

January 31, 2020

Contact:
Corporate Communications,
Astellas Pharma Inc.
TEL +81-3-3244-3201

Financial Results of Astellas for the First Nine Months of FY2019

Japan, January 31, 2020 – Astellas Pharma Inc. (TSE: 4503, President and CEO: Kenji Yasukawa, “the Company”) today announced the financial results for the first nine months (April 1, 2019 – December 31, 2019) of the fiscal year 2019 (FY2019) ending March 31, 2020.

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

(Millions of yen)

	First nine months of FY2018	First nine months of FY2019	Change (%)
Revenue	1,005,028	988,535	-16,493 (-1.6%)
Core operating profit	243,984	235,947	-8,037 (-3.3%)
Core profit	217,877	191,851	-26,026 (-11.9%)

Cautionary Notes

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

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

(1) Business performance

<Consolidated financial results (core basis ^(Note))>

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

Consolidated financial results (core basis)

	First nine months of FY2018	First nine months of FY2019	Change (%)
Revenue	1,005,028	988,535	-16,493 (-1.6%)
Cost of sales	227,711	221,642	-6,069 (-2.7%)
Selling, general and administrative expenses	355,784	353,575	-2,208 (-0.6%)
R&D expenses	149,959	159,754	+9,795 (+6.5%)
Amortisation of intangible assets	26,487	15,437	-11,050 (-41.7%)
Share of profit (loss) of investments accounted for using equity method	-1,103	-2,179	-1,076 (-)
Core operating profit	243,984	235,947	-8,037 (-3.3%)
Core profit	217,877	191,851	-26,026 (-11.9%)
Basic core earnings per share (yen)	112.20	101.93	-10.27 (-9.1%)

(Note) The Company discloses financial results on a core basis as an indicator of its recurring profitability. Certain items reported in financial results on a full basis that are deemed to be non-recurring items by the Company are excluded as non-core items from these financial results on a core basis. These adjusted items include impairment losses, gain/loss on sales of property, plant and equipment, restructuring costs, loss on disaster, a large amount of losses on compensation or settlement of litigations and other legal disputes, and other items that are deemed to be excluded based on the Company's judgment. A reconciliation table between results on a full basis and results on a core basis is provided of the "Supplementary Documents for Results Q3/FY2019."

Revenue

Revenue in the first nine months of FY2019 decreased by 1.6% compared to those in the corresponding period of the previous fiscal year (“year-on-year”) to ¥988.5 billion.

- Sales of main products XTANDI for the treatment of prostate cancer and overactive bladder (“OAB”) treatment Betanis / Myrbetriq / BETMIGA continued to grow.
- Sales of the new-product, FLT3 inhibitor XOSPATA, increased in Japan and United States, and the new product groups in Japan are achieving sales growth, notably EVENITY for the treatment of osteoporosis.
- The sales growth of those products almost offset the revenue decline mainly due to the loss of exclusivity for OAB treatment Vesicare and anticancer drug Tarceva, and the termination of agreements in Japan for asthma treatment Symbicort as well as products of KM Biologics Co., Ltd. such as human vaccines. As a result, revenue increased by 1.4% excluding the negative impact of the appreciation of the yen against the US dollar and the euro.

Core operating profit / Core profit

- Gross profit decreased by 1.3% year-on-year to ¥766.9 billion. The cost-to-revenue ratio fell by 0.2 percentage points year-on-year to 22.4%.
- Selling, general and administrative expenses decreased by 0.6% year-on-year to ¥353.6 billion. The efficient use of expenses and optimization of resource allocation partially offset increases in XTANDI co-promotion fees in United States, which accompanied sales growth and investment required to launch new products. In addition, the reversal of loss allowances performed during the second quarter of FY2019 was a one-time factor affecting expense reduction during that period.
- Research and development (R&D) expenses increased by 6.5% year-on-year to ¥159.8 billion. Expenses increased in relation to key post-POC pipeline projects and enhanced investment in new opportunities such as new areas and technologies. The R&D cost-to-revenue ratio was up 1.2 percentage points year-on-year to 16.2%.
- Amortisation of intangible assets decreased by 41.7% year-on-year to ¥15.4 billion.

As a result of the above, core operating profit decreased by 3.3% year-on-year to ¥235.9 billion, and core profit decreased by 11.9% year-on-year to ¥191.9 billion. Excluding the effect from foreign exchange rate, the increase in core operating profit was 1.6%.

Impact of exchange rate on financial results

The exchange rates for the yen in the first nine months of FY2019 are shown in the table below. The resulting impacts were a ¥30.6 billion decrease in revenue and a ¥12.0 billion decrease in core operating profit compared with if the exchange rates of the first nine months of FY2018 were applied.

Average rate	First nine months of FY2018	First nine months of FY2019	Change
US\$/¥	111	109	¥2 (Strengthening of yen)
€/¥	129	121	¥8 (Strengthening of yen)

Change from beginning to end of period	As of December 31, 2018	As of December 31, 2019
US\$/¥	¥5 (Weakening of yen)	¥1 (Strengthening of yen)
€/¥	¥4 (Strengthening of yen)	¥2 (Strengthening of yen)

<Consolidated financial results (full basis)>

Consolidated financial results on a full basis in the first nine months of FY2019 are shown in the table below. Operating profit and profit before tax increased, while profit decreased.

The full basis financial results include “Other income,” “Other expense,” which are excluded from the core basis financial results.

“Other income” in the first nine months of FY2019 was ¥15.1 billion (¥13.1 billion in the same period of the previous fiscal year). Gain on sales of property, plant and equipment, and among others were recorded as “Other income” in the third quarter of FY2019 in addition to foreign exchange gains. “Other expense” was ¥13.4 billion (¥47.8 billion in the same period of the previous fiscal year). As a result of the development of selective neurokinin-3 (NK3) receptor antagonist fezolinetant advancing to Phase 3, there was an increase in the fair value of contingent consideration to former shareholders of Ogeda SA, which is paid commensurately with the progress of development, and this increased portion was recorded as “Other expense” in the first quarter of FY2019.

Consolidated financial results (full basis)

(Millions of yen)

	First nine months of FY2018	First nine months of FY2019	Change (%)
Revenue	1,005,028	988,535	-16,493 (-1.6%)
Operating profit	209,371	237,658	+28,287 (+13.5%)
Profit before tax	212,828	239,185	+26,357 (+12.4%)
Profit	191,535	190,021	-1,514 (-0.8%)
Basic earnings per share (yen)	98.63	100.96	+2.33 (+2.4%)
Comprehensive income	196,167	170,377	-25,789 (-13.1%)

<Sales of Main Products>

(Billions of yen)

	First nine months of FY2018	First nine months of FY2019	Change
XTANDI	253.4	297.9	+17.6%
XOSPATA	0.6	9.8	—
Betanis / Myrbetriq / BETMIGA	109.9	121.0	+10.1%
Vesicare	74.4	36.2	-51.4%
Prograf*	150.0	146.2	-2.5%

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

<XTANDI>

- Sales increased by 17.6% year-on-year to ¥297.9 billion. Sales grew in all regions of Japan, United States, Established Markets*¹, Greater China*², and International*³.

<XOSPATA>

- Adding to sales in Japan and United States, XOSPATA was launched in Europe during the third quarter of FY2019. Sales of XOSPATA amounted to ¥9.8 billion.

<OAB products in Urology>

- Sales of Betanis / Myrbetriq / BETMIGA increased by 10.1% year-on-year to ¥121.0 billion. Sales increased in all regions. In addition, sales of Vesicare decreased by 51.4% year-on-year to ¥36.2 billion, impacted by the effect of generic drugs resulting from the end of exclusivity for the drug in United States and Europe.

<Prograf>

- Sales decreased by 2.5% year-on-year to ¥146.2 billion. While sales grew in Greater China and International, sales decreased in Japan, United States and Established Markets.

<Other main products and new products>

- In Japan, new product group sales continued to grow, including those of Suglat and SUJANU Combination Tablets for the treatment of diabetes mellitus, Linzess for the treatment of chronic constipation, and EVENITY. In addition, Evrenzo for the treatment of renal anemia was launched during the third quarter of FY2019.
- In United States, sales of azole antifungal CRESEMBA grew. In addition, urothelial cancer treatment PADCEV, which is being jointly developed with Seattle Genetics, Inc. was launched during the third quarter of FY2019.

*1 Established Markets: Europe, Canada, Australia.

*2 Greater China: China, Hong Kong, Taiwan.

*3 International: Russia, Latin America, Middle East, Africa, South East Asia, South Asia, Korea, Export sales, etc.

<Revenue by region>

Revenue by region is shown in the table below. Revenue in United States and International increased, while in Japan, Established Markets and Greater China decreased.

Although the revenue of Established Markets and Greater China decreased due to the foreign exchange rate impact, it increased when calculated excluding such adverse effects.

(Billions of yen)

	First nine months of FY2018	First nine months of FY2019	Change
Japan	291.9	276.2	-5.4%
United States	321.2	331.9	+3.3%
Established Markets	228.9	218.0	-4.8%
Greater China	45.1	44.4	-1.5%
International	94.6	102.8	+8.7%

(2) Financial position

i. Assets, equity and liabilities

An overview of the consolidated statement of financial position as of December 31, 2019 and the main changes from the end of the previous fiscal year are shown below.

Assets

Total assets as of December 31, 2019 saw an increase of ¥92.1 billion compared to the end of the previous fiscal year to ¥1,989.8 billion.

<Non-current assets> As of December 31, 2019: ¥1,155.6 billion (an increase of ¥115.1 billion)

- Goodwill increased by ¥1.1 billion compared to the end of the previous fiscal year to ¥226.9 billion, and intangible assets increased by ¥25.7 billion compared to the end of the previous fiscal year to ¥455.4 billion.
- Due to the application of IFRS 16 "Leases," right-of-use assets of ¥83.1 billion was recognized at the beginning of the period. Consequently, property, plant and equipment increased by ¥87.4 billion compared to the end of the previous fiscal year to ¥260.9 billion.
- Intangible assets and goodwill were increased as a result of the acquisition of US company Xyphos Biosciences, Inc. in December 2019.

<Current assets> As of December 31, 2019: ¥834.1 billion (a decrease of ¥23.0 billion)

- Cash and cash equivalents decreased by ¥33.5 billion compared to the end of the previous fiscal year to ¥277.6 billion.

Equity

Total equity as of December 31, 2019 saw an increase of ¥59.0 billion compared to the end of the previous fiscal year to ¥1,317.4 billion, making the ratio of equity attributable to owners of the parent to gross assets 66.2%.

- While profit stood at ¥190.0 billion, the Company paid ¥73.5 billion of dividends of surplus.
- Cancellation of treasury shares totaling ¥159.6 billion (91 million shares) was carried out in May 2019.

Liabilities

Total liabilities increased by ¥33.1 billion compared to the end of the previous fiscal year to ¥672.3 billion.

<Non-current liabilities> As of December 31, 2019: ¥206.3 billion (an increase of ¥64.7 billion)

- Due to the application of IFRS 16 “Leases,” lease liabilities of ¥75.5 billion was recognized at the beginning of the period. Consequently, other financial liabilities increased by ¥72.9 billion compared to the end of the previous fiscal year to ¥125.8 billion.

<Current liabilities> As of December 31, 2019: ¥466.1 billion (a decrease of ¥31.6 billion)

- Due to the application of IFRS 16 “Leases,” lease liabilities of ¥16.9 billion was recognized at the beginning of the period. Consequently, other financial liabilities increased by ¥19.4 billion compared to the end of the previous fiscal year to ¥33.5 billion.

ii. Cash flow

Cash flows from operating activities

Net cash flows from operating activities in the first nine months of FY2019 decreased year-on-year by ¥33.4 billion to ¥170.3 billion.

Cash flows from investing activities

Net cash flows used in investing activities in the first nine months of FY2019 was ¥74.4 billion, an increase in outflow of ¥45.9 billion year-on-year.

Cash flows from financing activities

Net cash flows used in financing activities in the first nine months of FY2019 was ¥125.2 billion, a decrease in outflow of ¥48.1 billion year-on-year.

- Dividends paid increased by ¥1.5 billion year-on-year to ¥73.5 billion.

As a result, cash and cash equivalents totaled ¥277.6 billion as of December 31, 2019, a decrease of ¥33.5 billion compared to the end of the previous fiscal year.

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

Consolidated full-year business forecasts for FY2019 are shown below. The Company has left its business forecasts unchanged from the consolidated full-year business forecasts announced in October 2019.

Consolidated full-year business forecasts (core basis)

(Millions of yen)

	FY2018 Results	FY2019 Forecasts	Change (%)
Revenue	1,306,348	1,256,000	-50,348 (-3.9%)
R&D expenses	208,682	216,000	+7,318 (+3.5%)
Core operating profit	278,514	264,000	-14,514 (-5.2%)
Core profit	249,343	214,000	-35,343 (-14.2%)
Basic core earnings per share (yen)	129.07	113.95	-15.12 (-11.7%)

Consolidated full-year business forecasts (full basis)

(Millions of yen)

	FY2018 Results	FY2019 Forecasts	Change (%)
Revenue	1,306,348	1,256,000	-50,348 (-3.9%)
Operating profit	243,912	263,000	+19,088 (+7.8%)
Profit before tax	248,967	263,000	+14,033 (+5.6%)
Profit	222,265	210,000	-12,265 (-5.5%)
Basic earnings per share (yen)	115.05	111.82	-3.23 (-2.8%)

Expected exchange rate for

FY2019 (Forecast)	¥108/US\$	¥120/€
(Expected exchange rate for the last six months of FY2019: ¥108/US\$, ¥118/€)		
FY2018 (Result)	¥111/US\$	¥128/€

(Note) The forecasts for basic core earnings per share and basic earnings per share reflect acquisitions of own shares carried out from November 1 to December 31, 2019.

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

(Millions of yen)

	Nine months ended 31 December 2018	Nine months ended 31 December 2019
Revenue	1,005,028	988,535
Cost of sales	(227,711)	(221,642)
Gross profit	777,317	766,893
Selling, general and administrative expenses	(355,784)	(353,575)
Research and development expenses	(149,959)	(159,754)
Amortisation of intangible assets	(26,487)	(15,437)
Share of profit (loss) of investments accounted for using equity method	(1,103)	(2,179)
Other income	13,140	15,079
Other expense	(47,754)	(13,368)
Operating profit	209,371	237,658
Finance income	4,356	3,831
Finance expense	(898)	(2,304)
Profit before tax	212,828	239,185
Income tax expense	(21,293)	(49,164)
Profit	191,535	190,021
Profit attributable to:		
Owners of the parent	191,535	190,021
Earnings per share		
Basic (Yen)	98.63	100.96
Diluted (Yen)	98.53	100.89

(2) Condensed Interim Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended 31 December 2018	Nine months ended 31 December 2019
Profit	191,535	190,021
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	734	(4,546)
Remeasurements of defined benefit plans	(1,034)	696
Subtotal	(300)	(3,851)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	4,932	(15,793)
Subtotal	4,932	(15,793)
Other comprehensive income	4,632	(19,644)
Total comprehensive income	196,167	170,377
Total comprehensive income attributable to:		
Owners of the parent	196,167	170,377

(3) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of 31 March 2019	As of 31 December 2019
Assets		
Non-current assets		
Property, plant and equipment	173,483	260,902
Goodwill	225,864	226,924
Intangible assets	429,707	455,406
Trade and other receivables	25,248	33,404
Investments accounted for using equity method	3,653	3,625
Deferred tax assets	92,958	84,942
Other financial assets	81,457	81,462
Other non-current assets	8,121	8,964
Total non-current assets	1,040,489	1,155,629
Current assets		
Inventories	151,511	149,276
Trade and other receivables	342,628	366,940
Income tax receivable	20,113	16,757
Other financial assets	2,607	4,538
Other current assets	25,080	19,037
Cash and cash equivalents	311,074	277,602
Subtotal	853,012	834,150
Assets held for sale	4,147	—
Total current assets	857,159	834,150
Total assets	1,897,648	1,989,779

(Millions of yen)

	As of 31 March 2019	As of 31 December 2019
Equity and liabilities		
Equity		
Share capital	103,001	103,001
Capital surplus	177,301	177,256
Treasury shares	(164,629)	(42,410)
Retained earnings	991,957	949,853
Other components of equity	150,767	129,746
Total equity attributable to owners of the parent	1,258,396	1,317,446
Total equity	1,258,396	1,317,446
Liabilities		
Non-current liabilities		
Trade and other payables	1,572	3,153
Deferred tax liabilities	5,175	5,094
Retirement benefit liabilities	40,163	40,228
Provisions	5,416	3,094
Other financial liabilities	52,882	125,796
Other non-current liabilities	36,379	28,910
Total non-current liabilities	141,587	206,276
Current liabilities		
Trade and other payables	185,280	139,856
Income tax payable	17,587	27,510
Provisions	22,843	11,816
Other financial liabilities	14,136	33,509
Other current liabilities	255,913	253,367
Subtotal	495,759	466,058
Liabilities directly associated with assets held for sale	1,906	—
Total current liabilities	497,665	466,058
Total liabilities	639,252	672,333
Total equity and liabilities	1,897,648	1,989,779

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Subscription rights to shares	Exchange differences on translation of foreign operations
As of 1 April 2018	103,001	177,219	(135,951)	976,076	1,477	128,179
Cumulative effect of accounting change	—	—	—	—	—	—
Restated balance	103,001	177,219	(135,951)	976,076	1,477	128,179
Comprehensive income						
Profit	—	—	—	191,535	—	—
Other comprehensive income	—	—	—	—	—	4,932
Total comprehensive income	—	—	—	191,535	—	4,932
Transactions with owners						
Acquisition of treasury shares	—	—	(100,440)	—	—	—
Disposals of treasury shares	—	(281)	1,247	(645)	(320)	—
Cancellation of treasury shares	—	—	130,419	(130,419)	—	—
Dividends	—	—	—	(72,066)	—	—
Share-based payments	—	258	—	—	—	—
Transfers	—	—	—	(1,416)	—	—
Total transactions with owners	—	(23)	31,226	(204,546)	(320)	—
As of 31 December 2018	103,001	177,195	(104,725)	963,065	1,157	133,111

As of 1 April 2019	103,001	177,301	(164,629)	991,957	1,127	125,656
Comprehensive income	—	—	—	—	—	—
Profit	—	—	—	190,021	—	—
Other comprehensive income	—	—	—	—	—	(15,793)
Total comprehensive income	—	—	—	190,021	—	(15,793)
Transactions with owners						
Acquisition of treasury shares	—	—	(38,056)	—	—	—
Disposals of treasury shares	—	(313)	694	(256)	(124)	—
Cancellation of treasury shares	—	—	159,581	(159,581)	—	—
Dividends	—	—	—	(73,539)	—	—
Share-based payments	—	268	—	—	—	—
Transfers	—	—	—	1,253	—	—
Total transactions with owners	—	(45)	122,219	(232,124)	(124)	—
As of 31 December 2019	103,001	177,256	(42,410)	949,853	1,002	109,864

(Millions of yen)

	Equity attributable to owners of the parent					Total equity
	Other components of equity				Total	
	Fair value movements on available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
As of 1 April 2018	18,289	—	—	147,945	1,268,289	1,268,289
Cumulative effect of accounting change	(18,289)	18,289	—	—	—	—
Restated balance	—	18,289	—	147,945	1,268,289	1,268,289
Comprehensive income						
Profit	—	—	—	—	191,535	191,535
Other comprehensive income	—	734	(1,034)	4,632	4,632	4,632
Total comprehensive income	—	734	(1,034)	4,632	196,167	196,167
Transactions with owners						
Acquisition of treasury shares	—	—	—	—	(100,440)	(100,440)
Disposals of treasury shares	—	—	—	(320)	1	1
Cancellation of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	—	(72,066)	(72,066)
Share-based payments	—	—	—	—	258	258
Transfers	—	382	1,034	1,416	—	—
Total transactions with owners	—	382	1,034	1,096	(172,247)	(172,247)
As of 31 December 2018	—	19,405	—	153,673	1,292,209	1,292,209

As of 1 April 2019	—	23,984	—	150,767	1,258,396	1,258,396
Comprehensive income						
Profit	—	—	—	—	190,021	190,021
Other comprehensive income	—	(4,546)	696	(19,644)	(19,644)	(19,644)
Total comprehensive income	—	(4,546)	696	(19,644)	170,377	170,377
Transactions with owners						
Acquisition of treasury shares	—	—	—	—	(38,056)	(38,056)
Disposals of treasury shares	—	—	—	(124)	0	0
Cancellation of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	—	(73,539)	(73,539)
Share-based payments	—	—	—	—	268	268
Transfers	—	(557)	(696)	(1,253)	—	—
Total transactions with owners	—	(557)	(696)	(1,377)	(111,327)	(111,327)
As of 31 December 2019	—	18,880	—	129,746	1,317,446	1,317,446

(5) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended 31 December 2018	Nine months ended 31 December 2019
Cash flows from operating activities		
Profit before tax	212,828	239,185
Depreciation and amortisation	47,756	48,295
Impairment losses (reversal of impairment losses)	11,356	83
Finance income and expense	(3,457)	(1,527)
(Increase) decrease in inventories	1,999	(988)
(Increase) decrease in trade and other receivables	(26,946)	(29,435)
Increase (decrease) in trade and other payables	44,619	(42,678)
Other	(29,342)	(12,124)
Subtotal	258,812	200,810
Income tax paid	(55,131)	(30,520)
Net cash flows from operating activities	203,681	170,290
Cash flows from investing activities		
Purchases of property, plant and equipment	(14,542)	(31,082)
Proceeds from sales of property, plant and equipment	16,656	6,811
Purchase of intangible assets	(19,946)	(25,496)
Payments for acquisition of subsidiaries	(19,290)	(12,913)
Interest and dividends received	2,016	1,887
Other	6,646	(13,593)
Net cash flows provided by (used in) investing activities	(28,461)	(74,386)
Cash flows from financing activities		
Acquisition of treasury shares	(100,440)	(38,056)
Dividends paid to owners of the parent	(72,066)	(73,539)
Repayments of lease liabilities	—	(12,637)
Other	(833)	(999)
Net cash flows used in financing activities	(173,340)	(125,232)
Effect of exchange rate changes on cash and cash equivalents	(478)	(4,143)
Cash and cash equivalents reclassified to assets held for sale	(1,837)	—
Net increase (decrease) in cash and cash equivalents	(435)	(33,472)
Cash and cash equivalents at the beginning of the year	331,731	311,074
Cash and cash equivalents at the end of the period	331,296	277,602

(6) Notes to condensed interim consolidated financial statements

Notes on going concern assumption

Not applicable.

Significant accounting policies

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

Astellas Pharma Inc. and its subsidiaries (collectively, the “Group”) calculated income tax expense for the nine months ended 31 December 2019 based on the estimated average annual effective tax rate.

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

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

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

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

1) Right-of-use asset

The right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the corresponding lease liability adjusted for initial direct costs, etc.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease over the shorter of the useful life of the right-of-use asset or the end of the lease term.

2) Lease liability

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, which is discounted using the interest rate implicit in the lease. If that rate can not be readily determined, the Group uses its incremental borrowing rate.

After the commencement date, the lease liabilities are measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasured to reflect any reassessment or lease modifications when necessary.

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

Business Combinations

For the nine months ended 31 December 2019

Xyphos Biosciences, Inc.

- (1) Outline of the business combination
- (i) Name and business description of the acquiree
Name of the acquiree: Xyphos Biosciences, Inc. ("Xyphos")
Business description: A privately-held biotechnology company focused on immuno-oncology therapeutics
 - (ii) Acquisition date
26 December 2019, U.S. Pacific Time
 - (iii) Percentage of voting equity interests acquired
100%
 - (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
Xyphos is a biotechnology company founded in 2017 and has novel and proprietary ACCEL (Advanced Cellular Control through Engineered Ligands) cell therapy technology platform, as well as industry-leading immuno-oncology talent.
Through the acquisition, the Group will combine this technology with its capabilities in cell therapy that it has been working on so far, it can create next-generation high-function cells and maximize the value of its technology.
- (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	17,659
Cash and cash equivalents	27
Other assets	367
Deferred tax liabilities	(3,443)
Other liabilities	(2,578)
Fair value of assets acquired and liabilities assumed (net)	12,033
Goodwill	3,798
Total	15,831
Cash	9,571
Contingent consideration	6,259
Total fair value of purchase consideration transferred	15,831

Certain items above reflect provisional fair values based on reasonable information obtained at 31 December 2019 as the purchase price allocation is incomplete.

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 depending on the progress of development. The maximum potential future cash outflows associated with the contingent consideration total 545 million U.S. dollars (59,710 million yen).

(4) Cash flow information

	(Millions of yen)
Total fair value of purchase consideration transferred	15,831
Fair value of contingent consideration included in purchase consideration transferred	(6,259)
Purchase consideration payable	(1,581)
Cash and cash equivalents held by the acquiree	(27)
Acquisition of subsidiaries, net of cash acquired	7,964

(5) Acquisition-related costs

Immaterial

(6) Effect on the condensed interim consolidated statement of income

- (i) Profit (loss) before tax of the acquiree since the acquisition date included in the condensed interim consolidated statement of income for the nine months ended 31 December 2019: Immaterial
- (ii) Profit (loss) before tax of the combined entity for the nine months ended 31 December 2019 assuming the acquisition date had been at the beginning of the fiscal year: Immaterial