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Financial Results of Astellas for Fiscal Year 2013 (IFRS)

Japan, May 12, 2014 – Astellas Pharma Inc. (hereinafter referred to as "the Company") today announced the financial results for the fiscal year 2013 (FY2013) ended March 31, 2014.

Consolidated financial results for FY2013 (April 1, 2013 – March 31, 2014) (core basis)

(Millions of yen – fractions rounded)

	FY2012	**FY2013**	Change (%)
Sales	981,899	**1,139,909**	+158,010 (+16.1%)
Core operating profit	168,022	**186,253**	+18,231 (+10.9%)
Core profit for the year	118,792	**132,796**	+14,004 (+11.8%)
Core earnings per share (yen)	51.73	**59.11**	+7.38 (+14.3%)

1. Analysis of business performance and financial position

[Adoption of International Financial Reporting Standards]
The Astellas Group is actively developing its business in Japan and in the global markets of the Americas, Europe, Asia/Oceania and elsewhere. The Company also has a high level of overseas ownership, with more than 50% of its shares held by foreign shareholders. Given its global operations, shareholder composition and other such factors, the Astellas Group has adopted the International Financial Reporting Standards (“IFRS”), effective from the fiscal year ended March 31, 2014, as a means of enabling capital market participants to more readily compare the financial information on an international basis.

(1) Analysis of business performance

1) Overview of consolidated financial results for FY2013

<Consolidated financial results (core basis)>

In line with the Company’s change to IFRS, the Company discloses financial results on a core basis as an indicator of its recurring profitability. Certain items reported in financial results under IFRS on a full basis (non-adjustment) 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 non-current assets, restructuring costs, loss on disaster, a large amount of losses on compensation or settlement of litigations and other legal disputes, and other items that the Company judges should be excluded. A reconciliation table between results on a full basis (non-adjustment) and results on a core basis is provided on page 11 of the “Supplement Documents for Results FY2013.”

Consolidated financial results (core basis) in FY 2013 are shown in the table below. Sales, core operating profit and core profit for the year increased.

Consolidated financial results (core basis)

(Millions of yen – fractions rounded)

	FY2012	**FY2013**	Change (%)
Sales	981,899	**1,139,909**	+158,010 (+16.1%)
Core operating profit	168,022	**186,253**	+18,231 (+10.9%)
Core profit for the year	118,792	**132,796**	+14,004 (+11.8%)
Core earnings per share (yen)	51.73	**59.11**	+7.38 (+14.3%)

(Note) The Company conducted a stock split of common stock at a ratio of 5 for 1 with an effective date of April 1, 2014. Core earnings per share is calculated based on the number of issued shares after the stock split (excluding treasury shares) on the assumption that the stock split was conducted at the beginning of FY2012.

Research and development (R&D) expenses

(Millions of yen – fractions rounded)

	FY2012	**FY2013**
R&D expenses	159,094	**191,460**

Impact of exchange rate on financial results

The exchange rates for the yen in FY2013 are shown in the table below. The resulting impacts were a ¥113.0 billion increase in sales and a ¥24.2 billion increase in core operating profit.

Average rate	FY2012	**FY2013**	Change
¥/US$	¥83	**¥100**	+¥17
¥/€	¥107	**¥134**	+¥27

Change from beginning to end of period	FY2012	**FY2013**
¥/US$	¥12 (Weakening of yen)	**¥9 (Weakening of yen)**
¥/€	¥11 (Weakening of yen)	**¥21 (Weakening of yen)**

Sales

Consolidated sales increased by 16.1% compared to the previous fiscal year (“year-on-year”), to ¥1,139.9 billion.

- New products contributed to increased sales, including XTANDI for the treatment of prostate cancer, and Betanis / Myrbetriq / BETMIGA for the treatment of overactive bladder (OAB). In addition, sales of Vesicare for the treatment of OAB and other products continued to increase. Sales of Prograf, an immunosuppressant, and Harnal for the treatment of functional symptoms of benign prostatic hyperplasia, increased partly due to the foreign exchange rate impact.

Sales by region

*Sales by region calculated according to locations of sellers.

<Japan>

Sales in Japan decreased by 1.1% year-on-year to ¥530.6 billion. Sales in the Japanese market increased by 0.2% year-on-year to ¥515.6 billion. Although there was an impact of generics, sales remained largely unchanged in FY2013 from the previous year due to steady expansion in sales of growing mainstay products and new products.

- In addition to Betanis, products such as Micardis (including its combination drugs, Micombi and Micamlo) for the treatment of hypertension, Celecox, an anti-inflammatory and anti-pain drug, Symbicort for the treatment of bronchial asthma, Bonoteo for the treatment of osteoporosis and vaccines showed growth in sales. There were also contributions from sales of new products including Cimzia for the treatment of adult patients with rheumatoid arthritis, and Gonax for the treatment of prostate cancer.
- Sales of products declined, including Lipitor for the treatment of hypercholesterolemia, Seroquel for the treatment of schizophrenia, Myslee for the treatment of insomnia, and Gaster for the treatment of peptic ulcer and gastritis, mainly due to the impact of generics.
- Micamlo BP (combination drug) for the treatment of hypertension and Acofide for the treatment of functional dyspepsia were launched in May and June 2013, respectively. Bisono Tape, a transdermal hypertension medication, was launched in September 2013.

<Outside of Japan>

Sales in the Americas increased by 38.3% year-on-year to ¥287.0 billion. The sales on a U.S. dollar basis increased by 14.6% year-on-year to US$2,863 million.

- There was a contribution to the sales increase from XTANDI and Myrbetriq launched in the US in September and October 2012, respectively.
- In addition, products, such as VESIcare, and Lexiscan, a pharmacologic stress agent, continuously grew. Also, income from anticancer drug Tarceva increased.
- Sales of Prograf fell due to the impact of generics.

Sales in Europe* increased by 35.6% year-on-year to ¥264.3 billion. The sales on a euro basis increased by 8.1% year-on-year to €1,967 million.

* This category includes sales from the Middle and Near East, and Africa in addition to Europe.

- BETMIGA and XTANDI, which were launched in February and July 2013, respectively, contributed to an overall increase in sales.
- Furthermore, sales of Vesicare and the Candin-type antifungal agent Mycamine grew.
- Sales of Prograf, Harnal and prostate cancer treatment Eligard increased mainly due to the foreign exchange rate impact.

Sales in Asia and Oceania increased by 35.0% year-on-year to ¥58.0 billion.

- Products such as Prograf, Harnal and Vesicare showed growth in sales, resulting in an increase in revenue.

<u>Core operating profit / Core profit for the year</u>

- The increase in sales and a fall in the cost-to-sales ratio resulted in a gross profit of ¥809.3 billion, up 20.2% year-on-year. The cost-to-sales ratio fell 2.4 percentage points year-on-year to 29.0%, owing to changes in product mix and other factors.
- Selling, general and administrative expenses increased by 24.5% year-on-year to ¥397.0 billion, which in addition to the foreign exchange rate impact, was partly due to increased expenditures related to the oncology business in the US and Europe, including payment for co-promotion of XTANDI in the US.
- Research and development (R&D) expenses were ¥191.5 billion, up 20.3% year-on-year, which in addition to the foreign exchange rate impact, was partly due to increased development expenses related to strategic alliance with Amgen Inc. The R&D cost-to-sales ratio was up 0.6 percentage points year-on-year to 16.8%.
- Amortisation of intangible assets was ¥36.0 billion, up 27.4% year-on-year, which in addition to the foreign exchange rate impact, was partly due to an increase resulting from launches of new products.

As a result of the above, core operating profit increased by 10.9% year-on-year to ¥186.3 billion. Core profit for the year increased by 11.8% to ¥132.8 billion. Core earnings per share increased by 14.3% to ¥59.11.

<Consolidated financial results (full basis (non-adjustment))>

Consolidated financial results on a full basis (non-adjustment) in FY2013 are shown in the table below. Sales increased, while operating profit, profit before tax and profit for the year decreased.

The cause of the above decreases was the recording of various items as ¥81.0 billion (compared to ¥49.3 billion in the previous fiscal year) in “other expense.” These included items excluded from core results; namely, impairment losses for patents and marketing rights due to the discontinuation of development projects, and restructuring costs as a result of reshaping the research framework and the succession of the Fuji Plant Business to Nichi-Iko Pharmaceutical Co., Ltd. Net foreign exchange losses were also among the items recorded. The details of the non-core items that are excluded from core results are provided on page 11 of the “Supplement Documents for Results FY2013.”

Consolidated financial results (full basis (non-adjustment))

(Millions of yen – fractions rounded)

	FY2012	**FY2013**	Change (%)
Sales	981,899	**1,139,909**	+158,010 (+16.1%)
Operating profit	121,593	**116,806**	-4,787 (-3.9%)
Profit before tax	127,115	**121,975**	-5,140 (-4.0%)
Profit for the year	92,464	**90,874**	-1,590 (-1.7%)
Earnings per share (yen)	40.27	**40.45**	+0.18 (+0.4%)
Comprehensive income	158,347	**182,112**	23,765 (15.0%)

(Note) The Company conducted a stock split of common stock at a ratio of 5 for 1 with an effective date of April 1, 2014. Earnings per share is calculated based on the number of issued shares after the stock split (excluding treasury shares) on the assumption that the stock split was conducted at the beginning of FY2012.

<Differences between IFRS and Japanese Generally Accepted Accounting Principles>

For the differences between IFRS and Japanese Generally Accepted Accounting Principles (J-GAAP) with regard to profit and loss and comprehensive income in the previous fiscal year in view of the Company’s adoption of IFRS, please refer to page 50 of this financial results announcement. In addition, as reference information, the main differences between IFRS and J-GAAP with regard to profit and loss in this fiscal year are provided on page 12 of the “Supplement Documents for Results FY2013.”

2) Other

R&D activities

The Company is aiming for mid- to long-term sustainable growth through the continuous and early creation of new pharmaceuticals that are innovative and useful in therapeutic areas where no effective drugs are available and unmet medical needs exist. To achieve this, we have made it our top priority to strengthen our ability to generate innovative drugs.

[Initiatives for drug discovery research]

Astellas' five focus therapeutic areas in research are Urology, Immunology (including Transplantation) and Infectious Diseases, Oncology, Neuroscience and Diabetes Mellitus (DM) Complications and Kidney Diseases, in which we are concentrating resources.

In drug discovery research, we aim to create innovative drugs, promoting the Precision Medicine approach, which is based on the molecular target and diagnostic workup, and proactively making use of leading-edge technologies and knowhow through alliances with outside organizations. In the field of regenerative medicine, in addition to the regenerative medicine research and development we already carry out, we will expand the scope of our research for the utilization of cells themselves in medical treatment (cell therapy). As part of these efforts, we established the "Regenerative Medicine Unit" as a new organization that will specialize in research of regenerative medicine and cell therapy in April 2014.

In May 2013, we decided to reshape our research framework and introduce new initiatives. By optimizing the allocation of resources for our research and development capabilities through this reform, we aim to achieve the following objectives: i) to utilize more external capabilities and resources, ii) to undertake initiatives related to new therapeutic areas and innovative technologies including regenerative medicine and vaccines, iii) to accelerate development of our promising preclinical pipeline, and iv) to ensure sufficient investment in the late-stage clinical pipeline. We established Astellas Innovation Management in October 2013 in order to enhance the process of identifying and obtaining external opportunities to strengthen innovation during the preclinical development stage. In addition, we are pushing ahead with strengthening our research management framework and promoting a "Multi-Track R&D" approach. Furthermore, in order to facilitate the strategic reallocation of resources and to enhance our operational excellence, we are reorganizing our research functions and structures in a sequential manner. This includes closing and scaling back research institutes and transferring certain functions.

[Initiatives for manufacturing /technology development]

With the aim of ensuring a stable supply of active pharmaceutical ingredients with high pharmacological activities, for which demand is expected to increase in line with expansion of the development pipeline primarily on oncology, construction of Building No. 8 at Takahagi Technology Center of Astellas Pharma Tech Co., Ltd. was completed in August 2013.

[Initiatives for clinical development and main development advances]

In tandem with moves to further reinforce its global development framework, the Company plans to accelerate the pace of product development by focusing resources on high-priority projects. The followings are the main development advances made during FY2013.

(Clinical development overseas)

- For the HER1/EGFR tyrosine kinase inhibitor Tarceva (generic name: erlotinib), the Company obtained approval in the US in May 2013 for the additional indication of first-line treatment of patients with metastatic non-small cell lung cancer whose tumors have certain epidermal growth factor receptor activating mutations as detected by an FDA-approved test.
- In May 2013, the Company obtained approval in the Netherlands for a combination drug (development code: EC905) containing the OAB treatment solifenacin succinate (generic name) and the benign prostatic hyperplasia treatment tamsulosin hydrochloride (generic name). The approval is for the indication of treatment of moderate to severe storage symptoms (urgency, increased micturition frequency) and voiding symptoms associated with benign prostatic hyperplasia in men who are not adequately responding to treatment with monotherapy. The product was launched under the brand name VESOMNI in September 2013.
- For enzalutamide (generic name / development code: MDV3100), approval was obtained in Europe in June 2013 for the treatment of adult men with metastatic castration-resistant prostate cancer whose disease has progressed on or after docetaxel therapy. The product was launched in the UK the following month under the brand name XTANDI.
- The Company obtained approval in the US in June 2013 for Mycamine (generic name: micafungin sodium), a Candin-type antifungal agent, for additional indication. The indication is for injection by intravenous infusion for the treatment of pediatric patients four months and older with candidemia, acute disseminated candidiasis, candida peritonitis and abscesses, esophageal candidiasis, and the prophylaxis of candida infections in patients undergoing hematopoietic stem cell transplantation.
- The Company obtained approval in the US in July 2013 for extended release capsules of tacrolimus hydrate (generic name), an immunosuppressant, for the indication of prophylaxis of organ rejection in patients receiving a kidney transplant. The product was launched the following month under the brand name ASTAGRAF XL.
- For XTANDI (generic name: enzalutamide, development code: MDV3100) additional indication applications were submitted in the US in March 2014 and in Europe the following month for the treatment of men with metastatic castration-resistant prostate cancer who have not received chemotherapy.

(Clinical development in Japan)

- The Company obtained approval in June 2013 for Prograf (generic name: tacrolimus hydrate), an immunosuppressant, for the additional indication of interstitial pneumonia associated with polymyositis/dermatomyositis.
- With respect to the orally disintegrating tablet that is being developed as an additional formulation of Irribow (generic name: ramosetron hydrochloride), for the indication of

diarrhea-predominant irritable bowel syndrome in males, the Company obtained approval in August 2013. The product was launched under the brand name Irribow OD Tablets in January 2014.

- With respect to the hypnosedative Dormicum (generic name: midazolam), the Company obtained approval for an additional indication for use in sedation during surgery and procedures for dental, oral and maxillofacial care in December 2013.
- In January 2014, the Company obtained approval for the selective SGLT2 inhibitor Suglat (generic name: Ipragliflozin L-Proline, development code: ASP1941) for the treatment of type 2 diabetes, and launched it in April of the same year.
- For XTANDI, the Company obtained approval for the indication of castration-resistant prostate cancer in March 2014.

[Initiatives to optimize the allocation of resources in R&D]

- In April 2013, the Company entered into a collaboration agreement with Ambrx Inc. of the US regarding technology for next-generation antibody drug conjugates (“ADCs”) in the field of oncology. Under the agreement, the Company received worldwide rights to develop and commercialize ADCs for oncology.
- The Company is proactively promoting utilization of the “Multi-Track” process. This approach includes having multiple strategies at every stage of the R&D process and promoting the uptake of innovative research, as well as constructing a high-quality and robust pipeline for the Company while at the same time managing risks and costs through the effective use of outside resources. As part of this approach, in April 2013 the Company entered into an exclusive license agreement with Tacurion Pharma, Inc., a company operated by Drais Pharmaceuticals, Inc. of the US, regarding ASP7035, which is currently developed for the treatment of nocturia.
- In May 2013, the Company entered into an agreement for a strategic alliance in Japan with Amgen Inc. of the US. The alliance consists of two elements. The first element is a long-term collaboration between the two companies that will focus on the co-development and co-commercialization in Japan of five Amgen pipeline medicines, which are mainly biological products. The five medicines are a hyperlipidemia treatment (development code: AMG145), an osteoporosis treatment (development code: AMG785), and three treatments for cancer (development code: AMG102, AMG337, and AMG103). The second element is the establishment of a joint venture company (Amgen Astellas BioPharma KK), through which the two companies will work together. Having started operations in October 2013, Amgen Astellas BioPharma KK will work with the Company on the co-development and co-commercialization in Japan of the above-mentioned five pipeline medicines.
- In June 2013, the Company entered into a collaboration agreement with Cytokinetics, Incorporated of the US focusing on the research, development and commercialization of skeletal muscle activators. Under the agreement, the two companies will jointly conduct research and development in the area of skeletal muscle activation with the primary aim of providing new therapies for diseases and medical conditions associated with skeletal muscle

weakness.

- In March 2013, the Company exercised its right to terminate a worldwide license agreement with Ambit Biosciences Corporation of the US concluded in 2009 for the joint development and commercialization of FLT3 kinase inhibitors including quizartinib (generic name / development code: AC220). The agreement, which the Company exercised its right to terminate for strategic reasons, came to an end on September 3, 2013.
- In October 2013, the Company entered into an exclusive collaboration agreement with Mitokyne, Inc. of the US for joint research and development in the area of mitochondria-related diseases. Under the agreement, the two companies are jointly conducting research and development to find breakthrough treatments in this therapeutic area, in which an effective therapy is yet to be established.
- In December 2013, the Company entered into a joint research agreement with Immuno-Biological Laboratories Co., Ltd. regarding pharmaceutical applications of recombinant human proteins made using transgenic silkworms. Under the agreement, the two companies are jointly conducting research and development with respect to a useful recombinant human protein made using transgenic silkworms. This includes examining and evaluating the production method and looking into the possibility of developing the protein as medicine.
- In January 2014, the Company entered into an agreement for a strategic alliance with ClearPath Development Company ("ClearPath") of the US to form a portfolio of vaccines targeting infectious diseases. Through this alliance, the Company will fund the development of a virosome vaccine technology for respiratory syncytial virus, licensed from Mymetics Corporation of the US, by RSV Corporation, a company managed and operated by ClearPath. The alliance will help the Company to build up its vaccine portfolio.
- In February 2014, the Company exercised its right to terminate a license agreement it entered into in 2011 with AVEO Pharmaceuticals Inc. ("AVEO") of the US for the development and commercialization of tivozanib (generic name / development code: ASP4130), an inhibitor of all three vascular endothelial growth factor receptors 1, 2 and 3, which had been under joint development. The Company took the decision for strategic reasons, based on the clinical status of the three indications studied (renal cell carcinoma, colorectal cancer and breast cancer). The termination of the license agreement will be effective August 11, 2014 at which time tivozanib rights will be returned to AVEO.
- Also in February 2014, the Company amended a license agreement, which was entered into in February 2010, on isavuconazole (generic name), an azole antifungal agent under joint development with Basilea Pharmaceutica Ltd. of Switzerland, for strategic reasons. Based on the amendment, the territories subject to the license agreement have been changed from "worldwide except Japan" to "the US and Canada," and the Company is now responsible for applications for approval and has exclusive full responsibility for the manufacture and sale of isavuconazole in both countries.
- In March 2014, the Company entered into a collaboration agreement with Daiichi Sankyo Company, Limited to form a compound library sharing partnership for approximately

400,000 selected compounds from the whole library of each company. The collaboration enables each party to promote innovative new medicine research and development.

Commercial partnerships and measures to strengthen business capabilities

- In August 2013, the Company and MSD K.K. entered into a co-promotion agreement in Japan for Suglat. Under the agreement, the manufacture and sale of the drug will be carried out by the Company, while the Company, MSD and Kotobuki Pharmaceutical Co., Ltd. will co-promote it.
- In July 2013, the Company established a sales affiliate in Singapore, Astellas Pharma Singapore Pte. Ltd. The business started operations in October 2013. Astellas Pharma Singapore will mainly commercialize Astellas' global products through its own sales force in Singapore and supervise the sales of such products through a Contract Sales Organization (CSO) in Malaysia. Astellas Pharma Singapore will quickly build up its business capabilities in both Singapore and Malaysia.

Initiatives to pursue operational excellence and enhance asset efficiency

To realize sustainable growth while responding to a rapidly changing business environment, the Company is continuously working to pursue operational excellence and enhance asset efficiency.

- In September 2013, we signed an agreement with Accenture Japan Ltd. on Business Process Outsourcing in multiple business areas of the Company and its domestic subsidiaries. By working with a specialist external partner, we aim to obtain high quality services and promote efficiency, while allocating resources to businesses that contribute to the Company's competitive advantage.
- In December 2013, we entered into an agreement with Mitsui Fudosan Co., Ltd. to comprehensively transfer the real estate owned by the Company and domestic group company Lotus Estate Co., Ltd. to Mitsui Fudosan. The transfer was carried out on March 31, 2014.

  In May 2014, we consolidated functions including the Clinical Development, QA (Quality Assurance) & RA (Regulatory Affairs) and Pharmacovigilance, and relocated them from Itabashi-ku, Tokyo to an office building close to Astellas' headquarter in Nihonbashi, Chuo-ku, Tokyo.
- In the areas of production and technology, the Company will work to enhance its own capabilities while also actively pursuing alliances with external partners. By these means, we will work to establish a stable production system that would efficiently realize "steady supply of high-quality drugs" in changing environment. As part of these efforts, in December 2013, Astellas Pharma Tech Co., Ltd., the Company's production subsidiary, concluded a definitive agreement with Nichi-Iko Pharmaceutical Co., Ltd. under which Nichi-Iko Pharmaceutical Co., Ltd. would succeed to the business at the Fuji Plant of Astellas Pharma Tech Co., Ltd. The succession took place on April 1, 2014.
- In December 2013, we reached agreement with Taiho Pharmaceutical Co., Ltd. ("Taiho") to

transfer assets related to fermentation research owned by the Company to Taiho, and entered into a transfer agreement with Taiho. We made a decision to cease in-house fermentation research as part of the reshaping of our research framework in order to enhance our ability to generate innovative drugs (as announced in May 2013), and considered a transfer of our fermentation research-related assets to a third party. With this decision, we will implement a strategic reallocation of resources related to research and development that were previously allocated to fermentation research to further enhance our ability to generate innovative drugs.

3) Consolidated business forecasts for FY2014 (core basis)

The Company's business forecasts for FY2014 are presented on a core basis. As stated in page 2 of this financial results announcement, certain items reported in financial results under IFRS on a full basis (non-adjustment) that are deemed to be non-recurring items by the Company are excluded as non-core items from these business forecasts on a core basis.

Consolidated full-year business forecasts (core basis)

(Millions of yen – fractions rounded)

	FY2013 Full-year results	**FY2014 Full-year forecasts**	Change (%)
Sales	1,139,909	**1,192,000**	+52,091 (+4.6%)
Core operating profit	186,253	**208,000**	+21,747 (+11.7%)
Core profit for the year	132,796	**154,000**	+21,204 (+16.0%)
Core earnings per share (yen)	59.11	**69.02**	+9.91 (+16.8%)

(Note) The Company conducted a stock split of common stock at a ratio of 5 for 1 with an effective date of April 1, 2014. Core earnings per share in the consolidated business forecasts is calculated based on the number of issued shares after the stock split (excluding treasury shares).

Expected exchange rate for FY2014	**¥100/US$**	**¥140/€**
Exchange rate for FY2013	¥100/US$	¥134/€

The annual forecasts for the fiscal year ending March 31, 2015 (FY2014) (core basis) are shown in the table above.
Sales is anticipated to increase whereas operating profit and profit for the year are anticipated to increase compared to FY2013. The yen is anticipated to weaken against the euro compared with FY2013, and the fluctuations in the exchange rate is anticipated to cause a ¥11.8 billion increase in sales and a ¥13.2 billion increase in operating profit.

Sales

The sales forecast is ¥1,192.0 billion (up 4.6% year-on-year). In addition to anticipated global sales growth for XTANDI, sales of OAB treatments Vesicare and Betanis / Myrbetriq / BETMIGA are forecasted to grow. Although sales of Prograf are expected to decline in the Americas and Japan, its sales in Asia and Oceania are expected to expand, with global sales projected to remain level with the previous fiscal year. Sales of Harnal, on the other hand, are expected to decline mainly due to the impact of generics.

Sales by geographical segments

<Japan>

The impact of the NHI drug price revision enforced in April 2014 is expected to be offset by sales of growing products and new products. Consequently, we forecast that the year-on-year decrease in domestic sales of ethical pharmaceuticals will be slight.

Contributions to sales are expected from XTANDI, for which we obtained approval in March 2014, and Suglat, which we launched in April 2014. We also forecast expansion in sales of growing products such as Celecox and new products such as Cimzia in addition to increased sales of the OAB treatments Vesicare and Betanis.

On the other hand, sales are forecasted to decline for products such as Lipitor, Gaster, Myslee, and Seroquel, mainly due to the impact of generics.

<Overseas>

In the Americas, we forecast an increase in sales. In addition to XTANDI, sales of the OAB treatments VESIcare and Myrbetriq and income from Tarceva are forecasted to continue growing. On the other hand, we anticipate a decrease in sales of Prograf and overall sales of the pharmacologic stress agents Adenoscan and Lexiscan, mainly due to the impact of generics.

In Europe, we forecast an increase in sales. In addition to XTANDI, sales of products including the OAB treatments Vesicare and BETMIGA are forecasted to grow. Although we expect sales of Prograf through the Company's own distribution channel to decrease on a local currency basis, we anticipate the revenues we receive from this to increase on a yen basis as a result of the foreign exchange impact. Sales of Harnal through the Company's own distribution channel are forecasted to decrease.

In Asia/Oceania, we forecast an increase in sales. Sales of Prograf, Vesicare, Mycamine and others are forecasted to continue growing.

Core operating profit and core profit for the year

We forecast an increase in gross profit owing to an increase in sales, in addition to a fall in the cost-to-sales ratio as a result of changes in product mix and other factors.

Selling, general and administrative expenses are forecasted to increase mainly due to increases in payment for co-promotion of XTANDI in the US and expenses related to sales of new products.

We project research and development (R&D) expenses of ¥198.0 billion (up 3.4% year-on-year) and the R&D cost-to-sales ratio of 16.6% (compared with 16.8% in FY2013).

As a result, we project a core operating profit of ¥208.0 billion (up 11.7% year-on-year).

Core profit for the year is forecasted at ¥154.0 billion (up 16.0% year-on-year) and core earnings per share is forecasted at ¥69.02 (up 16.8% year-on-year).

(2) Analysis of financial position

1) Assets, liabilities and equity (IFRS)

An overview of the consolidated statement of financial position as of March 31, 2014 and the main changes from the end of the previous fiscal year are shown below.

Assets

Total assets as of March 31, 2014 saw an increase of ¥87.8 billion compared to the end of the previous fiscal year to ¥1,653.1 billion.

<Non-current assets> ¥739.8 billion (a decrease of ¥52.7 billion)

- Property, plant and equipment decreased by ¥19.7 billion compared to the end of the previous fiscal year to ¥191.5 billion.

<Current assets> ¥913.3 billion (an increase of ¥140.6 billion)

- Cash and cash equivalents increased by ¥126.5 billion compared to the end of the previous fiscal year to ¥391.4 billion.

Equity

Total equity: ¥1,268.5 billion (an increase of ¥93.9 billion)

- While profit for the year stood at ¥90.9 billion, the Company paid ¥58.7 billion of dividends of surplus and acquired ¥30.1 billion of treasury shares.

Liabilities

Liabilities decreased by ¥6.0 billion compared to the end of the previous fiscal year to ¥384.6 billion.

<Non-current liabilities> ¥43.9 billion (a decrease of ¥21.8 billion)
<Current liabilities> ¥340.7 billion (an increase of ¥15.8 billion)

<Differences between IFRS and Japanese Generally Accepted Accounting Principles>

In line with the Company’s adoption of IFRS, the adjustment to equity as of the transition date (April 1, 2012) and the adjustment to equity as of the end of the previous fiscal year (March 31, 2013) are provided from page 43 of this financial results announcement.

2) Cash flow (IFRS)

Cash flows from operating activities

Net cash flows from operating activities increased year-on-year by ¥63.3 billion to ¥214.3 billion.

- Income tax paid was ¥43.1 billion, a decrease in outflow of ¥1.3 billion year-on-year.

Cash flows from investing activities

Net cash flows used in investing activities was ¥26.9 billion, a decrease in outflow of ¥28.3 billion year-on-year.

- While proceeds from sales of property, plant and equipment provided cash of ¥8.7 billion and proceeds from sales of subsidiaries provided cash of ¥18.6 billion, purchases of property, plant and equipment used cash of ¥29.3 billion and purchase of intangible assets used cash of ¥26.9 billion.

Cash flows from financing activities

Net cash flows used in financing activities was ¥89.4 billion, a decrease in outflow of ¥20.6 billion year-on-year.

- Dividends paid totaled ¥58.7 billion, a decrease in outflow of ¥1.4 billion year-on year. Other outflow included cash of ¥30.1 billion used for the acquisition of own shares.

As a result of the above, cash and cash equivalents totaled ¥391.4 billion as of March 31, 2014, an increase of ¥126.5 billion compared to the end of the previous fiscal year.

Cash flow indicators

	FY2012	FY2013
Ratio of owners’ equity to gross assets (%)	75.0	76.7
Ratio of owners’ equity to gross assets on a fair market value basis (%)	145.9	165.2
Cash flows to interest-bearing liabilities ratio (%)	0.0	0.0
Interest coverage ratio (times)	–	–

- Ratio of owners’ equity to gross assets: equity attributable to owners of parent / total assets
- Ratio of owners’ equity to gross assets on a fair market value basis: market capitalization / total assets
- Cash flows to interest-bearing liabilities ratio: interest-bearing liabilities / cash flows
- Interest coverage ratio: cash flows / interest payment

(Notes)

1. Each indicator is calculated using financial data on a consolidated basis.
2. Market capitalization is calculated based on the total number of issued shares (after eliminating treasury share).
3. Net cash flows from operating activities are used as cash flows.

4. Of all liabilities included in the consolidated statement of financial position, those on which the Company pays interest are computed as interest-bearing liabilities.

(3) Profit distribution policy and dividends for FY2013 and FY2014

The Company is working aggressively towards increasing corporate value on a continual basis and, as a consequence, improves its return to shareholders. While putting priority on business investment to assure future growth, the Company will strive to increase dividend payments stably and continuously, taking into consideration the dividend on equity attributable to owners of parent (DOE)* and other factors based on medium- to long-term profit growth on a consolidated basis. Further, the Company will flexibly acquire its own shares whenever necessary to further increase capital efficiency and shareholder return.

The annual dividend for FY2013 is planned to be ¥135 per share (including a year-end dividend of ¥70 per share) to shareholders, yielding a DOE of 5.0 %*.

As a part of profit distribution to its shareholders and as measures of its capital policy, the Company implemented acquisition of own shares from stock market of 5.04 million shares, which amounted to ¥30.0 billion, during the fiscal year under review.
Further, the Company decided to cancel 25 million shares** of its treasury share.

The Company anticipates that the annual dividend in FY2014 will be ¥29 per share** (composed of interim dividend of ¥14 per share** and a year-end dividend of ¥15 per share**).

The Company is not planning any amendment to the articles of incorporation in regard to delegation of the dividend to the Board of Directors, and nor in regard to a quarterly dividend etc., at this moment.

* DOE (Dividend On Equity) previously defined the ratio of dividends to net assets under the J-GAAP. In line with the adoption of IFRS, however, DOE defines the ratio of dividends attributable to owners of the parent under IFRS. Although the ratio of dividends to net assets and the ratio of dividends attributable to owners of the parent are similar concepts, there are differences in the figures. The ratio of dividends to net assets for FY2013 is expected to be 5.5%.

** The Company conducted a stock split of common stock at a ratio of 5 for 1 with an effective date of April 1, 2014. The details are as described below.

<Details of stock split>

The Company conducted a stock split of common stock at a ratio of 5 for 1 with an effective date of April 1, 2014.

(Purpose of stock split)

The purpose is to expand the Company’s investor base and enhance the liquidity of its stock by reducing the price per unit of shares to provide investors with more affordable purchase opportunities.

(Method of stock split)

The stock split had a record date of March 31, 2014 and involved the splitting of common stock owned by shareholders entered or recorded in the last register of shareholders as of the record date at a ratio of 5 for 1.

(Increase in number of shares by stock split)

Total number of issued shares before stock split:	456,964,635 shares
Increase in number of shares by stock split:	1,827,858,540 shares
Total number of issued shares after stock split:	2,284,823,175 shares
Total number of authorized shares after stock split:	9,000,000,000 shares

(4) Risk Factors

The main risks that could significantly impact the business results and financial position of the Astellas Group are outlined below.

Inherent Uncertainties in Pharmaceutical R&D

In general, the probability of discovering a promising compound through drug discovery research is not high. Further, it takes a large amount of investment and a great deal of time to successfully launch a new product after discovery of a new compound. However, it may be necessary to discontinue clinical development if the effectiveness of a drug is not proven as initially expected, or if safety issues arise. In addition, pharmaceuticals are subject to legal restrictions in each country, thus authorization from local regulatory authorities is a prerequisite for a product launch in each country. It is difficult to accurately foresee if and when approvals for new products can be obtained. The Astellas Group’s research and development activities are subject to these inherent risks.

Sales-related Risk

The pharmaceutical industry operates in a highly competitive environment characterized by rapid technological innovation. The Astellas Group faces fierce competition from drug makers and generics manufacturers based in Japan and overseas. The launch of competitive products by rivals could impact the Astellas Group’s business results significantly.

Intellectual Property (IP) Risk

The Astellas Group’s business benefits from the protection of many patents. Although the Astellas Group manages intellectual property rights properly and is vigilant against third-party violation of such rights, the adverse impact on the Astellas Group’s business results of actual IP violations may

still be substantial. The Astellas Group's business results are also subject to the outcome of litigation undertaken by the Astellas Group to protect patents where infringement has occurred.
While the Astellas Group strives to ensure that its actions do not infringe the IP rights of other parties, there is a risk of litigation in the event of any inadvertent violations. Such litigation could also impact the Astellas Group's business results significantly.

Risks Relating to Product Side Effects and Safety

Any problems arising due to serious side effects or other safety issues that are caused by the Astellas Group's products could impact the Astellas Group's business results significantly.

Pharmaceutical Regulatory Risk

The ethical pharmaceutical business is governed by a wide variety of regulations in each country. In Japan, for example, the authorities periodically revise the NHI drug prices. Governments in developed countries in particular continue to adopt measures aimed at containing medical expenditures. Any trend toward stricter regulations governing the development, production and distribution of pharmaceuticals is a factor that could impact business results.

Environment-related Risks

The Astellas Group is careful to observe laws and regulations relating to environmental or health and safety issues, and has instituted internal standards that aim to exceed most statutory requirements. Despite such precautions, the costs involved in the unlikely event of a business-related incident causing a serious breach of compliance in this area could impact the Astellas Group's business results significantly.

Foreign Exchange Rate Fluctuations

The Astellas Group's business results and financial position are subject to the impact of exchange rate fluctuations due to the Astellas Group's extensive international operations.

In addition to the risks outlined above, the Astellas Group is exposed to a wide range of business-related risks, including but not limited to (1) general commercial litigation, (2) delays or suspension of manufacturing activities due to natural disasters or other factors, and (3) partial dependence on licensing or sales agreements relating to pharmaceuticals developed by other companies.

2. Management Policies

(1) Basic Management Policy

The Company's business philosophy is composed of its "raison d'être," "mission," and "beliefs." Its raison d'être is to "contribute toward improving the health of people around the world through the provision of innovative and reliable pharmaceutical products," its mission is "sustainable enhancement of corporate value," and its beliefs, which provide its standards of conduct, are based on the following four elements: high sense of ethics, customer focus, creativity, and competitive focus.

The Company has established the "Astellas Charter of Corporate Conduct" which states its business philosophy in concrete terms of specific business conduct, and it has established the "Astellas Global Code of Conduct" as a Group-wide compliance standard. By acting sincerely in line with these standards, the Company aims to be an enterprise worthy of being selected and trusted by all its stakeholders.

(2) Medium- and Long-Term Management Strategy and Issues to be Addressed

Based on its business philosophy, the Company established a management vision titled "VISION 2015." This vision serves as a direction to aim for over the medium- to long-term and clarifies the policies and strategies needed to achieve this aim. Furthermore, the Company established 2014 Medium-Term Management Plan, a medium-term management plan for the five years between FY2010 and FY2014, to press ahead with more concrete measures for the purpose of realizing "VISION 2015," and announced it in May 2010.

<VISION 2015>

Under "VISION 2015," the Company aims to create a business model as a "Global Category Leader (GCL)" with a competitive advantage by globally providing high value-added products in several therapeutic areas where the level of patient satisfaction is low and a high degree of expertise is required, and strives to achieve sustainable growth in corporate value through "maximization of added value for health-seeking individuals."

At the same time, the Company gives top priority to "effective use of human resources," "establishment of an optimal management control system" and "promotion of CSR management," all of which support the above-mentioned business model, and intends to actively address these priorities.

<2014 Medium-Term Management Plan and Implementation Progress>

The Company is working to overcome the decrease in sales and profit following the expiration of the US patents for two of its mainstay products, Prograf and Harnal, and their subsequent launches as generic products. In addition, the Company is working to achieve sustainable growth while getting maximum leverage out of its strengths. To achieve these aims, the Company is promoting the growth strategies in the 2014 Medium-Term Management Plan, which are centered on the "Therapeutic area strategy," "Regional strategy," and "R&D innovation strategy," and working to further improve cost efficiency.

The main issues with respect to the Company's growth strategies are as follows.

[Therapeutic area strategy]

- Strengthen and maintain GCL position in urology and transplantation
- Swiftly build business base of oncology franchise to realize third GCL position

[Regional strategy]

- Expand well-balanced four-region business base in Japan, Americas, Europe and Asia/Oceania (expansion of growing products and launch of new products in each region)
- Invest further in emerging countries

[R&D innovation strategy]

- Push forward with approach to Precision Medicine drug discovery based on molecular target and precise diagnostic
- Concentrate resources on five focus therapeutic areas in research: Urology, Immunology (including Transplantation) and Infectious Diseases, Oncology, Neuroscience and Diabetes Mellitus (DM) Complications and Kidney Diseases
- Utilize cutting-edge technologies (antibody pharmaceuticals, etc.) and approach new areas and novel technology platform(vaccines and regenerative medicines)
- Leverage global development framework to bolster pipeline

Management targets for FY2014

The management targets for FY2014, the final year of this medium-term management plan, are as follows:

Sales:	¥1,096.0 billion
Operating profit:	¥226.0 billion
ROE:	over 15%
DOE:	over 6%

(Expected exchange rates: ¥80/US$ and ¥110/€)

* As part of the transition to IFRS, the Company will not disclose the consolidated business forecasts and the actual operating results for FY2014 under the J-GAAP. For your information, the sales and the core operating profit amounts provided in the consolidated full-year forecasts on page 13 of this financial results announcement are ¥1,215.6 billion and ¥197.0 billion, respectively, when presented according to J-GAAP.

The main initiatives carried out hitherto under this medium-term management plan are as follows:

- In the therapeutic area strategy, we reinforced our No. 1 position in the global market for OAB treatments by growing sales of Vesicare and launching Betanis / Myrbetriq / BETMIGA. In the area of oncology, which we are striving to grow into the third area, in addition to urology and transplantation, in which we are the GCL, we achieved steady progress toward our goal of swiftly building up our business base. This progress included launches of XTANDI and Gonax.

- In the regional strategy, we achieved continuous launches of new products in various regions, including the global launches of XTANDI and Betanis / Myrbetriq / BETMIGA, and the Japanese launches of Suglat and Cimzia. In Japan, we entered into an agreement for a strategic alliance with Amgen Inc. of the US and worked to enhance our product portfolio. With respect to the markets of emerging countries, we strengthened our sales bases particularly in China and Russia.
- In the R&D innovation strategy, we decided to reshape our research framework and introduce new initiatives in May 2013 with the aim of further strengthening our ability to generate innovative drugs. In addition to the areas of priority we have focused on hitherto, we pressed ahead with initiatives in new therapeutic areas and novel technology platform while making use of external resources. As part of these efforts we started full-scale research into cell therapies and entered into a strategic alliance with ClearPath of the US to form a portfolio of vaccines.
- In the efficiency strategy, we worked to pursue operational excellence by such means as transferring Fuji Plant Business to Nichi-Iko Pharmaceutical Co., Ltd. with the aim of constructing an optimal production system, and taking decisions to outsource business process in multiple areas, consolidate operational bases and sell assets.
- In terms of numerical targets, we shrugged off the impact of patent expirations and achieved continuous growth starting in FY2010.
- We expect to achieve our sales target for FY2014, the final year of the medium-term management plan. Nevertheless, the impact of generics has grown at a rate greater than anticipated at the time of the medium-term management plan’s formulation, while R&D expenses and other costs have increased. As a result, operating profit is projected to undershoot the target. Despite our continued work to improve capital efficiency, ROE and DOE are also projected to undershoot our targets as a result of the profit level shortfall.
- The Company will continue to work on its priority issues and aim for sustainable growth.

(3) Numerical management targets

In order to sustainably enhance corporate value, the Company will not only concentrate on periodical profit and loss, such as operating profit, but also conduct business operations with a firm emphasis on making efficient use of the capital entrusted to the management. In accordance with this aim, the Company regards ROE to be an important management benchmark.

Consolidated Financial Statements

(1) Consolidated Statements of Income

(Millions of Yen)

	Fiscal year ended 31 March 2013	Fiscal year ended 31 March 2014
Sales	981,899	1,139,909
Cost of sales	(308,711)	(330,628)
Gross profit	673,187	809,281
Selling, general and administrative expenses	(318,943)	(397,018)
Research and development expenses	(159,094)	(191,460)
Amortisation of intangible assets	(28,266)	(36,000)
Share of profits of associates and joint ventures	1,137	1,451
Other income	2,862	11,582
Other expense	(49,291)	(81,029)
Operating profit	121,593	116,806
Finance income	7,339	6,827
Finance expense	(1,816)	(1,658)
Profit before tax	127,115	121,975
Income tax expense	(34,651)	(31,100)
Profit for the year	92,464	90,874
Profit attributable to:		
Owners of the parent	92,464	90,874
Earnings per share		
Basic (Yen)	40.27	40.45
Diluted (Yen)	40.21	40.39

(2) Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Fiscal year ended 31 March 2013	Fiscal year ended 31 March 2014
Profit for the year	92,464	90,874
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	(5,049)	4,648
Total items that will not be reclassified subsequently to profit or loss	(5,049)	4,648
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation adjustments	67,659	80,001
Fair value movements on available-for-sale financial assets	3,273	6,588
Total items that may be reclassified subsequently to profit or loss	70,932	86,590
Other comprehensive income, net of tax	65,883	91,238
Total comprehensive income	158,347	182,112
Total comprehensive income attributable to:		
Owners of the parent	158,347	182,112

(3) Consolidated Statements of Financial Position

(Millions of Yen)

	As of 1 April 2012	As of 31 March 2013	As of 31 March 2014
Assets			
Non-current assets			
Property, plant and equipment	192,851	211,112	191,451
Goodwill	94,193	107,648	116,766
Other intangible assets	367,220	340,603	280,120
Investments in associates and joint ventures	830	1,204	1,808
Deferred tax assets	57,399	45,178	45,530
Other financial assets	76,676	81,084	94,961
Other non-current assets	5,532	5,724	9,179
Total non-current assets	794,700	792,553	739,816
Current assets			
Inventories	112,705	127,095	135,228
Trade and other receivables	288,317	308,208	332,639
Income tax receivable	6,605	10,492	2,710
Other financial assets	48,814	50,934	35,406
Other current assets	6,089	9,440	12,068
Cash and cash equivalents	252,380	264,912	391,374
Sub total	714,911	771,082	909,424
Assets held for sale	1,451	1,636	3,868
Total current assets	716,361	772,718	913,292
Total assets	1,511,061	1,565,271	1,653,108

(Millions of Yen)

	As of 1 April 2012	As of 31 March 2013	As of 31 March 2014
Equity and liabilities			
Equity			
Share capital	103,001	103,001	103,001
Capital surplus	176,822	176,822	176,822
Treasury shares	(23,132)	(72,285)	(54,535)
Retained earnings	848,135	875,473	864,830
Other components of equity	20,332	91,596	178,359
Total equity attributable to owners of the parent	1,125,157	1,174,606	1,268,476
Total equity	1,125,157	1,174,606	1,268,476
Liabilities			
Non-current liabilities			
Trade and other payables	11,625	4,869	64
Deferred tax liabilities	17,550	15,270	2
Retirement benefit liabilities	24,843	32,201	27,184
Provisions	1,725	1,891	4,264
Other financial liabilities	1,509	1,391	749
Other non-current liabilities	6,731	10,142	11,681
Total non-current liabilities	63,983	65,765	43,944
Current liabilities			
Trade and other payables	199,263	201,762	187,032
Income tax payable	24,371	10,361	13,237
Provisions	32,442	48,089	66,407
Other financial liabilities	1,144	1,369	1,062
Other current liabilities	64,701	63,319	72,950
Total current liabilities	321,921	324,900	340,688
Total liabilities	385,904	390,665	384,632
Total equity and liabilities	1,511,061	1,565,271	1,653,108

(4) Consolidated Statements 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	Other components of equity: Foreign currency translation adjustments
As of 1 April 2012	103,001	176,822	(23,132)	848,135	1,605	―
Comprehensive income						
Profit for the year	―	―	―	92,464	―	―
Other comprehensive income	―	―	―	―	―	67,659
Total comprehensive income	―	―	―	92,464	―	67,659
Transactions with owners of the parent						
Acquisition of treasury shares	―	―	(49,392)	―	―	―
Disposals of treasury shares	―	―	239	(27)	(42)	―
Dividends	―	―	―	(60,051)	―	―
Share-based payments	―	―	―	―	374	―
Transfers	―	―	―	(5,049)	―	―
Total transactions with owners of the parent	―	―	(49,153)	(65,127)	332	―
As of 31 March 2013	103,001	176,822	(72,285)	875,473	1,937	67,659
Comprehensive income						
Profit for the year	―	―	―	90,874	―	―
Other comprehensive income	―	―	―	―	―	80,001
Total comprehensive income	―	―	―	90,874	―	80,001
Transactions with owners of the parent						
Acquisition of treasury shares	―	―	(30,075)	―	―	―
Disposals of treasury shares	―	―	463	(147)	(192)	―
Cancellation of treasury shares	―	―	47,362	(47,362)	―	―
Dividends	―	―	―	(58,656)	―	―
Share-based payments	―	―	―	―	365	―
Transfers	―	―	―	4,648	―	―
Total transactions with owners of the parent	―	―	17,750	(101,517)	173	―
As of 31 March 2014	103,001	176,822	(54,535)	864,830	2,110	147,660

(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	Remeasurements of defined benefit plans	Total		
As of 1 April 2012	18,727	—	20,332	1,125,157	1,125,157
Comprehensive income					
Profit for the year	—	—	—	92,464	92,464
Other comprehensive income	3,273	(5,049)	65,883	65,883	65,883
Total comprehensive income	3,273	(5,049)	65,883	158,347	158,347
Transactions with owners of the parent					
Acquisition of treasury shares	—	—	—	(49,392)	(49,392)
Disposals of treasury shares	—	—	(42)	170	170
Dividends	—	—	—	(60,051)	(60,051)
Share-based payments	—	—	374	374	374
Transfers	—	5,049	5,049	—	—
Total transactions with owners of the parent	—	5,049	5,381	(108,899)	(108,899)
As of 31 March 2013	22,000	—	91,596	1,174,606	1,174,606
Comprehensive income					
Profit for the year	—	—	—	90,874	90,874
Other comprehensive income	6,588	4,648	91,238	91,238	91,238
Total comprehensive income	6,588	4,648	91,238	182,112	182,112
Transactions with owners of the parent					
Acquisition of treasury shares	—	—	—	(30,075)	(30,075)
Disposals of treasury shares	—	—	(192)	124	124
Cancellation of treasury shares	—	—	—	—	—
Dividends	—	—	—	(58,656)	(58,656)
Share-based payments	—	—	365	365	365
Transfers	—	(4,648)	(4,648)	—	—
Total transactions with owners of the parent	—	(4,648)	(4,475)	(88,242)	(88,242)
As of 31 March 2014	28,588	—	178,359	1,268,476	1,268,476

(5) Consolidated Statements of Cash Flows

(Millions of Yen)

	Fiscal year ended 31 March 2013	Fiscal year ended 31 March 2014
Cash flows from operating activities		
Profit before tax	127,115	121,975
Depreciation and amortisation	51,167	64,304
Impairment losses and reversal of impairment losses	44,585	55,568
Finance income and expense	(5,522)	(5,169)
(Increase) decrease in inventories	(4,284)	5,449
(Increase) decrease in trade and other receivables	(193)	(1,088)
Increase (decrease) in trade and other payables	(2,786)	(20,686)
Other	(14,751)	37,029
Cash generated from operations	195,332	257,381
Income tax paid	(44,406)	(43,124)
Net cash flows from operating activities	150,926	214,257
Cash flows from investing activities		
Purchases of property, plant and equipment	(31,342)	(29,261)
Proceeds from sales of property, plant and equipment	577	8,652
Purchase of intangible assets	(45,200)	(26,885)
Purchase of available-for-sale financial assets	(816)	(1,577)
Proceeds from sales of available-for-sale financial assets	10,432	7,526
Proceeds from sales of subsidiaries	—	18,592
Interest and dividends received	2,675	3,322
Other	8,573	(7,221)
Net cash flows used in investing activities	(55,101)	(26,851)
Cash flows from financing activities		
Acquisition of treasury shares	(49,392)	(30,075)
Dividends paid to owners of the parent	(60,051)	(58,656)
Other	(570)	(664)
Net cash flows used in financing activities	(110,013)	(89,395)
Effect of exchange rate changes on cash and cash equivalents	26,721	28,450
Net increase (decrease) in cash and cash equivalents	12,533	126,461
Cash and cash equivalents at the beginning of the year	252,380	264,912
Cash and cash equivalents at the end of the year	264,912	391,374

(6) Notes to Consolidated Financial Statements

Notes on going concern assumption

Not applicable.

Basis of preparation

(1) Compliance with IFRS and first-time adoption

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

The Group first adopted IFRS for the year ended 31 March 2014, and accordingly, the consolidated financial statements for the year ended 31 March 2014 are the Group’s first consolidated financial statements prepared in accordance with IFRS.

The date of transition to IFRS was 1 April 2012, and at the transition to IFRS, the Group has applied IFRS 1 “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”). Explanations of how the transition to IFRS has affected the Group’s financial position, operating results, and cash flows are provided in the related note, “First-time adoption”.

Except for IFRS that have not been early adopted and exemptions permitted under IFRS 1, the Group’s accounting policies are in accordance with IFRS effective as of 31 March 2014.

(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.

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

The following is a list of new or amended IFRS standards and interpretations that the Group has not adopted among those issued by the date of the approval of the Group’s consolidated financial statements. Also, the effects on the Group due to the application of the standards or interpretations listed below are still under consideration and cannot be estimated at this time.

IFRSs		Effective date (fiscal years beginning on or after)	The Group’s application date (fiscal year ending)	Summaries of new or amended IFRS standards and interpretations
IAS 32	Financial Instruments: Presentation	1 January 2014	31 March 2015	Offsetting financial assets and financial liabilities
IAS 36	Impairment of Assets	1 January 2014	31 March 2015	Disclosures related to recoverable amount of non-financial assets
IFRS 10	Consolidated Financial Statements	1 January 2014	31 March 2015	Establishment of accounting treatment for entities meeting new definition of investment entity
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014	31 March 2015	Additional disclosure requirements for newly defined investment entities
IFRIC 21	Levies	1 January 2014	31 March 2015	Clarification of recognition of liabilities for levies
IAS 19	Employee Benefits	1 July 2014	31 March 2016	Clarification of accounting for contributions by employees or third parties
IFRS 9	Financial Instruments	-	-	Requirements for classification and measurement of financial assets and financial liabilities

Significant accounting policies

Unless otherwise noted, the accounting policies set forth below are applied continuously to all periods indicated in the consolidated financial statements (including the consolidated statement of financial position at the date of transition to IFRS).

(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 from a bargain purchase 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.

The Group has adopted the exemption under IFRS 1 and elected not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that had occurred before 1 April 2012 (the date of transition to IFRS).

(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.

(iv) First-time adoption
The Group applied the exemption under IFRS 1 and reclassified the cumulative translation differences arising on the translation of foreign operations to retained earnings at the date of transition to IFRS.

(4) Sales
(i) Sale of goods
Sales are measured at the fair value of the consideration received or receivable, less discounts, charge-backs and other rebates, excluding sales taxes and value added taxes. Also, the Group recognises the sales amount of transactions in which the Group is acting as an agent on a net basis.
Revenue from the sale of goods is recognised when all of the following conditions have been satisfied, namely, the significant risks and rewards of ownership of the goods have been transferred to the buyers, the Group retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the economic benefits will flow to the Group, and the amount of revenue and costs associated with the transaction can be reliably measured. Therefore, revenue is usually recognised at the time of delivery of goods to customers.
Sales discounts, charge-backs and other rebates are recognised as accounts payable, provisions or as deductions from accounts receivable.

(ii) Royalty income
Some of the Group’s revenues are generated from the agreements under which third parties have been granted rights to produce or market products or rights to use technologies.
Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement.
Revenue associated with milestone agreements is recognised upon achievement of the milestones defined in the respective agreements.
Upfront payments and licence fees received for agreements where the rights or obligations still exist are initially recognised as deferred income and then recognised in income as earned over the period of the development collaboration or the manufacturing obligation.

(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 statements 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 co-research and development agreements with some alliance partners.
The expenses and income associated with the settlement of the expenditure incurred for the co-research and development 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, dividend income, and gain on sales of financial instruments. Interest income is recognised using the effective interest method. Dividend income is recognised when the right to receive payment is established. Gain on sales of financial instruments is recognised when the financial assets are derecognised.
Financial expenses mainly comprise interest expense, fees, loss on sales of financial instruments, and impairment losses for financial assets. Interest expense is recognised when incurred using the effective interest method.

(7) Income tax
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 statements 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 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 taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and 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 caluculated 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, 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 30 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 other intangible assets”.

(12) Other intangible assets
Other 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.
Other 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 other intangible assets are carried at cost accumulated amortisation and accumulated impairment losses.

Other 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 other intangible assets acquired through business combinations or through the in-licensing of products or technologies is presented in the consolidated statements of income under “Amortisation of intangible assets”.

The estimated useful life of other 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 "Other 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 leaset 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 other intangible assets
(i) Impairment of property, plant and equipment and other intangible assets
At the end of each quarter, the Group assesses whether there is any indication that its property, plant and equipment and other intangible assets may be impaired.
If there is an indication of impairment, the recoverable amount of the asset is estimated.
Other 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 pro rata on the 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 other 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

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. 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 on 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) Non-derivative financial assets

Non-derivative financial assets are classified into “financial assets at FVTPL”, “held-to-maturity investments”, “loans and receivables” and “available-for-sale financial assets”. The classification is determined based on the nature and purpose of the financial assets at the time of initial recognition.

(a) Financial assets at FVTPL

The Group classifies financial assets as FVTPL when the financial assets are either held for trading or designated as FVTPL at initial recognition.

Financial assets at FVTPL are measured at fair value, and any gain or loss resulting from changes in fair value, dividends, and interest income are recognised in profit or loss.

(b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. The Group did not have any financial assets classified as held-to-maturity investments at the end of this fiscal year.

(c) Loans and receivables

Non-derivative financial assets with fixed or determinable payments not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment loss. Amortisation incurred under the effective interest method is recognised in profit or loss.

(d) Available-for-sale financial assets

Non-derivative financial assets designated as available-for-sale financial assets or not classified as FVTPL, held-to-maturity investments or loans and receivables are classified as available-for-sale financial assets.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and any gain or loss resulting from changes in fair value is recognised in other comprehensive income.

Dividends on available-for-sale financial assets are recognised in profit or loss.

When available-for-sale financial assets are derecognised or determined to be impaired, the cumulative gain or loss that had been recognised in other comprehensive income is reclassified to profit or loss.

(iii) Impairment of financial assets other than financial assets at FVTPL

Financial assets, other than those at FVTPL, are assessed for any objective evidence of impairment at the end of each quarter.

Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial assets and these events have adversely affected the estimated future cash flows of the financial assets that can be reliably estimated.

Objective evidence of impairment of financial assets includes:

• significant financial difficulty of the issuer or obligor;
• breach of contract, such as a default or delinquency in interest or principal payments;
• probability that the borrower will enter bankruptcy or other financial reorganisation; or
• disappearance of an active market for the financial assets.

In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the equity instrument below its cost would be considered as objective evidence of impairment.

The Group assesses the existence of objective evidence of impairment for loans and receivables and held-to-maturity financial assets, individually for separately significant assets or collectively for assets with no individual significance. When there is objective evidence of impairment on those financial assets, the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate is recognised in profit or loss as an impairment loss.

The impairment loss is recognised through the allowance for doubtful accounts, and the carrying amount of a loan and receivable is written off against the allowance account when it is subsequently considered uncollectible.
When an event occurring after the impairment was recognised causes the amount of the impairment loss to decrease, a reversal of the impairment loss is recognised in profit or loss.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in other comprehensive income is transferred to profit or loss. Any subsequent recovery in the fair value of impaired equity instruments classified as available-for-sale financial assets is recognised in other comprehensive income.

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

(v) Non-derivative financial liabilities
The Group measures non-derivative financial liabilities at amortised cost using the effective interest method after initial recognition.
The Group derecognises financial liabilities when obligations are fulfilled or when obligations are discharged, canceled, or expired.

(vi) Derivatives
The Group is engaged in derivative transactions and mainly uses foreign exchange forward contracts to manage its exposure to risks from changes in foreign exchange rates.
Derivatives are initially recognised at fair value of the date when the derivative contracts are entered into and are subsequently measured at their fair values at the end of each quarter.
Hedge accounting is not applied to the above derivative transactions at the end of the fiscal year and changes in the fair value of derivatives are immediately recognised in profit or loss.
Financial assets and financial liabilities arising from derivatives are classified as either financial assets at FVTPL or financial liabilities at FVTPL.

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

(ii) Treasury shares
When the Company reacquires its own common stock, 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 has a share option plan as an equity-settled share-based payment for directors and corporate officers.
Share options are measured at the grant date fair value, and the fair value of share options is calculated using the binomial model.
The fair value of share options determined at the grant date is expensed over the vesting period with a corresponding increase in equity by taking into account the number of share options that will eventually vest.

(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 statements 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, 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.

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 other intangible assets
- Provisions
- Retirement benefits
- Recoverability of deferred tax assets
- Income tax expenses
- Financial assets measured at fair value which have no market price in active markets

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

Sales by type of product and service are as follows:

(Millions of Yen)

	Fiscal year ended 31 March 2013	Fiscal year ended 31 March 2014
Prograf	161,763	181,054
Vesicare	109,973	133,845
Other	710,163	825,010
Total	981,899	1,139,909

Information about geographical areas

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

Sales by geographical areas

(Millions of Yen)

	Fiscal year ended 31 March 2013	Fiscal year ended 31 March 2014
Japan	520,542	522,089
Americas	214,473	284,472
U.S.A. (included in Americas)	196,682	258,905
Europe	187,205	252,698
Asia and other	59,679	80,649
Total	981,899	1,139,909

（Note） Sales 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 other intangible assets)

(Millions of Yen)

	As of 1 April 1 2012	As of 31 March 2013	As of 31 March 2014
Japan	311,079	317,057	273,119
Americas	295,746	291,613	270,918
U.S.A. (included in Americas)	295,305	291,151	270,449
Europe	44,926	47,343	40,304
Asia and other	2,512	3,351	3,998
Total	654,263	659,363	588,338

Information about major customers

External customers that account for 10 percent or more of consolidated sales of the Group are as follows:

(Millions of Yen)

	Segment	Fiscal year ended 31 March 2013	Fiscal year ended 31 March 2014
Suzuken Co., Ltd.	Pharmaceutical	118,816	120,352

Earnings per share

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

(Millions of Yen, expect as otherwise indicated)

	Fiscal year ended 31 March 2013	Fiscal year ended 31 March 2014
Basis of calculating basic earnings per share		
Profit attributable to owners of the parent	92,464	90,874
Profit not attributable to ordinary shareholders of the parent	―	―
Profit used for calculation of basic earnings per share	92,464	90,874
Weighted average number of shares during the year （Thousands of shares）	2,296,353	2,246,508
Basis of calculating diluted earnings per share		
Profit used to calculate basic earnings per share	92,464	90,874
Adjustment	―	―
Profit used to calculate diluted earnings per share	92,464	90,874
Weighted-average number of shares during the year （Thousands of shares）	2,296,353	2,246,508
Subscription rights to shares（Thousands of shares）	3,194	3,429
Weighted average number of diluted ordinary shares during the year（Thousands of shares）	2,299,547	2,249,938
Earnings per share (attributable to owners of the parent):		
Basic（Yen）	40.27	40.45
Diluted（Yen）	40.21	40.39

（Note） On 1 April 2014, the Company completed a five-for-one share split based on the resolution of the Board of Directors’ meeting held on 28 February 2014. Basic earnings per share and diluted earnings per share were calculated under the assumption that the share split took effect at the beginning of the previous fiscal year.

First-time adoption

The Group disclosed the consolidated financial statements under IFRS for the first time for the fiscal year ended 31 March 2014.

The latest consolidated financial statements under accounting principles generally accepted in Japan (“Japanese GAAP”) are prepared for the fiscal year ended 31 March 2013 and the date of transition to IFRS is 1 April 2012.

(1) Exemptions to retrospective application of IFRS

IFRS 1 stipulates that an entity adopting IFRS for the first time shall apply IFRS retrospectively to prior periods. However, IFRS 1 allows certain exemptions from the retrospective application of certain aspects of IFRS, and accordingly the Group has applied the following exemptions:

Use of fair value as deemed cost:

IFRS 1 permits an entity to measure items of property, plant and equipment, investment property and intangible assets at the date of transition to IFRS at its fair value and use that fair value as deemed cost at that date. The Group elected to use the fair value at the date of transition to IFRS as deemed cost at the date of transition to IFRS for certain items of property, plant and equipment. Further, the Group elected to use the cost model for items of property, plant and equipment and intangible assets under IFRS, thus the revaluation model is not applied.

Exchange differences on translating foreign operations:

IFRS 1 permits the cumulative amount of exchange differences on translating foreign operations to be deemed to be zero at the date of transition to IFRS. The Group elected to apply this exemption and deemed all cumulative exchange differences on translating foreign operations as zero at the date of transition to IFRS.

Business combinations:

IFRS 1 permits an entity not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred prior to the date of transition to IFRS. The Group elected to apply this exemption and did not apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS. Further, the Group performed an impairment test on goodwill at the date of transition to IFRS regardless of whether there was any indication that the goodwill may be impaired.

Share-based payment transactions:

IFRS 1 permits an entity not to apply IFRS 2 “Share-based Payment” to equity instruments granted on or after 7 November 2002 and vested before the later of the date of transition to IFRS and 1 January 2005. The Group elected not to apply IFRS 2 to equity instruments granted on or after 7 November 2002 and vested before the date of transition to IFRS.

(2) Reconciliations

The reconciliations required to be disclosed in the first IFRS financial statements are described below.

In the reconciliations below, “Presentation” includes items that do not affect retained earnings and comprehensive income, while “Recognition and measurement” includes items that affect retained earnings and comprehensive income.

(i) Reconciliation of equity as of the date of transition to IFRS (1 April 2012)

(Millions of Yen)

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Assets						Assets
Fixed assets						Non-current assets
Property, plant and equipment, net	199,160	(1,506)	(4,802)	192,851	A	Property, plant and equipment
Intangible assets						
Goodwill	94,193	—	—	94,193		Goodwill
Patents	161,499	(161,499)	—	—	B	
Other	58,587	161,555	147,078	367,220	B	Other intangible assets
	—	830	—	830	C	Investments in associates and joint ventures
Investments and other assets						
Investment securities	60,525	(60,525)	—	—	E	
Deferred tax assets	33,875	71,550	(48,026)	57,399	D	Deferred tax assets
	—	65,627	11,049	76,676	E	Other financial assets
Other	11,751	(5,970)	(249)	5,532	F	Other non-current assets
Allowance for doubtful receivables	(39)	39	—	—		
Total fixed assets	619,551	70,099	105,050	794,700		Total non-current assets
Current assets						Current assets
Merchandise and finished goods	82,233	29,590	883	112,705	G	Inventories
Work in progress	13,473	(13,473)	—	—		
Raw materials and supplies	16,117	(16,117)	—	—		
Notes and accounts receivable-trade	264,688	19,128	4,502	288,317	H	Trade and other receivables
Securities	88,113	(88,113)	—	—	K	
Deferred tax assets	71,550	(71,550)	—	—	D	
	—	6,605	—	6,605	J	Income tax receivable
	—	48,814	—	48,814	I	Other financial assets
Other	36,807	(30,715)	(3)	6,089	J	Other current assets
Cash and deposits	210,986	41,393	—	252,380	K	Cash and cash equivalents
Allowance for doubtful receivables	(2,887)	2,887	—	—	H	
				714,911		Sub total
	—	1,451	—	1,451	L	Assets held for sale
Total current assets	781,079	(70,099)	5,381	716,361		Total current assets
Total assets	1,400,630	—	110,431	1,511,061		Total assets

(Millions of Yen)

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Liabilities and net assets						Equity and liabilities
Net assets						Equity
Share capital	103,001	—	—	103,001		Share capital
Capital surplus	176,822	—	—	176,822		Capital surplus
Treasury shares	(23,132)	—	—	(23,132)		Treasury shares
Retained earnings	894,737	—	(46,602)	848,135	M	Retained earnings
Accumulated other comprehensive income	(134,910)	1,605	153,636	20,332	N	Other components of equity
Subscription rights to shares	1,605	(1,605)	—	—		
	—	—	—	1,125,157		Total equity attributable to owners of the parent
Total net assets	1,018,123	—	107,034	1,125,157		Total equity
Liabilities						Liabilities
Long-term liabilities						Non-current liabilities
	—	11,625	—	11,625	O	Trade and other payables
Deferred tax liabilities	30,932	—	(13,382)	17,550	P	Deferred tax liabilities
Accrued retirement benefits for employees	16,979	507	7,356	24,843	Q	Retirement benefit liabilities
	—	1,045	680	1,725	R	Provisions
	—	1,509	—	1,509	S	Other financial liabilities
Other	20,425	(13,693)	—	6,731	T	Other non-current liabilities
Total long-term liabilities	68,336	993	(5,346)	63,983		Total non-current liabilities
Current liabilities						Current liabilities
Notes and accounts payable-trade	108,409	91,907	(1,053)	199,263	U	Trade and other payables
Accounts payable-other	82,388	(82,388)	—	—	U	
Accrued expenses	80,933	(80,933)	—	—		
	—	24,367	4	24,371	V	Income tax payable
	—	27,625	4,817	32,442	W	Provisions
Accrued bonus for directors	76	(76)	—	—		
Allowance for sales rebates	3,951	(3,951)	—	—	W	
	—	1,162	(18)	1,144	X	Other financial liabilities
Other	38,414	21,294	4,993	64,701	Y	Other current liabilities
Total current liabilities	314,170	(993)	8,743	321,921		Total current liabilities
Total liabilities	382,507	—	3,397	385,904		Total liabilities
Total liabilities and net assets	1,400,630	—	110,431	1,511,061		Total equity and liabilities

Notes to reconciliation of equity as of the date of transition to IFRS (1 April 2012)

The major components of the reconciliation of equity as of the date of transition to IFRS are as follows:

Ａ Property, plant and equipment

（Presentation）

Under Japanese GAAP, “Buildings and structures, net,” “Machinery, equipment and vehicles, net,” “Tools, furniture and fixtures, net,” “Land,” and “Construction in progress” were presented separately, whereas they have been presented together as “Property, plant and equipment” under IFRS.

Under Japanese GAAP, assets held for sale were included in “Property, plant and equipment, net”, whereas they are presented separately as “Assets held for sale” in accordance with IFRS.

（Recognition and measurement）

The amount of “Property, plant and equipment” has decreased as a result of revisions to the depreciation method and useful lives and using the fair value as deemed cost for certain items of property, plant and equipment upon the adoption of IFRS.

The carrying amount of the property, plant and equipment to which the deemed cost was applied at the date of transition was 56,052 million yen under Japanese GAAP and the fair value was 55,152 million yen.

Ｂ Other intangible assets

（Presentation）

“Patents” presented separately under Japanese GAAP have been included in “Other intangible assets” under IFRS.

（Recognition and measurement）

Under Japanese GAAP, costs associated with the in-licensing of products and technologies incurred before filing an application for approval from regulatory authorities were recognised as research and development expenses, but under IFRS, those costs that satisfy certain criteria are capitalised as intangible assets and amortised over their estimated useful lives on a straight-line basis. Also, the Group revised the useful lives of certain marketing rights upon adoption of IFRS.

As a result of those factors, “Other intangible assets” has increased by 147,078 million yen.

Ｃ Investments in associates and joint ventures

（Presentation）

Investments in associates and joint ventures included in “Other” comprising investments and other assets under Japanese GAAP have been presented separately as “Investments in associates and joint ventures” under IFRS.

Ｄ Deferred tax assets

（Presentation）

Deferred tax assets presented separately as current and non-current under Japanese GAAP have been presented as non-current assets under IFRS.

（Recognition and measurement）

Under Japanese GAAP, the tax effects associated with the elimination of unrealised gain or loss is calculated using the effective tax rate of the seller, while under IFRS, it is calculated using the effective tax rate of the purchaser.

In addition, deferred tax assets are recognised on the temporary differences resulting from the reconciliations to IFRS.

Ｅ Other financial assets (non-current)

（Presentation）

“Investment securities” presented separately under Japanese GAAP have been included in “Other financial assets” (non-current) under IFRS.

Security deposits and other investments included in “Other” comprising investments and other assets under Japanese GAAP have been included in “Other financial assets” (non-current) under IFRS.

（Recognition and measurement）

Under Japanese GAAP, unlisted stocks were stated at cost calculated mainly by using the moving average method. However, under IFRS, unlisted stocks are measured at fair value. As a result, there has been an increase of 10,403 million yen in “Other financial assets” (non-current).

Ｆ Other non-current assets

（Presentation）

Security deposits and other investments included in “Other” comprising investments and other assets under Japanese GAAP have been included in “Other financial assets” (non-current) under IFRS.

Investments in associates and joint ventures included in “Other” comprising investments and other assets under Japanese GAAP have been presented separately as “Investments in associates and joint ventures” under IFRS.

Ｇ Inventories

（Presentation）

“Merchandise and finished goods”, “Work in progress” and “Raw materials and supplies”, which were presented separately under Japanese GAAP, are presented together as “Inventories” under IFRS.

（Recognition and measurement）

With regard to the cost formula of inventories, the Company and its domestic subsidiaries were mainly using the average method. However, the Group applied the first-in, first-out (FIFO) method under IFRS. As a result, the amount of “Inventories” has increased.

Ｈ Trade and other receivables

（Presentation）

Accounts receivable-other included in “Other” as current assets under Japanese GAAP has been included in “Trade and other receivables” under IFRS.

“Allowance for doubtful accounts” presented separately in current assets under Japanese GAAP has been included in “Trade and other receivables” under IFRS.

（Recognition and measurement）

Certain provisions for sales discounts or returns were deducted from “Notes and accounts receivable-trade” under Japanese GAAP. However, they have been included in “Provisions” (current) under IFRS. As a result, the amount of “Trade and other receivables” has increased.

Ｉ Other financial assets（current）

（Presentation）

Time deposits with maturities over three months included in “Cash and deposits” under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

Securities with maturities less than three months were included in “Securities” as current assets under Japanese GAAP. However, securities other than cash equivalents are included in “Other financial assets” (current) under IFRS.

Advances paid and deposits paid included in “Other” as current assets under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

Ｊ Other current assets

（Presentation）

Accounts receivable-other included in “Other” as current assets under Japanese GAAP have been included in “Trade and other receivables” under IFRS.

Income tax receivable included in “Other” as current assets under Japanese GAAP has been presented separately as “Income tax receivable” under IFRS.

Advances paid and deposits paid included in “Other” as current assets under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

Ｋ Cash and cash equivalents

（Presentation）

Time deposits with maturities over three months included in “Cash and deposits” under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

Securities with maturities less than three months were included in “Securities” as current assets under Japanese GAAP. However, securities satisfying the classification requirements to be recognised as cash equivalents are included in “Cash and cash equivalents” under IFRS.

Ｌ Assets held for sale
（Presentation）
Assets held for sale included in “Property, plant and equipment, net” under Japanese GAAP have been reclassified and presented separately as “Assets held for sale” under IFRS.

Ｍ Retained earnings
（Recognition and measurement）

	As of 1 April 2012
	(Millions of Yen)
Property, plant and equipment（refer to A）	(4,802)
Other intangible assets（refer to B）	147,078
Inventories（refer to G）	1,223
Foreign currency translation adjustments（refer to N）	(147,167)
Retirement benefit liabilities（refer to Q）	(7,783)
Allowance for repair and maintenance（refer to U）	1,046
Accrued paid absences（refer to Y）	(5,327)
Other	90
Sub total	(15,642)
Adjustment of tax effect	(30,960)
Total adjustments to retained earnings	(46,602)

Ｎ Other components of equity
（Presentation）
“Subscription rights to shares” presented separately under Japanese GAAP have been included in “Other components of equity” under IFRS.
（Recognition and measurement）
The Group applied the exemption under IFRS 1 and transferred all cumulative exchange differences on translating foreign operations to retained earnings on the date of transition to IFRS (1 April 2012). As a result, “Other components of equity” has increased by 147,167 million yen.
Under Japanese GAAP, unlisted stocks were stated at cost, which was calculated by mainly using the moving average method. However, under IFRS, unlisted stocks are measured at fair value. As a result, there has been an increase of 6,469 million yen in “Other components of equity.”

Ｏ Trade and other payables (non-current)
（Presentation）
Long-term accounts payable-other included in “Other” as non-current liabilities under Japanese GAAP have been included in “Trade and other payables” (non-current) under IFRS.

Ｐ Deferred tax liabilities
（Recognition and measurement）
Deferred tax liabilities are recognised for the temporary differences resulting from the reconciliations to IFRS. Under Japanese GAAP, the deferred tax assets and liabilities were offset only within the categories of short-term or long-term items. However, the amount of the offset increased because all deferred tax assets and liabilities are classified as non-current items under IFRS. As a result, the amount of “Deferred tax liabilities” decreased.

Ｑ Retirement benefit liabilities
（Recognition and measurement）
With regard to actuarial gains and losses, under Japanese GAAP, the Group mainly amortised them on a straight-line basis from the following year in which they were incurred over the average remaining service years of

employees. However, under IFRS, the Group fully recognises the actuarial gains and losses when they are incurred in other comprehensive income as remeasurements of defined benefit plans. As a result, the amount of “Retirement benefit liabilities” has increased by 7,356 million yen.

Ｒ Provisions （non-current）

（Presentation）

Provisions for onerous contracts included in “Other” as non-current liabilities under Japanese GAAP have been included in “Provisions” (non-current) under IFRS.

（Recognition and measurement）

Asset retirement obligations deducted from “Other” comprising investments and other assets under Japanese GAAP have been remeasured and recognised as “Provisions” (non-current) under IFRS. As a result, the amount of “Provisions” (non-current) has increased.

Ｓ Other financial liabilities (non-current)

（Presentation）

Long-term finance lease liabilities and long-term guaranty deposits received included in “Other” as non-current liabilities under Japanese GAAP have been included in “Other financial liabilities” (non-current) under IFRS.

Ｔ Other non-current liabilities

（Presentation）

Long-term accounts payable-other included in “Other” as non-current liabilities under Japanese GAAP have been included in “Trade and other payables” (non-current) under IFRS.

Long-term finance lease liabilities and long-term guaranty deposits received included in “Other” as non-current liabilities under Japanese GAAP have been included in “Other financial liabilities” (non-current) under IFRS.

Ｕ Trade and other payables (current）

（Presentation）

“Accounts payable-other” presented separately as current liabilities under Japanese GAAP have been included in “Trade and other payables” (current) under IFRS.

Liabilities arising from certain in-licensing agreements were included in “Other” as current liabilities under Japanese GAAP. However, they have been included in “Trade and other payables” (current) under IFRS.

（Recognition and measurement）

Under Japanese GAAP, the allowance was recognised for repair and maintenance of certain fixed assets planned in future periods. However, such allowance is not recognised under IFRS because it does not satisfy the recognition requirements of a provision. As a result, the amount of “Trade and other payables” (current) has decreased by 1,046 million yen.

Ｖ Income tax payable

（Presentation）

Income tax payable included in “Other” as current liabilities under Japanese GAAP has been presented separately as “Income tax payable” under IFRS.

Ｗ Provisions (current)

（Presentation）

Liabilities arising from certain sales discounts or rebates included in “Accrued expenses” or “Other” as current liabilities under Japanese GAAP have been included in “Provisions” (current) under IFRS.

“Allowance for sales rebates” presented separately as current liabilities under Japanese GAAP has been included in “Provisions” (current) under IFRS.

（Recognition and measurement）

Liabilities for certain sales discounts or returns were deducted from “Notes and accounts payable-trade” under Japanese GAAP. However, they have been included in “Provisions” (current) under IFRS.

Ｘ Other financial liabilities（current）

（Presentation）

Short-term finance lease liabilities and guaranty deposits received included in “Other” as current liabilities under Japanese GAAP have been included in “Other financial liabilities” (current) under IFRS.

Ｙ Other current liabilities

（Presentation）

Income tax payable included in “Other” as current liabilities under Japanese GAAP has been presented separately as “Income tax payable” under IFRS.

Liabilities arising from certain in-licensing agreements were included in “Other” as current liabilities under Japanese GAAP. However, they have been included in “Trade and other payables” (current) under IFRS.

Certain liabilities included in “Accrued expenses” separately presented as current liabilities under Japanese GAAP have been included in “Other current liabilities” under IFRS.

（Recognition and measurement）

Accrued paid absences of 5,327 million yen not recognised under Japanese GAAP were recognised and included in “Other current liabilities” under IFRS.

(ii) Reconciliation of profit or loss and comprehensive income for the year ended 31 March 2013

(Millions of Yen)

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Nte sales	1,005,612	(2,682)	(21,031)	981,899	A	Sales
Cost of sales	(324,127)	(3,077)	18,493	(308,711)	B	Cost of sales
Gross profit	681,485	(5,760)	(2,538)	673,187		Gross profit
Selling, general and administrative expenses	(527,618)	197,838	10,837	(318,943)	C	Selling, general and administrative expenses
	—	(165,629)	6,534	(159,094)	D	Research and development expenses
	—	(25,514)	(2,752)	(28,266)	E	Amortisation of intangible assets
	—	1,137	—	1,137	F	Share of profits of associates and joint ventures
	—	2,861	1	2,862	G	Other income
	—	(39,651)	(9,640)	(49,291)	H	Other expense
Operating income	153,867	(34,716)	2,442	121,593		Operating profit
Non-operating income	4,053	(4,053)	—	—		
Non-operating expenses	(764)	764	—	—		
Special gains	5,811	(5,811)	—	—		
Special losses	(38,294)	38,294	—	—		
	—	7,339	—	7,339	I	Finance income
	—	(1,816)	—	(1,816)	J	Finance expense
Income before income taxes and minority interests	124,673	—	2,442	127,115		Profit before tax
Income taxes	(41,822)	—	7,171	(34,651)	K	Income tax expense
Net income	82,851	—	9,613	92,464		Profit for the year
Other comprehensive income						Other comprehensive income
	—	—	(5,049)	(5,049)	L	Remeasurements of defined benefit plans
Foreign currency translation adjustments	66,241	—	1,418	67,659	M	Foreign currency translation adjustments
Unrealised holding gains on securities	3,709	—	(435)	3,273	N	Fair value movements on available-for-sale financial assets
Other comprehensive income, net of tax	69,950	—	(4,066)	65,883		Other comprehensive income, net of tax
Total comprehensive income	152,801	—	5,547	158,347		Total comprehensive income

Notes to reconciliation of profit or loss and comprehensive income for the year ended 31 March 2013

The major components of the reconciliations of profit and loss and comprehensive income for the year ended 31 March 2013 are as follows:

Ａ Sales

（Presentation）

Certain costs of sales rebates were included in “Selling, general and administrative expenses” under Japanese GAAP. However, they are deducted from “Sales” under IFRS.

（Recognition and measurement）

Under Japanese GAAP, sales arising from transactions where the Group was acting as a principal or agent were presented on a gross basis. However, under IFRS, sales arising from transactions where the Group is acting as principal are presented on a gross basis, whereas sales are presented on a net basis when the Group is acting as an agent. As a result, the amount of “Sales” has decreased by 21,031 million yen.

Ｂ Cost of sales

（Presentation）

Certain royalty expenses associated with sales included in “Selling, general and administrative expenses” under Japanese GAAP have been included in “Cost of sales” under IFRS.

（Recognition and measurement）

Under IFRS, sales and cost of sales arising from transactions where the Group is acting as an agent are presented on a net basis. As a result, the amount of “Cost of sales” has decreased by 21,031 million yen.

With regard to the cost formula of inventories, the Company and its domestic subsidiaries were mainly using the average method. However, the Group applied the first-in, first-out (FIFO) method under IFRS. As a result, the amount of “Cost of sales” has increased.

Ｃ Selling, general and administrative expenses

（Presentation）

Research and development expenses and amortisation of intangible assets included in “Selling, general and administrative expenses” under Japanese GAAP have been presented separately as “Research and development expenses” and “Amortisation of intangible assets” under IFRS.

Certain royalty expenses associated with sales included in “Selling, general and administrative expenses” under Japanese GAAP have been included in “Cost of sales” under IFRS.

Certain sales rebates were included in “Selling, general and administrative expenses” under Japanese GAAP. However, they are deducted from “Sales” under IFRS.

Restructuring costs and losses from settlement of litigation included in “Selling, general and administrative expenses” under Japanese GAAP have been included in “Other expense” under IFRS.

（Recognition and measurement）

Goodwill was amortised over a specified period under Japanese GAAP while it is not amortised under IFRS. Consequently, there has been a 10,318 million yen decrease in “Selling, general and administrative expenses.”

Under Japanese GAAP, actuarial gains and losses associated with retirement benefits were amortised mainly on a straight-line basis from the following year in which they were incurred over the average remaining service years of employees. However, under IFRS, actuarial gains and losses are fully recognised in other comprehensive income when they are incurred as remeasurement of defined benefit plans. As a result, the amount of “Selling, general and administrative expense” has decreased.

Ｄ Research and development expenses

（Presentation）

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

（Recognition and measurement）

Under Japanese GAAP, costs associated with the in-licensing of products and technologies incurred before filing an application for approval from regulatory authorities were recognised as research and development expenses. However, under IFRS, those costs that satisfy certain criteria are capitalised as intangible assets. As a result, the amount of “Research and development expenses” has decreased.

Ｅ Amortisation of intangible assets

（Presentation）

Amortisation of intangible assets included in “Selling, general and administrative expenses” under Japanese GAAP has been presented separately as “Amortisation of intangible assets” under IFRS.

（Recognition and measurement）

Under Japanese GAAP, costs associated with the in-licensing of products and technologies incurred before filing an application for approval from regulatory authorities were recognised as research and development expenses, but under IFRS, those costs that satisfy certain criteria are capitalised as intangible assets and amortised over their estimated useful lives on a straight-line basis. Also, the Group revised the useful life of certain marketing rights upon adoption of IFRS.

As a result, the amount of “Amortisation of intangible assets” has increased by 2,752 million yen.

Ｆ Share of profits of associates and joint ventures

（Presentation）

“Share of profits of associates and joint ventures” included in non-operating income under Japanese GAAP has been presented separately under IFRS.

Profits or losses associated with certain partnerships included in “Sales” under Japanese GAAP have been included in “Share of profits of associates and joint ventures” under IFRS.

Ｇ Other income

（Presentation）

“Exchange gain” included in non-operating income under Japanese GAAP has been included in “Other income” under IFRS.

“Gain on sales of property, plant and equipment” included in special gains under Japanese GAAP has been included in “Other income” under IFRS.

In addition, certain items of income included in “Other” as non-operating income or special gains under Japanese GAAP have been included in “Other income” under IFRS.

Ｈ Other expense

（Presentation）

“Loss on sales and disposal of property, plant and equipment” and “Impairment losses of non-current assets” presented as special losses under Japanese GAAP have been included in “Other expense” under IFRS.

Certain losses arising from settlement of litigations included in “Selling, general and administrative expenses” under Japanese GAAP have been included in “Other expense” under IFRS.

In addition, certain items of loss included in “Other” as non-operating expenses or special losses under Japanese GAAP have been included in “Other expense” under IFRS.

（Recognition and measurement）

Under IFRS, research and development expenses arising mainly from in-licensing agreements satisfying certain classification requirements are recognised as intangible assets, but research and development expenses are charged directly to profit or loss when incurred under Japanese GAAP.

For certain intangible assets additionally recognised upon adoption of IFRS, the carrying amount is reduced to the recoverable amount when the discontinuation of the development is decided during the period, and the difference is recognised as impairment loss in the same period. As a result, the amount of “Other expense” has increased by 9,832 million yen.

Ｉ Finance income

（Presentation）

“Interest income” and “Dividend income” included in non-operating income under Japanese GAAP have been included in “Finance income” under IFRS.

“Gain on sale of investment securities” included in special gains under Japanese GAAP has been included in “Finance income” under IFRS.

In addition, certain items of income included in “Other” as non-operating income or special gains under Japanese GAAP have been included in “Finance income” under IFRS.

Ｊ Finance expense

（Presentation）

"Interest expense" included in non-operating expenses under Japanese GAAP has been included in "Finance expense" under IFRS.

Also, certain items of expenses included in "Other" as non-operating expenses or special losses under Japanese GAAP have been included in "Finance expense" under IFRS.

Ｋ Income tax expense

（Recognition and measurement）

Under Japanese GAAP, the tax effect associated with the elimination of unrealised gain or loss is calculated using the effective tax rate of the seller, while under IFRS, it is calculated using the effective tax rate of the purchaser. As a result, the amount of "Income tax expense" has decreased.

In addition, "Income tax expense" has decreased due to the temporary differences resulting from the reconciliation to IFRS.

Ｌ Remeasurements of defined benefit plans

（Recognition and measurement）

Under Japanese GAAP, actuarial gains and losses associated with retirement benefits are amortised mainly on a straight-line basis from the following year in which they were incurred over the average remaining service years of employees. However, under IFRS, the Group fully recognises the actuarial gains and losses when they are incurred in other comprehensive income as "Remeasurement of defined benefit plans". As a result, the amount of "Remeasurements of defined benefit plans" has deceased.

Ｍ Foreign currency translation adjustments

（Recognition and measurement）

"Foreign currency translation adjustments" have increased due to the effects of foreign currency translations of reconciliations incurred after the date of transition to IFRS.

Ｎ Fair value movements on available-for-sale financial assets

（Recognition and measurement）

Under Japanese GAAP, unlisted stocks are stated at cost calculated mainly by using the moving average method. However, under IFRS, unlisted stocks are measured at fair value. As a result, the amount of "Fair value movements on available-for-sale financial assets" has decreased.

(iii) Reconciliation of equity as of 31 March 2013

(Millions of Yen)

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Assets						Assets
Fixed assets						Non-current assets
Property, plant and equipment, net	218,479	(1,705)	(5,662)	211,112	A	Property, plant and equipment
Intangible assets						
Goodwill	95,978	—	11,671	107,648	B	Goodwill
Patents	138,070	(138,070)	—	—	C	
Other	60,794	138,139	141,670	340,603	C	Other intangible assets
	—	1,204	—	1,204	D	Investments in associates and joint ventures
Investments and other assets						
Investment securities	61,646	(61,646)	—	—	F	
Deferred tax assets	27,126	62,610	(44,558)	45,178	E	Deferred tax assets
	—	70,626	10,458	81,084	F	Other financial assets
Other	16,302	(10,207)	(371)	5,724	G	Other non-current assets
Allowance for doubtful receivables	(22)	22	—	—		
Total fixed assets	618,372	60,973	113,207	792,553		Total non-current assets
Current assets						Current assets
Merchandise and finished goods	92,663	35,518	(1,085)	127,095	H	Inventories
Work in progress	13,281	(13,281)	—	—		
Raw materials and supplies	22,237	(22,237)	—	—		
Notes and accounts receivable-trade	286,068	14,552	7,588	308,208	I	Trade and other receivables
Securities	78,863	(78,863)	—	—	J	
Deferred tax assets	61,746	(61,746)	—	—	E	
	—	10,492	—	10,492	K	Income tax receivable
	—	50,934	—	50,934	J	Other financial assets
Other	40,445	(31,005)	—	9,440	K	Other current assets
Cash and deposits	233,815	31,098	—	264,912	L	Cash and cash equivalents
Allowance for doubtful receivables	(1,926)	1,926	—	—		
	—	—	—	771,082		Sub total
	—	1,636	—	1,636	M	Assets held for sale
Total current assets	827,190	(60,973)	6,503	772,718		Total current assets
Total assets	1,445,561	—	119,710	1,565,271		Total assets

(Millions of Yen)

Japanese GAAP	Japanese GAAP	Presentation	Recognition and measurement	IFRS	Note	IFRS
Liabilities and net assets						Equity and liabilities
Net assets						Equity
Share capital	103,001	—	—	103,001		Share capital
Capital surplus	176,822	—	—	176,822		Capital surplus
Treasury shares	(72,285)	—	—	(72,285)		Treasury shares
Retained earnings	917,511	—	(42,039)	875,473	N	Retained earnings
Accumulated other comprehensive income	(64,960)	1,937	154,619	91,596	O	Other components of equity
Subscription rights to shares	1,937	(1,937)	—	—		
	—	—	—	1,174,606		Total equity attributable to owners of the parent
Total net assets	1,062,026	—	112,580	1,174,606		Total equity
Liabilities						Liabilities
Long-term liabilities						Non-current liabilities
	—	4,869	—	4,869	P	Trade and other payables
Deferred tax liabilities	34,715	183	(19,628)	15,270	Q	Deferred tax liabilities
Accrued retirement benefits for employees	18,273	718	13,210	32,201	R	Retirement benefit liabilities
	—	1,133	758	1,891	S	Provisions
	—	1,391	—	1,391	T	Other financial liabilities
Other	17,011	(6,869)	—	10,142	U	Other non-current liabilities
Total long-term liabilities	70,000	1,425	(5,661)	65,765		Total non-current liabilities
Current liabilities						Current liabilities
Notes and accounts payable-trade	102,835	98,928	—	201,762	V	Trade and other payables
Accounts payable-other	87,718	(87,718)	—	—	V	
Accrued expenses	94,373	(94,373)	—	—		
	—	10,361	—	10,361	W	Income tax payable
	—	40,509	7,580	48,089	X	Provisions
Accrued bonus for directors	89	(89)	—	—		
Allowance for sales rebates	4,386	(4,386)	—	—	X	
	—	1,369	—	1,369	Y	Other financial liabilities
Other	24,136	33,973	5,210	63,319	Z	Other current liabilities
Total current liabilities	313,536	(1,425)	12,790	324,900		Total current liabilities
Total liabilities	383,536	—	7,130	390,665		Total liabilities
Total liabilities and net assets	1,445,561	—	119,710	1,565,271		Total equity and liabilities

Notes to reconciliations of equity as of 31 March 2013

The major components of the reconciliations of equity as of 31 March 2013 are as follows:

Ａ Property, plant and equipment

（Presentation）

Under Japanese GAAP, “Buildings and structures, net,” “Machinery, equipment and vehicles, net,” “Tools, furniture and fixtures, net,” “Land,” and “Construction in progress” were presented separately, whereas they have been presented together as “Property, plant and equipment” under IFRS.

Under Japanese GAAP, assets held for sale were included in “Property, plant and equipment, net”, whereas they are presented separately as “Assets held for sale” in accordance with IFRS.

（Recognition and measurement）

The amount of “Property, plant and equipment” has decreased as a result of revisions to the depreciation method and useful lifves and using the fair value as deemed cost for certain items of property, plant and equipment upon the adoption of IFRS.

Ｂ Goodwill

（Recognition and measurement）

Under Japanese GAAP, goodwill was amortised over a specified period, while under IFRS, goodwill is not amortised. As a result, the amount of “Goodwill” has increased.

Ｃ Other intangible assets

（Presentation）

“Patents” presented separately under Japanese GAAP have been included in “Other intangible assets” under IFRS.

（Recognition and measurement）

Under Japanese GAAP, costs associated with the in-licensing of products and technologies incurred before filing an application for approval from regulatory authorities were recognised as research and development expenses, but under IFRS, those costs that satisfy certain criteria are capitalised as intangible assets and amortised over their estimated useful lives on a straight-line basis. Also, the Group revised the useful lives of certain marketing rights upon adoption of IFRS.

As a result of those factors, “Other intangible assets” has increased by 141,670 million yen.

Ｄ Investments in associates and joint ventures

（Presentation）

Investments in associates and joint ventures included in “Other” comprising investments and other assets under Japanese GAAP have been presented separately as “Investments in associates and joint ventures” under IFRS.

Ｅ Deferred tax assets

（Presentation）

Deferred tax assets presented separately as current and non-current under Japanese GAAP have been reclassified as non-current assets under IFRS.

（Recognition and measurement）

Under Japanese GAAP, the tax effect associated with the elimination of an unrealised gain or loss was calculated using the effective tax rate of the seller, while under IFRS, it is calculated using the effective tax rate of the purchaser.

In addition, deferred tax assets are recognised on the temporary differences resulting from the reconciliations to IFRS.

Ｆ Other financial assets (non-current)

（Presentation）

“Investment securities” presented separately under Japanese GAAP have been included in “Other financial assets” (non-current) under IFRS.

Security deposits and other investments included in “Other” comprising investments and other assets under Japanese GAAP have been included in “Other financial assets” (non-current) under IFRS.

（Recognition and measurement）

Under Japanese GAAP, unlisted stocks are stated at cost calculated mainly by using the moving average method. However, under IFRS, unlisted stocks are measured at fair value. As a result, there has been an increase of 9,736 million yen in “Other financial assets” (non-current).

G Other non-current assets

（Presentation）

Security deposits and other investments included in “Other” comprising investments and other assets under Japanese GAAP have been included in “Other financial assets” (non-current) under IFRS.

Investments in associates and joint ventures included in “Other” comprising investments and other assets under Japanese GAAP have been presented separately as “Investments in associates and joint ventures” under IFRS.

H Inventories

（Presentation）

“Merchandise and finished goods”, “Work in progress” and “Raw materials and supplies”, which were presented separately under Japanese GAAP, are presented together as “Inventories” under IFRS.

（Recognition and measurement）

With regard to the cost formula of inventories, the Company and its domestic subsidiaries were mainly using the average method. However, the Group applied the first-in, first-out (FIFO) method under IFRS. As a result, the amount of “Inventories” has decreased.

I Trade and other receivables

（Presentation）

Accounts receivable-other included in “Other” as current assets under Japanese GAAP have been included in “Trade and other receivables” under IFRS.

“Allowance for doubtful accounts” presented separately in current assets under Japanese GAAP have been included in “Trade and other receivables” under IFRS.

（Recognition and measurement）

Certain provisions for sales discounts or returns have been deducted from “Notes and accounts receivable-trade” under Japanese GAAP. However, they have been included in “Provisions” (current) under IFRS. As a result, the amount of “Trade and other receivables” has increased.

J Other financial assets（current）

（Presentation）

Time deposits with maturities over three months included in “Cash and deposits” under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

Securities with maturities less than three months were included in “Securities” as current assets under Japanese GAAP. However, securities other than cash equivalents are included in “Other financial assets” (current) under IFRS.

Advances paid and deposits paid included in “Other” as current assets under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

K Other current assets

（Presentation）

Accounts receivable- other included in “Other” as current assets under Japanese GAAP have been included in “Trade and other receivables” under IFRS.

Income tax receivable included in “Other” as current assets under Japanese GAAP has been presented separately as “Income tax receivable” under IFRS.

Advances paid and deposits paid included in “Other” as current assets under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

L Cash and cash equivalents

(Presentation)

Time deposits with maturities over three months included in “Cash and deposits” under Japanese GAAP have been included in “Other financial assets” (current) under IFRS.

Securities with maturities less than three months were included in “Securities” as current assets under Japanese GAAP. However, securities satisfying the classification requirements for recognition as cash equivalents are included in “Cash and cash equivalents” under IFRS.

M Assets held for sale

(Presentation)

Assets held for sale included in “Property, plant and equipment, net” under Japanese GAAP were reclassified and presented separately as “Assets held for sale” under IFRS.

N Retained earnings

(Recognition and measurement)

	As of 31 March 2013
	(Millions of Yen)
Property, plant and equipment (refer to A)	(5,662)
Goodwill (refer to B)	10,318
Other intangible assets (refer to C)	141,088
Inventories (refer to H)	(1,085)
Foreign currency translation adjustments (refer to O)	(147,167)
Retirement benefit liabilities (refer to R)	(13,647)
Accrued paid absences (refer to Z)	(4,841)
Other	508
Sub total	(20,488)
Adjustment of tax effect	(21,550)
Total adjustments to retained earnings	(42,039)

O Other components of equity

(Presentation)

“Subscription rights to shares” presented separately under Japanese GAAP have been included in “Other components of equity” under IFRS.

(Recognition and measurement)

The Group applied the exemption under IFRS 1 and transferred all cumulative exchange differences on translating foreign operations to retained earnings on the date of transition to IFRS (1 April 2012). As a result, “Other components of equity” has increased by 147,167 million yen.

Under Japanese GAAP, unlisted stocks are stated at cost calculated by mainly using the moving average method. However, under IFRS, unlisted stocks are measured at fair value. As a result, there has been an increase of 6,034 million yen in “Other components of equity.”

P Trade and other payables (non-current)

(Presentation)

Long-term accounts payable-other included in “Other” as non-current liabilities under Japanese GAAP have been included in “Trade and other payables” (non-current) under IFRS.

Q Deferred tax liabilities

(Recognition and measurement)

Deferred tax liabilities are recognised for the temporary differences resulting from the reconciliations to IFRS.

Under Japanese GAAP, the deferred tax assets and liabilities were offset only within the categories of short-term or long-term items. However, the amount of the offset increased because all deferred tax assets and liabilities are classified as non-current items under IFRS. As a result, the amount of “Deferred tax liabilities” decreased.

R Retirement benefit liabilities

（Recognition and measurement）

With regard to actuarial gains and losses, under Japanese GAAP, the Group mainly amortised them on a straight-line basis from the following year in which they were incurred over the average remaining service years of employees. However, under IFRS, the Group fully recognises the actuarial gains and losses when incurred in other comprehensive income as remeasurements of defined benefit plans. As a result, “Retirement benefit liabilities” has increased by 13,210 million yen.

S Provisions（non-current）

（Presentation）

Provisions for onerous contracts included in “Other” as non-current liabilities under Japanese GAAP have been included in “Provisions” (non-current) under IFRS.

（Recognition and measurement）

Asset retirement obligations deducted from “Other” comprising investments and other assets under Japanese GAAP have been remeasured and recognised as “Provisions” (non-current) under IFRS. As a result, the amount of “Provisions” (non-current) has increased.

T Other financial liabilities (non-current)

（Presentation）

Long-term finance lease liabilities and long-term guaranty deposits received included in “Other” as non-current liabilities under Japanese GAAP have been included in “Other financial liabilities” (non-current) under IFRS.

U Other non-current liabilities

（Presentation）

Long-term accounts payable-other included in “Other” as non-current liabilities under Japanese GAAP have been included in “Trade and other payables” (non-current) under IFRS.

Long-term finance lease liabilities and long-term guaranty deposits received included in “Other” as non-current liabilities under Japanese GAAP have been included in “Other financial liabilities” (non-current) under IFRS.

V Trade and other payables (current）

（Presentation）

“Accounts payable-other” presented separately as current liabilities under Japanese GAAP have been included in “Trade and other payables” (current) under IFRS.

Liabilities arising from certain in-licensing agreements were included in “Other” as current liabilities under Japanese GAAP. However, they have been included in “Trade and other payables” (current) under IFRS.

W Income tax payable

（Presentation）

Income tax payable included in “Other” as current liabilities under Japanese GAAP has been presented separately as “Income tax payable” under IFRS.

X Provisions (current)

（Presentation）

Liabilities arising from certain sales discounts or rebates included in “Accrued expenses” or “Other” as current liabilities under Japanese GAAP have been included in “Provisions” (current) under IFRS.

“Allowance for sales rebates” presented separately as current liabilities under Japanese GAAP has been included in “Provisions” (current) under IFRS.

（Recognition and measurement）

Liabilities for certain sales discounts or returns were deducted from “Notes and accounts payable-trade” under Japanese GAAP. However, they have been included in “Provisions” (current) under IFRS.

Ｙ Other financial liabilities（current）

（Presentation）

Short-term finance lease liabilities and guaranty deposits received included in “Other” as current liabilities under Japanese GAAP have been included in “Other financial liabilities” (current) under IFRS.

Ｚ Other current liabilities

（Presentation）

Income tax payable included in “Other” as current liabilities under Japanese GAAP has been presented separately as “Income tax payable” under IFRS.

Liabilities arising from certain in-licensing agreements were included in “Other” as current liabilities under Japanese GAAP. However, they have been included in “Trade and other payables” (current) under IFRS.

Certain liabilities included in “Accrued expenses” separately presented as current liabilities under Japanese GAAP have been included in “Other current liabilities” under IFRS.

（Recognition and measurement）

Accrued paid absences of 4,841 million yen not recognised under Japanese GAAP have been recognised and included in “Other current liabilities” under IFRS.

(iv) Significant adjustments to consolidated statement of cash flows for the year ended 31 March 2013

Significant difference between the consolidated statements of cash flows prepared and disclosed in accordance with Japanese GAAP and those prepared and disclosed in accordance with IFRS are as follows:

The expenditures associated with research and development were classified as cash flows from operating activities under Japanese GAAP because they were expensed as incurred, while under IFRS, the capitalised research and development costs have been classified as cash flows from investing activities.