,500	188,400
Total		-	2,108,000	1,527,400

(Note) There are vesting conditions in which share subscription rights are vested according to the service record over approximately one year from the grant date of the share option to the vesting date.

28. Retirement Benefits

The Group, excluding a part of foreign subsidiaries, offers post-employment benefits such as defined benefit plans and defined contribution plans. Among the defined benefit plans offered, the defined benefit plan adopted in Japan is a major one, accounting for approximately 80% of the total defined benefit obligations.

(i) Defined benefit plan adopted in Japan as post-employment benefit

The Company and its domestic subsidiaries offer corporate pension plans and retirement lump-sum payment plans as defined benefit plans.

The benefits of the defined benefit plan are determined based on the base compensation calculated by accumulated points earned by the time of retirement and promised rate of return based on the yield of 10 year government bonds. Also, the option of receiving benefits in the form of a pension is available for plan participants with 15 years or more enrollments.

Defined benefit plans are administered by the Astellas Corporate Pension Fund. Directors of the pension fund are jointly liable for damages to the fund due to their neglect of duties about management of the funds.

Contributions of the employer are made monthly and also determined as 4.0% of standard salary, which is calculated based on the estimate of the points granted during a year to each participant. When the plan assets are lower than the minimum funding standard at the end of the period, the employer will make additional contributions.

Defined benefit plans are exposed to actuarial risks. The Astellas Corporate Pension Fund assigns staff with professional knowledge and expertise about the composition of plan asset to determine the asset mix ratio and manages risks by monitoring on a quarterly basis.

(ii) Defined benefit plans of overseas subsidiaries as post-employment benefits

Among foreign subsidiaries, ones located in the United Kingdom, Germany, Ireland, and some other countries offer defined benefit plans as post-employment benefits.

Assets and liabilities of defined benefit plans recognised in the consolidated statement of financial position are as follows:

As of 31 March 2018

(Millions of yen)

	Pension and lump-sum payment			Other
	Japan	Overseas	Total	
Present value of defined benefit obligations	123,513	36,386	159,899	1,787
Fair value of plan assets	(114,280)	(13,278)	(127,557)	-
Net defined benefit liability (asset)	9,233	23,109	32,342	1,787
Amounts in the consolidated statement of financial position				
Assets (other non-current assets)	(2,544)	-	(2,544)	-
Liabilities (retirement benefit liabilities)	11,777	23,109	34,886	1,787

As of 31 March 2019

(Millions of yen)

	Pension and lump-sum payment			Other
	Japan	Overseas	Total	
Present value of defined benefit obligations	123,601	36,771	160,373	2,039
Fair value of plan assets	(111,449)	(14,667)	(126,115)	-
Net defined benefit liability (asset)	12,153	22,104	34,257	2,039
Amounts in the consolidated statement of financial position				
Assets (other non-current assets)	(3,868)	-	(3,868)	-
Liabilities (retirement benefit liabilities)	16,020	22,104	38,125	2,039

The movement of the present value of defined benefit obligations is as follows:

(Millions of yen)

	Pension and lump-sum payment			Other
	Japan	Overseas	Total	
Balance at 1 April 2017	123,118	30,816	153,934	2,608
Current service cost	4,875	1,048	5,923	218
Interest cost	1,001	677	1,677	61
Remeasurements of defined benefit obligations				
−actuarial gains/losses arising from changes in demographic assumptions	(5)	(144)	(149)	(2)
−actuarial gains/losses arising from changes in financial assumptions	1,915	1,023	2,937	(126)
−other	(720)	466	(254)	(186)
Past service cost, and gains and losses arising from settlements	-	-	-	(431)
Contributions to the plan by plan participants	-	79	79	-
Payments from the plan	(6,671)	(1,082)	(7,753)	(43)
Effect of changes in foreign exchange rates, and other	-	3,504	3,504	(310)
Balance at 31 March 2018	123,513	36,386	159,899	1,787
Current service cost	4,903	1,121	6,024	235
Interest cost	881	695	1,576	54
Remeasurements of defined benefit obligations				
−actuarial gains/losses arising from changes in demographic assumptions	(2)	122	120	(2)
−actuarial gains/losses arising from changes in financial assumptions	2,759	862	3,621	60
−other	(64)	116	52	(70)
Past service cost, and gains and losses arising from settlements	-	(207)	(207)	-
Contributions to the plan by plan participants	-	116	116	-
Payments from the plan	(8,005)	(1,016)	(9,021)	(81)
Effect of changes in foreign exchange rates, and other	(382)	(1,424)	(1,807)	55
Balance at 31 March 2019	123,601	36,771	160,373	2,039

The movement of fair value of plan assets is as follows:

(Millions of yen)

	Pension and lump-sum payment			Other
	Japan	Overseas	Total	
Balance at 1 April 2017	111,926	10,374	122,300	-
Interest income	905	241	1,146	-
Remeasurements of the fair value of the plan assets				
−return on plan assets	4,637	(11)	4,626	-
− actuarial gains/losses arising from changes in financial assumptions	(111)	(25)	(135)	-
Contributions to the plan				
−by employer	2,746	901	3,647	-
−by plan participants	-	70	70	-
Payments from the plan	(5,824)	(333)	(6,157)	-
Effect of movements in exchange rates, and other	-	2,060	2,060	-
Balance at 31 March 2018	114,280	13,278	127,557	-
Interest income	811	250	1,061	-
Remeasurements of the fair value of the plan assets				
−return on plan assets	(273)	365	92	-
−actuarial gains/losses arising from changes in financial assumptions	(165)	(32)	(197)	-
Contributions to the plan				
−by employer	2,700	1,198	3,898	-
−by plan participants	-	116	116	-
Payments from the plan	(5,624)	(59)	(5,683)	-
Effect of movements in exchange rates, and other	(280)	(449)	(729)	-
Balance at 31 March 2019	111,449	14,667	126,115	-

The Group expects to contribute ¥3,546 million to its defined benefit plans in the fiscal year ending 31 March 2020.

The breakdown of the fair value of plan assets is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Japan		
Equity	21,498	16,881
Bonds	36,292	42,985
Cash and other investments	56,489	51,583
Total	114,280	111,449
Overseas		
Equity	4,267	4,180
Bonds	2,936	3,031
Cash and other investments	6,075	7,456
Total	13,278	14,667
Total fair value of plan assets	127,557	126,115

(i) Japanese plan assets

Equity comprises mainly investment trust funds and it is categorised as Level 2 within the fair value hierarchy. The fair values of bonds are measured using quoted prices for identical or similar assets in markets that are not active, and they are categorised as Level 2 within the fair value hierarchy. Cash and other investments include alternative investments.

(ii) Overseas plan assets

Equity is mainly composed of investments with quoted prices in active markets or with measured value using quoted prices for identical or similar assets in markets that are not active, and they are mainly categorised as Level 1 or Level 2 within the fair value hierarchy. The fair values of bonds are measured using quoted prices for identical or similar assets in markets that are not active, and they are categorised as Level 2 within the fair value hierarchy. Cash and other investments include alternative investments.

Significant actuarial assumptions and sensitivity analysis for each significant actuarial assumption are as follows:

	As of 31 March 2018	As of 31 March 2019
Discount rate (%)		
Japan	0.5%-0.7%	0.4%-0.6%
Overseas	1.7%-2.5%	1.4%-2.4%

The impact of a 0.5% increase or decrease in the discount rate as significant actuarial assumption used on the defined benefit obligations as of 31 March 2019 would result in a ¥11,311 million decrease and ¥13,265 million increase, respectively, in the defined benefit obligation.

The sensitivity analysis does not consider correlations between assumptions, assuming that all other assumptions are held constant. In practice, changes in some of the assumptions may occur in a correlated manner. When calculating the sensitivity of the defined benefit obligations, the same method has been applied as calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The weighted-average duration of the defined benefit obligations is as follows:

	As of 31 March 2018	As of 31 March 2019
Japan	13.6 years	13.5 years
Overseas	18.4 years	17.9 years

29. Provisions

The movement of provisions for the year ended 31 March 2018 is as follows:

(Millions of yen)

	Trade-related provisions	Asset retirement obligations	Other	Total
Balance at 1 April 2017	93,734	1,938	5,839	101,511
Increase during the year	110,251	5	9,944	120,201
Decrease due to intended use	(81,511)	(1)	(3,261)	(84,772)
Reversal during the year	(947)	-	(1,518)	(2,465)
Other	(3,155)	24	(221)	(3,352)
Balance at 31 March 2018	118,372	1,966	10,783	131,122
Non-current	1,931	1,966	993	4,891
Current	116,441	-	9,791	126,231
Total provisions	118,372	1,966	10,783	131,122

The movement of provisions for the year ended 31 March 2019 is as follows:

(Millions of yen)

	Trade-related provisions	Asset retirement obligations	Other	Total
Balance at 1 April 2018	118,372	1,966	10,783	131,122
Adjustments due to application of IFRS 15	(118,372)	-	8,571	(109,802)
Balance after restatement on 1 April 2018	-	1,966	19,354	21,320
Increase during the year	-	836	18,139	18,975
Decrease due to intended use	-	(122)	(10,282)	(10,403)
Reversal during the year	-	(123)	(1,404)	(1,527)
Other	-	(2)	(104)	(107)
Balance at 31 March 2019	-	2,556	25,703	28,259
Non-current	-	1,994	3,422	5,416
Current	-	562	22,281	22,843
Total provisions	-	2,556	25,703	28,259

Details of provisions are as follows:

(i) Asset retirement obligations

The Group recognises asset retirement obligations that is expected to be paid in the future based on past performance in order to provide for the restoration of rented offices.

The outflow of economic benefits is expected more than one year after the end of the reporting period.

(ii) Other

“Other” includes provision related to a government investigation of patient assistance foundations in connection with a U.S. subsidiary. For details on this matter, please refer to Note “38. Contingent Liabilities”

30. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Other financial liabilities (non-current)		
Financial liabilities at FVTPL		
Contingent consideration	48,226	51,404
Financial liabilities measured at amortised cost		
Finance lease liabilities	904	769
Other	293	709
Total other financial liabilities (non-current)	49,422	52,882
Other financial liabilities (current)		
Financial liabilities at FVTPL		
Forward foreign exchange contracts	481	353
Contingent consideration	5,946	12,681
Financial liabilities measured at amortised cost		
Finance lease liabilities	444	430
Other	688	673
Total other financial liabilities (current)	7,559	14,136
Total other financial liabilities	56,981	67,018

The maturity and the present value of finance lease liabilities are as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Minimum lease payments		
Not later than one year	444	430
Later than one year and not later than five years	886	756
Later than five years	18	13
Present value of finance lease liabilities	1,348	1,199

31. Other Liabilities

The breakdown of other liabilities is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Other non-current liabilities		
Other long-term employee benefits	18,759	21,385
Deferred income	22,301	-
Contract liabilities	-	11,405
Refund liabilities	-	1,519
Other	6,309	2,070
Total other non-current liabilities	47,370	36,379
Other current liabilities		
Accrued bonuses	29,991	32,195
Accrued paid absences	12,017	11,325
Other accrued expenses	53,763	64,490
Deferred income	18,020	-
Contract liabilities	-	13,320
Refund liabilities	-	127,867
Other	7,946	6,716
Total other current liabilities	121,737	255,913

(Notes) 1. With the application of IFRS 15, other non-current liabilities and other current liabilities previously classified as “Deferred income” have been classified as “Contract liabilities” from the fiscal year ended 31 March 2019. In addition, certain trade-related provisions previously classified as “Provisions” have been classified as “Refund liabilities” under other non-current liabilities and other current liabilities.

2. Consideration for the transfer of the global dermatology business to LEO Pharma A/S in the amounts of ¥19,584 million and ¥12,539 million was included in “Deferred income” under other non-current liabilities and other current liabilities, respectively, as of 31 March 2018, and such consideration in the amounts of ¥9,792 million and ¥11,360 million was included in “Contract liabilities” under other non-current liabilities and other current liabilities, respectively, as of 31 March 2019.

32. Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Accounts payable-trade	75,683	95,410
Other payables	68,741	91,442
Total trade and other payables	144,424	186,852
Non-current	3,515	1,572
Current	140,909	185,280

33. Financial Instruments

(1) Capital management

The Group's capital management principle is to maintain an optimal capital structure by improving capital efficiency and ensuring sound and flexible financial conditions in order to achieve sustained improvement in the enterprise value, which will lead to improved return to shareholders.

The Group monitors financial indicators in order to maintain an optimal capital structure. Credit ratings are monitored for financial soundness and flexibility, and so is return on equity attributable to owners of the parent (ROE) for capital efficiency.

The Group is not subject to material capital regulation.

(2) Classification of financial assets and financial liabilities

The breakdown of financial assets and financial liabilities is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Financial assets		
Financial assets at FVTPL		
Other	13,334	19,482
Financial assets measured at amortised cost		
Trade and other receivables	344,794	367,876
Loans and other financial assets	24,249	12,255
Cash and cash equivalents	331,731	311,074
Available-for-sale financial assets	43,308	-
Financial assets at FVTOCI	-	52,327
Total financial assets	757,416	763,014
Financial liabilities		
Financial liabilities at FVTPL		
Forward foreign exchange contracts	481	353
Contingent consideration	54,172	64,085
Financial liabilities measured at amortised cost		
Trade and other payables	144,424	186,852
Other	2,328	2,580
Total financial liabilities	201,405	253,870

(Notes) 1. Financial assets at FVTPL, loans and other financial assets, available-for-sale financial assets, and financial assets at FVTOCI are included in "Other financial assets" in the consolidated statement of financial position.

2. Financial liabilities at FVTPL and "Other" under financial liabilities measured at amortised cost are included in "Other financial liabilities" in the consolidated statement of financial position.

3. As described in "(4) Changes in accounting policies" under "2. Basis of Preparation," with the application of IFRS 9, financial assets previously classified as available-for-sale financial assets have been classified as financial assets at FVTOCI from the fiscal year ended 31 March 2019. Trade and other receivable and loans and other financial assets were classified as loans and receivables in the fiscal year ended 31 March 2018.

Equity instruments held for the purpose of maintaining and strengthening relationships in line with the Group's pharmaceutical business strategy, as well as maintaining and strengthening business relationships in pharmaceutical sales and related activities, have been designated by the Group as financial assets at FVTOCI.

The main equity instruments designated as financial assets at FVTOCI are as follows:

(Millions of yen)

Description	As of 31 March 2019
Quoted equity shares	
FibroGen, Inc.	29,971
Other	6,461
Unquoted equity shares	15,896

In the fiscal year ended 31 March 2019, the Group disposed of and derecognised certain equity instruments designated as financial assets at FVTOCI through sales and other means, mainly for the purpose of revising business relationships.

The fair value and cumulative gain and loss at the time of disposal were as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019
Fair value	68
Cumulative gain and loss	(494)

In the fiscal year ended 31 March 2019, cumulative gain and loss (after tax) transferred from other components of equity to retained earnings was ¥(635) million, due to derecognition and a significant decrease in the fair value of equity instruments designated as financial assets at FVTOCI.

(3) Financial risk management policy

The Group is exposed to financial risks such as credit risks, liquidity risks, and foreign exchange risks in operating businesses, and it manages risks based on its policy to mitigate them.

The Group limits the use of derivatives to transactions for the purpose of hedging financial risks and does not use derivatives for speculation purposes.

(i) Credit risk

(a) Credit risk management

Receivables, such as trade receivables, resulting from the business activities of the Group are exposed to the customer's credit risk. This risk is managed by grasping the financial condition of the customer and monitoring the trade receivables balance. Also, the Group reviews collectability of trade receivables depending on the credit conditions of customers and recognises loss allowances as necessary.

Securities held by the Group are exposed to the issuer's credit risk, and deposits are exposed to the credit risk of banks. Also, derivative transactions that the Group conducts in order to hedge financial risks are exposed to the credit risk of the financial institutions which are counterparties of those transactions. In regard to securities transactions and deposit transactions in fund management, the Group only deals with banks and issuers with certain credit ratings and manages investments within the defined period and credit limit, in accordance with Global Cash Investment Policy. In addition, regarding derivative transactions, the Group only deals with financial institutions with certain credit ratings in accordance with Astellas Global Treasury Policy.

(b) Concentrations of credit risk

In Japan, like other pharmaceutical companies, the Group sells its products through a small number of wholesalers. Sales to the four largest wholesalers amounted to approximately 80% of the Group's sales in Japan, and the amount of trade receivables due from those four wholesalers are ¥94,410 million at 31 March 2018 and ¥91,808 million at 31 March 2019.

(c) Maximum exposure to credit risk

Other than guaranteed obligations, the Group's maximum exposure to credit risks without taking into account any collateral held or other credit enhancements is the carrying amount of financial instruments less impairment losses in the consolidated statement of financial position. The Group's maximum exposure to credit risks of guaranteed obligations as of 31 March 2018 and 2019 were ¥343 million and ¥221 million, respectively.

(d) Collateral

The Group has securities and deposits received as collateral for certain trade receivables and other receivables.

The analysis of aging of financial assets that are past due but not impaired as of 31 March 2018 is as follows:

(Millions of yen)

	Neither past due nor impaired	Past due but not impaired				Loss allowance	Total
		Within three months	Between three months and six months	Between six months and one year	Over one year		
Balance at 31 March 2018							
Trade and other receivables	305,165	12,570	1,253	1,250	914	(483)	320,669
Loans and other financial assets	24,241	1	0	-	6	-	24,249
Total	329,406	12,571	1,254	1,250	920	(483)	344,917

The analysis of financial assets that are individually determined to be impaired as of 31 March 2018 is as follows:

(Millions of yen)

	As of 31 March 2018
Trade and other receivables (gross)	33,489
Loss allowances	(9,365)
Trade and other receivables (net)	24,125
Loans and other financial assets (gross)	13
Loss allowances	(13)
Loans and other financial assets (net)	-

The movement of loss allowances in the fiscal year ended 31 March 2018 is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018
Balance at 1 April 2017	9,820
Increase during the year	1,629
Decrease due to intended use	(961)
Reversal during the year	(748)
Other	120
Balance at 31 March 2018	9,861

The credit risk exposure of financial assets measured at amortised cost as of 31 March 2019 is as follows:

(Millions of yen)

	Finance assets for which loss allowance is measured at an amount equal to 12-month expected credit losses	Financial assets for which loss allowance is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets on which credit risk has increased significantly since initial recognition	Credit-impaired financial assets	Financial assets for which loss allowance is always measured at an amount equal to lifetime expected credit losses	
Trade and other receivables	24,971	32,160	-	320,426	377,558
Loans and other financial assets	12,265	-	5	-	12,270
Total	37,237	32,160	5	320,426	389,828

The movement of loss allowances in the year ended 31 March 2019 is as follows:

(Millions of yen)

	Financial assets for which loss allowance is measured at an amount equal to 12-month expected credit losses	Financial assets for which loss allowance is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets on which credit risk has increased significantly since initial recognition	Credit-impaired financial assets	Financial assets for which loss allowance is always measured at an amount equal to lifetime expected credit losses	
Balance at 1 April 2018	-	8,189	3	1,669	9,861
Increase during the year	-	33	2	600	635
Decrease due to intended use	-	-	-	(53)	(53)
Reversal during the year	-	-	(0)	(660)	(660)
Other	-	0	-	(85)	(84)
Balance at 31 March 2019	-	8,222	5	1,470	9,698

(ii) Liquidity risk

Liquidity risk management

The Group is exposed to liquidity risk that the Group might have difficulty settling financial obligations. However, the Group is maintaining the liquidity on hand that enables the Group to meet the assumed repayment of financial obligations and respond flexibly to strategic investment opportunities. Also, the balance is reported monthly to the Senior Corporate Executive, Chief Financial Officer (CFO).

Financial liabilities by maturity date are as follows:

As of 31 March 2018

(Millions of yen)

	Carrying amount	Contractual cash flows	Within six months	Between six months and one year	Between one year and two years	Between two years and five years	Over five years
Financial liabilities at FVTPL							
Forward foreign exchange contracts	481	481	-	481	-	-	-
Subtotal	481	481	-	481	-	-	-
Financial liabilities measured at amortised cost							
Trade and other payables	144,424	144,424	140,677	232	421	1,313	1,780
Other	2,328	2,328	925	209	384	511	299
Subtotal	146,752	146,752	141,603	441	804	1,824	2,079
Total	147,232	147,232	141,603	922	804	1,824	2,079

	Carrying amount	Maximum payment amount	Within one year	Between one year and five years	Over five years
Contingent consideration	54,172	172,969	5,981	40,130	9,756

As of 31 March 2019

(Millions of yen)

	Carrying amount	Contractual cash flows	Within six months	Between six months and one year	Between one year and two years	Between two years and five years	Over five years
Financial liabilities at FVTPL							
Forward foreign exchange contracts	353	353	-	353	-	-	-
Subtotal	353	353	-	353	-	-	-
Financial liabilities measured at amortised cost							
Trade and other payables	186,852	186,852	185,030	250	452	1,120	-
Other	2,580	2,580	896	206	351	405	722
Subtotal	189,432	189,432	185,926	456	803	1,525	722
Total	189,785	189,785	185,926	809	803	1,525	722

	Carrying amount	Maximum payment amount	Within one year	Between one year and five years	Over five years
Contingent consideration	64,085	203,299	12,697	44,978	8,083

(iii) Foreign exchange risk

Foreign exchange risk management

The Group operates globally and the Group’s business results and financial position are exposed to foreign exchange risks.

The Group considers necessity of using derivatives to mitigate foreign exchange risk on each transaction. In regard to the intercompany loan in foreign currencies, the Group has used forward foreign exchange contracts to mitigate the impact of exchange rate fluctuations on business results in the fiscal years ended 31 March 2018 and 2019. The status of the hedge against foreign exchange risk by currency and the balance of derivative transactions are reported monthly to the Senior Corporate Executive, Chief Financial Officer.

Foreign exchange sensitivity analysis

The financial impact on profit before tax for the fiscal years ended 31 March 2018 and 2019 in the case of a 10% appreciation of Japanese yen, which is the Company’s functional currency, against the U.S. dollar and euro is as follows.

Also, it is based on the assumption that currencies other than the ones used for the calculation do not fluctuate and other change factors are held constant.

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Profit before tax		
U.S. dollar	(908)	(3,480)
Euro	329	2,269

(Note) The above negative amounts represent the negative impact on profit before tax in the event of a 10% appreciation in Japanese yen.

(4) Fair values of financial instruments

(i) Fair value calculation of financial instruments

Financial assets measured at amortised cost

Financial assets measured at amortised cost comprise trade and other receivables, loans and other financial assets, and cash and cash equivalents. The carrying amount approximates fair value due to the short period of settlement terms.

Financial assets at FVTOCI (equity instruments)

The fair value of marketable securities is based on quoted market prices at the end of the period. The fair value of unquoted equity shares is measured mainly based on the discounted cash flows.

Financial assets at FVTPL

Financial assets at FVTPL mainly comprise forward foreign exchange contracts. The fair value of those financial instruments is measured based on prices provided by counterparty financial institutions.

Financial liabilities at FVTPL

Financial liabilities at FVTPL comprise contingent consideration for business combinations and forward foreign exchange contracts.

The fair value of contingent consideration for business combinations is calculated based on the estimated success probability of development activities and the time value of money.

The fair value of forward foreign exchange contracts is measured based on prices provided by counterparty financial institutions.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost comprise trade and other payables, and other financial liabilities. The carrying amount approximates fair value due to the short period of settlement terms.

(ii) Financial instruments measured at fair value on a recurring basis

Fair value hierarchy

The levels of the fair value hierarchy are as follows:

− Level 1: Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;

− Level 2: Fair value measured using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

− Level 3: Fair value measured using significant unobservable inputs for the assets or liabilities.

The level of the fair value hierarchy is determined based on the lowest level of significant input used for the measurement of fair value.

The Group accounts for transfers between levels of the fair value hierarchy as if they occurred at the end of each quarter.

The breakdown of financial assets and liabilities measured at fair value on a recurring basis, including their levels in the fair value hierarchy, is as follows:

As of 31 March 2018

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL				
Other	-	9,197	4,137	13,334
Subtotal	-	9,197	4,137	13,334
Available-for-sale financial assets				
Quoted equity shares	28,732	-	-	28,732
Unquoted equity shares	-	-	14,576	14,576
Other	-	-	0	0
Subtotal	28,732	-	14,576	43,308
Total financial assets	28,732	9,197	18,714	56,643
Financial liabilities				
Financial liabilities at FVTPL				
Forward foreign exchange contracts	-	481	-	481
Contingent consideration	-	-	54,172	54,172
Subtotal	-	481	54,172	54,653
Total financial liabilities	-	481	54,172	54,653

(Note) Financial assets at FVTPL, available-for-sale financial assets and financial liabilities at FVTPL are included in “Other financial assets” and “Other financial liabilities” in the consolidated statement of financial position, respectively.

As of 31 March 2019

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL				
Other	-	10,824	8,658	19,482
Subtotal	-	10,824	8,658	19,482
Financial assets at FVTOCI				
Quoted equity shares	36,431	-	-	36,431
Unquoted equity shares	-	-	15,896	15,896
Subtotal	36,431	-	15,896	52,327
Total financial assets	36,431	10,824	24,554	71,809
Financial liabilities				
Financial liabilities at FVTPL				
Forward foreign exchange contracts	-	353	-	353
Contingent consideration	-	-	64,085	64,085
Subtotal	-	353	64,085	64,438
Total financial liabilities	-	353	64,085	64,438

(Note) Financial assets at FVTPL, financial assets at FVTOCI, and financial liabilities at FVTPL are included in “Other financial assets” and “Other financial liabilities” in the consolidated statement of financial position, respectively.

The movement of fair value of financial instruments categorised within Level 3 of the fair value hierarchy is as follows:

For the fiscal year ended 31 March 2018

(1) Financial assets

(Millions of yen)

	Financial assets at FVTPL	Available-for-sale financial assets	Total
Balance at 1 April 2017	2,897	14,258	17,156
Realised or unrealised gains (losses)			
Recognised in profit or loss (Note)	(332)	(450)	(782)
Recognised in other comprehensive income	-	345	345
Purchases, issues, sales, and settlements			
Purchases	1,577	693	2,269
Sales	-	(5)	(5)
Other	(4)	(265)	(269)
Balance at 31 March 2018	4,137	14,576	18,714
Gains or losses recognised during the year in profit or loss attributable to the change in unrealised gains or losses relating to those assets held at the end of the period (Note)	(332)	(452)	(784)

(Note) This is included in “Finance income” and “Finance expense” in the consolidated statement of income.

(2) Financial liabilities

(Millions of yen)

	Financial liabilities at FVTPL
Balance at 1 April 2017	28,450
Realised or unrealised gains (losses)	
Recognised in profit or loss (Note)	2,889
Business combinations	22,958
Other	(125)
Balance at 31 March 2018	54,172
Gains or losses recognised during the year in profit or loss attributable to the change in unrealised gains or losses relating to those assets held at the end of the period (Note)	2,889

(Note) This is included in “Other income” and “Other expense” in the consolidated statement of income.

For the year ended 31 March 2019

(1) Financial assets

(Millions of yen)

	Financial assets at FVTPL	Financial assets at FVTOCI	Total
Balance at 1 April 2018	4,137	14,576	18,714
Realised or unrealised gains (losses)			
Recognised in profit or loss (Note 1)	3,308	-	3,308
Recognised in other comprehensive income	-	399	399
Purchases, issues, sales, and settlements			
Purchases	2,930	1,531	4,462
Settlements	(1,722)	(3)	(1,725)
Transfers out of Level 3 (Note 2)	-	(490)	(490)
Other	4	(118)	(114)
Balance at 31 March 2019	8,658	15,896	24,554
Gains or losses recognised during the year in profit or loss attributable to the change in unrealised gains or losses relating to those assets held at the end of the period (Note 1)	3,308	-	3,308

(Notes) 1. This is included in “Finance income” and “Finance expense” in the consolidated statement of income.

2. This is because a significant input used to measure fair value has become observable.

(2) Financial liabilities

(Millions of yen)

	Financial liabilities at FVTPL
Balance at 1 April 2018	54,172
Realised or unrealised gains (losses)	
Recognised in profit or loss (Note)	1,668
Business combinations	9,029
Settlements	(1,220)
Other	435
Balance at 31 March 2019	64,085
Gains or losses recognised during the year in profit or loss attributable to the change in unrealised gains or losses relating to those assets held at the end of the period (Note)	1,668

(Note) This is included in “Other income” and “Other expense” in the consolidated statement of income.

The financial assets categorised within Level 3 are composed mainly of unquoted equity shares.

The fair value of significant unquoted equity shares is measured using discounted cash flows. The fair value of unquoted equity shares is categorised within Level 3 because unobservable inputs such as estimates of future net operating profit after tax and WACC are used for the measurement. The WACC used for the measurement of fair value depends on region or industry. In the fiscal years ended 31 March 2018 and 2019, the WACC used for measurement was 8.0%. Generally, the fair value would decrease if the WACC capital were higher.

The fair value of unquoted equity shares is measured by relevant departments of the Company and each Group company in accordance with the Group accounting policy every quarter. The results with evidences of changes in fair value are reported to a superior and, if necessary, to the Executive Committee as well.

The financial liabilities categorised within Level 3 are composed of contingent considerations arising from business combinations.

Contingent considerations represent certain milestone payments based on progress in the development of the clinical programs possessed by the acquirees. The fair value of the contingent consideration is calculated based on the estimated success probability of the clinical program adjusted for the time value of money. The fair value of contingent considerations increase if the success probability of the clinical program, which is the significant unobservable input, is raised.

In regards to financial instruments categorised within Level 3, there would be no significant change in fair value when one or more of the unobservable inputs is changed to reflect reasonably possible alternative assumptions.

34. Operating Leases

Future minimum lease payments under non-cancellable operating leases are as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Not later than one year	12,636	11,988
Later than one year and not later than five years	30,385	27,569
Later than five years	24,255	21,347
Total	67,275	60,904

Future minimum sublease payments expected to be received under non-cancellable subleases are as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Future minimum sublease payments expected to be received	1,486	1,058

Minimum lease payments and sublease payments received recognised as expenses are as follows:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Minimum lease payments	17,113	16,986
Sublease payments received	(221)	(315)
Total	16,891	16,672

The Group leases buildings, vehicles and other assets under operating leases.

The significant leasing arrangements have terms of renewal and escalation clauses, but there exist no contingent rents payable and terms of purchase options. In addition, there are no material restrictions imposed by the lease arrangements.

35. Commitments

The breakdown of commitments for the acquisition of property, plant and equipment and intangible assets is as follows:

(Millions of yen)

	As of 31 March 2018	As of 31 March 2019
Intangible assets		
Research and development milestone payments	248,706	220,950
Sales milestone payments	272,990	236,750
Total	521,696	457,700
Property, plant and equipment	4,804	20,191

Commitments for the acquisition of intangible assets

The Group has entered into research and development collaborations and in-license agreements of products and technologies with a number of third parties. These agreements may require the Group to make milestone payments upon the achievement of agreed objectives or when certain conditions are met as defined in the agreements.

"Research and development milestone payments" represent obligations to pay the amount set out in an individual contract agreement upon achievement of a milestone determined according to the stage of research and development.

"Sales milestone payments" represent obligations to pay the amount set out in an individual contract agreement upon achievement of a milestone determined according to the target of sales.

The amounts shown in the table above represent the maximum payments to be made when all milestones are achieved, and they are undiscounted and not risk adjusted. Since the achievement of the conditions for payment is highly uncertain, it is unlikely that they will all fall due and the amounts of the actual payments may vary considerably from those stated in the table.

36. Related Party Transactions

(1) Major companies the Group controls

A list of major companies the Group controls is presented in “Principal Subsidiaries and Affiliates”.

(2) Compensation of key management personnel

The table below shows, by the type, the compensation of key management personnel:

(Millions of yen)

	Fiscal year ended 31 March 2018	Fiscal year ended 31 March 2019
Rewards and salaries	1,312	1,573
Share-based payment	206	223
Other	932	495
Total compensation	2,450	2,291

Key management personnel consist of 22 people including Directors, Corporate Audit & Supervisory Board Members and members of the Executive Committee, in the year ended 31 March 2018.

Key management personnel consist of 22 people including Directors (excluding Directors who are Audit & Supervisory Committee Members), Directors who are Audit & Supervisory Committee Members and members of the Executive Committee, in the year ended 31 March 2019.

Pursuant to the resolution of the 13th term Annual Shareholders Meeting held on June 15, 2018, the Company has transitioned to a company with Audit & Supervisory Committee as of the same date.

37. Business Combinations

For the fiscal year ended 31 March 2018

Acquisition of Ogeda SA

(1) Outline of business combination

(i) Name and business description of the acquiree

Name of the acquiree: Ogeda SA (“Ogeda”)

Business description: Development of small molecule drugs targeting G-protein coupled receptors (GPCR)

(ii) Acquisition date

16 May 2017, Central European Time

(iii) Percentage of voting equity interests acquired

100%

(iv) Acquisition method

Acquisition of all shares of common stock in cash with contingent consideration to be paid when certain milestones are achieved in the future.

(v) Primary reasons for the business combination

Ogeda is a formerly privately owned drug discovery company founded in 1994 and focuses on the discovery and development of small molecule drug candidates targeting GPCRs. Ogeda has fezolinetant in the clinical development stage. In addition, Ogeda has several small molecules targeting GPCRs in pre-clinical development in multiple therapeutic areas including inflammatory and autoimmune diseases. Through the acquisition, the Group will expand its late stage pipeline, thereby further solidifying its medium- to long-term growth prospects.

(2) The fair values of assets acquired, liabilities assumed and purchase consideration transferred as at the acquisition date are as follows:

(Millions of yen)

Property, plant and equipment	560
Intangible assets	74,415
Cash and cash equivalents	519
Other assets	513
Deferred tax liabilities	(25,256)
Other liabilities	(1,883)
Fair value of assets acquired and liabilities assumed (net)	48,868
Goodwill	26,145
Total	75,014
Cash	62,086
Contingent consideration	12,928
Total fair value of purchase consideration transferred	75,014

Certain items had reflected provisional amounts as of 31 March 2018, however, the Group completed the purchase price allocation during the fiscal year ended 31 March 2019. Goodwill mainly comprises the value of expected synergies arising from the acquisition and future economic benefits, which is not separately recognised.

(3) Contingent consideration

The contingent consideration relates to certain milestones based on progress in the development of fezolinetant, Ogeda’s clinical program. Maximum potential future cash outflows associated with the contingent consideration total 300 million euros (¥39,156 million).

(4) Cash flow information

(Millions of yen)

Total fair value of purchase consideration transferred	75,014
Fair value of contingent consideration included in purchase consideration transferred	(12,928)
Cash and cash equivalents held by the acquiree	(519)
Acquisition of subsidiaries, net of cash acquired	61,567

(5) Acquisition-related costs

Acquisition-related costs: ¥60 million

Acquisition-related costs were recognised in selling, general and administrative expenses in the consolidated statement of income.

(6) Effect on the consolidated statement of income

(i) Profit (loss) before tax of the acquiree since the acquisition date included in the consolidated statement of income for the fiscal year ended 31 March 2018:

Immaterial

(ii) Profit (loss) before tax of the combined entity for the fiscal year ended 31 March 2018 assuming the acquisition date had been at the beginning of the fiscal year (unaudited):

Immaterial

<u>Acquisition of Mitobridge, Inc.</u>

(1) Outline of business combination

(i) Name and business description of the acquiree

Name of the acquiree: Mitobridge, Inc. (“Mitobridge”)

Business description: Research and development in diseases associated with mitochondrial dysfunctions

(ii) Acquisition date

23 January 2018, U.S. Time

(iii) Percentage of voting equity interests acquired

The Company had owned 26.4% of voting equity interests before the acquisition. As a result of the acquisition, the Company owns 100% of voting equity interests.

(iv) Acquisition method

Acquisition of all shares of stock in cash with contingent consideration to be paid when certain milestones are achieved in the future.

(v) Primary reasons for the business combination

Mitobridge is a biotechnology company founded in 2011 and is discovering and developing compounds that target mitochondrial function. These drug candidates have the potential to treat genetic, metabolic or neurodegenerative disorders as well as conditions of aging. The transaction accelerates the Group’s research and development in diseases associated with mitochondrial dysfunctions and will enable the delivery of innovative new treatment options to patients.

(2) The fair values of assets acquired, liabilities assumed and purchase consideration transferred as at the acquisition date are as follows:

(Millions of yen)

Property, plant and equipment	71
Deferred tax assets	1,594
Cash and cash equivalents	27
Other assets	27
Other liabilities	(339)
Fair value of assets acquired and liabilities assumed (net)	1,380
Goodwill	29,329
Total	30,708
Cash	17,951
Contingent consideration	7,048
Fair value of previously held equity interests in Mitobridge	5,709
Total fair value of purchase consideration transferred	30,708

Certain items had reflected provisional amounts as of 31 March 2018, however, the Group completed the purchase price allocation during the fiscal year ended 31 March 2019.

Goodwill mainly comprises the value of expected synergies arising from the acquisition and future economic benefits, which is not separately recognised.

As a result of the remeasurement of the Company’s previously held equity interests in Mitobridge at fair value as of the acquisition date, the Company recognised a ¥5,877 million gain on remeasurement related to a business combination achieved in stages. This gain was included as a component of “Other income” in the consolidated statement of income.

(3) Contingent consideration

The contingent consideration relates to certain milestone payments depending on the progress of various programs of Mitobridge in clinical development. Maximum potential future cash outflows associated with the contingent consideration total 165 million U.S. dollars (¥17,582 million).

(4) Cash flow information

(Millions of yen)

Total fair value of purchase consideration transferred	30,708
Fair value of contingent consideration included in purchase consideration transferred	(7,048)
Fair value of previously held equity interests in Mitobridge included in purchase consideration transferred	(5,709)
Cash and cash equivalents held by the acquiree	(27)
Acquisition of subsidiaries, net of cash acquired	17,924

(5) Acquisition-related costs

Immaterial

(6) Effect on the consolidated statement of income

(i) Profit (loss) before tax of the acquiree since the acquisition date included in the consolidated statement of income for the fiscal year ended 31 March 2018:

Immaterial

(ii) Profit (loss) before tax of the combined entity for the fiscal year ended 31 March 2018 assuming the acquisition date had been at the beginning of the fiscal year (unaudited):

Immaterial

Acquisition of Universal Cells, Inc.

(1) Outline of business combination

(i) Name and business description of the acquiree

Name of the acquiree: Universal Cells, Inc. (“Universal Cells”)

Business description: Research and development of stem cell therapies that overcome immune rejection

(ii) Acquisition date

9 February 2018, U.S. Time

(iii) Percentage of voting equity interests acquired

100%

(iv) Acquisition method

Acquisition of all shares of common stock in cash with contingent consideration to be paid when certain milestones are achieved in the future.

(v) Primary reasons for the business combination

Universal Cells is a biotechnology company founded in 2013, which has a proprietary Universal Donor Cell technology to create cell therapy products that do not require Human Leukocyte Antigen (HLA) matching, potentially overcoming a huge treatment challenge by reducing the risk of rejection. The acquisition combines the Group’s capability of establishing differentiated functional cells from pluripotent stem cells with Universal Cells’ ability to produce pluripotent stem cells that have lower immunological rejection to further enable investigation of innovative cell therapy treatments for various diseases that currently have few or no treatment options.

(2) The fair values of assets acquired, liabilities assumed and purchase consideration transferred as at the acquisition date are as follows:

(Millions of yen)

Intangible assets	6,485
Cash and cash equivalents	915
Other assets	82
Deferred tax liabilities	(1,354)
Other liabilities	(812)
Fair value of assets acquired and liabilities assumed (net)	5,315
Goodwill	2,814
Total	8,130
Cash	5,148
Contingent consideration	2,982
Total fair value of purchase consideration transferred	8,130

Certain items had reflected provisional amounts as of 31 March 2018, however, the Group completed the purchase price allocation during the fiscal year ended 31 March 2019.

Goodwill mainly comprises the value of expected synergies arising from the acquisition and future economic benefits, which is not separately recognised.

(3) Contingent consideration

The contingent consideration relates to certain specified clinical milestones. Maximum potential future cash outflows associated with the contingent consideration total 38 million U.S. dollars (¥3,984 million).

(4) Cash flow information

(Millions of yen)

Total fair value of purchase consideration transferred	8,130
Fair value of contingent consideration included in purchase consideration transferred	(2,982)
Cash and cash equivalents held by the acquiree	(915)
Acquisition of subsidiaries, net of cash acquired	4,233

(5) Acquisition-related costs

Acquisition-related costs: ¥64 million

Acquisition-related costs were recognised in selling, general and administrative expenses in the consolidated statement of income.

(6) Effect on the consolidated statement of income

(i) Profit (loss) before tax of the acquiree since the acquisition date included in the consolidated statement of income for the fiscal year ended 31 March 2018:

Immaterial

(ii) Profit (loss) before tax of the combined entity for the fiscal year ended 31 March 2018 assuming the acquisition date had been at the beginning of the fiscal year (unaudited):

Immaterial

For the fiscal year ended 31 March 2019

Acquisition of Potenza Therapeutics, Inc.

(1) Outline of business combination

(i) Name and business description of the acquiree

Name of the acquiree: Potenza Therapeutics, Inc. (“Potenza”)

Business description: Research and development of various novel oncology drugs to stimulate the immune system

(ii) Acquisition date

13 December 2018, U.S. Time

(iii) Percentage of voting equity interests acquired

The Group had owned 24% of voting equity interests before the acquisition. As a result of the acquisition, the Group owns 100% of voting equity interests.

(iv) Acquisition method

Acquisition of all shares of stock in cash with contingent consideration to be paid when certain milestones are achieved in the future.

(v) Primary reasons for the business combination

Potenza is a biotechnology company founded in 2014, and has discovered and developed various clinical stage novel immuno-oncology (IO) programs through research and development collaboration over the past three and a half years. Upon the closing of this transaction, the Group has added competitive clinical IO programs to its oncology pipeline, which also provide a platform for IO combinations with Astellas’ existing non-IO programs and future novel IO combinations.

(2) The fair values of assets acquired, liabilities assumed and purchase consideration transferred as at the acquisition date are as follows:

(Millions of yen)

	Provisional fair value	Fair value adjustments	Provisional fair values (as adjusted)
Property, plant and equipment	36	-	36
Intangible assets	31,609	-	31,609
Cash and cash equivalents	802	-	802
Other assets	191	-	191
Deferred tax liabilities	(5,232)	-	(5,232)
Other liabilities	(1,580)	-	(1,580)
Fair value of assets acquired and liabilities assumed (net)	25,827	-	25,827
Goodwill	5,762	(244)	5,518
Total	31,589	(244)	31,345
Cash	18,668	-	18,668
Contingent consideration	7,065	(200)	6,865
Fair value of previously held equity interests in Potenza	5,856	(44)	5,812
Total fair value of purchase consideration transferred	31,589	(244)	31,345

During the fiscal year ended 31 March 2019, further facts came to light and additional analysis was performed on the fair value measurement of the purchase consideration transferred at the acquisition date. As a result, the provisional fair values were adjusted as above. The initial accounting for the business combination is incomplete as of 31 March 2019 as the Group is still in the process of finalizing the fair value measurement.

Goodwill mainly comprises the value of expected synergies arising from the acquisition and future economic benefits, which is not separately recognised.

As a result of remeasurement of the Group’s previously held equity interests in Potenza at fair value as of the acquisition date, the Group recognised a ¥5,812 million gain on remeasurement related to a business combination achieved in stages. This gain was included as a component of “Other income” in the consolidated statement of income.

(3) Contingent consideration

The contingent consideration relates to certain milestones depending on the progress of various programs of Potenza in clinical development. Maximum potential future cash outflows associated with the contingent consideration total 240 million U.S. dollars (¥26,651 million).

(4) Cash flow information

(Millions of yen)

Total fair value of purchase consideration transferred	31,345
Fair value of contingent consideration included in purchase consideration transferred	(6,865)
Fair value of previously held equity interests in Potenza included in purchase consideration transferred	(5,812)
Cash and cash equivalents held by the acquiree	(802)
Acquisition of subsidiaries, net of cash acquired	17,866

(5) Acquisition-related costs

Immaterial

(6) Effect on the consolidated statement of income

(i) Profit (loss) before tax of the acquiree since the acquisition date included in the consolidated statement of income for the fiscal year ended 31 March 2019:

Immaterial

(ii) Profit (loss) before tax of the combined entity for the fiscal year ended 31 March 2019 assuming the acquisition date had been at the beginning of the fiscal year (unaudited):

Immaterial

38. Contingent Liabilities

Legal Proceedings

The Group is involved in various claims and legal proceedings of a nature considered common to the pharmaceutical industry.

These proceedings are generally related to product liability claims, competition and antitrust law, intellectual property matters, employment claims, and government investigations.

In general, since litigation and other legal proceedings contain many uncertainties and complex factors, it is often not possible to make reliable judgment regarding the possibility of losses nor to estimate expected financial effect if these matters are decided in a manner that is adverse to the Group.

In these cases, disclosures would be made as appropriate, but no provision would be made by the Group.

Patient Assistance Foundation Government Investigation

In March 2016 and August 2017, Astellas Pharma US, Inc. (APUS), one of Astellas Pharma Inc.'s indirect US subsidiaries, received subpoenas from the U.S. Department of Justice (DOJ), represented by the U.S. Attorney's Office in Boston, Massachusetts, requesting documents and other information concerning APUS's patient assistance programs including its donations to Patient Assistance Foundations in the U.S. In April 2019, APUS entered into a civil settlement to resolve the matter. APUS paid $100 million USD, plus interest, to the United States and entered into a five-year Corporate Integrity Agreement with the U.S. Office of Inspector General of the Department of Health and Human Services.

39. Events after the Reporting Period

None other than the item described in Note "38. Contingent Liabilities".

EY
Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
ey.com

Independent Auditor's Report

The Board of Directors
Astellas Pharma Inc.

We have audited the accompanying consolidated financial statements of Astellas Pharma Inc. and Subsidiaries, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astellas Pharma Inc. and Subsidiaries as at 31 March 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

18 June 2019
Tokyo, Japan