Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 March, 2019

Daiichi-Sankyo

Daiichi Sankyo Company, Limited

Contents

Consolidated Financial Statements

1) Consolidated Statement of Financial Position

(Millions of Yen)

	Note	As of March 31, 2018	As of March 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents	8,29	357,702	243,155
Trade and other receivables	9	231,529	419,609
Other financial assets	10	429,380	536,880
Inventories	11	172,586	176,067
Other current assets		10,347	15,471
Subtotal		1,201,545	1,391,183
Assets held for sale	12	-	2,000
Total current assets		1,201,545	1,393,184
Non-current assets			
Property, plant and equipment	6,13	217,946	229,085
Goodwill	6,14	75,479	77,851
Intangible assets	6,14	173,537	169,472
Investments accounted for using the equity method	15	1,693	2,200
Other financial assets	10	179,177	114,895
Deferred tax assets	16	40,339	94,809
Other non-current assets		8,035	6,551
Total non-current assets		696,209	694,866
Total assets		1,897,754	2,088,051

(Millions of Yen)

	Note	As of March 31, 2018	As of March 31, 2019
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	17,21	226,164	312,660
Bonds and borrowings	18,29	20,000	40,000
Other financial liabilities	18	516	530
Income taxes payable	16	64,609	10,451
Provisions	19	34,015	7,837
Other current liabilities		7,800	12,715
Subtotal		353,105	384,195
Liabilities directly associated with assets held for sale	12	-	349
Total current liabilities		353,105	384,544
Non-current liabilities			
Bonds and borrowings	18,29	260,564	220,585
Other financial liabilities	18	8,155	5,680
Post-employment benefit liabilities	20	10,547	10,384
Provisions	19	48,752	4,985
Deferred tax liabilities	16	18,676	17,166
Other non-current liabilities	21	64,911	195,000
Total non-current liabilities		411,608	453,802
Total liabilities		764,713	838,346
Equity			
Equity attributable to owners of the Company			
Share capital	22	50,000	50,000
Capital surplus	22	94,633	94,633
Treasury shares	22	(163,531)	(162,964)
Other components of equity	22	120,504	115,166
Retained earnings		1,031,376	1,152,806
Total equity attributable to owners of the Company		1,132,982	1,249,642
Non-controlling interests			
Non-controlling interests		58	62
Total equity		1,133,041	1,249,705
Total liabilities and equity		1,897,754	2,088,051

2) Consolidated Statement of Profit or Loss

(Millions of Yen)

	Note	Year ended March 31, 2018	Year ended March 31, 2019
Revenue	6,24	960,195	929,717
Cost of sales	25	346,021	364,605
Gross profit		614,173	565,112
Selling, general and administrative expenses	25	301,845	277,695
Research and development expenses	25	236,046	203,711
Operating profit		76,282	83,705
Financial income	26	8,642	8,141
Financial expenses	26	4,223	5,910
Share of profit (loss) of investments accounted for using the equity method	15	320	(105)
Profit before tax		81,021	85,831
Income taxes	16	21,210	(7,591)
Profit for the year		59,811	93,422
Profit attributable to:			
Owners of the Company		60,282	93,409
Non-controlling interests		(471)	12
Profit for the year		59,811	93,422
Earnings per share	27		
Basic earnings per share (Yen)		91.31	144.20
Diluted earnings per share (Yen)		91.10	143.88

3) Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Note	Year ended March 31, 2018	Year ended March 31, 2019
Profit for the year		59,811	93,422
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	16	10,688	60,976
Remeasurements of defined benefit plans	16	1,616	205
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	16,31	(10,229)	9,289
Share of other comprehensive income of investments accounted for using the equity method	16,31	3	-
Other comprehensive income (loss) for the year		2,078	70,471
Total comprehensive income for the year		61,890	163,893
Total comprehensive income attributable to:			
Owners of the Company		62,361	163,881
Non-controlling interests		(471)	12
Total comprehensive income for the year		61,890	163,893

4) Consolidated Statement of Changes in Equity

Year ended March 31, 2018

(Millions of yen)

	Equity attributable to owners of the Company					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2017	50,000	103,750	(113,952)	2,067	67,568	54,853
Profit for the year	–	–	–	–	–	–
Other comprehensive income (loss) for the year	–	–	–	–	(10,229)	10,688
Total comprehensive income (loss) for the year	–	–	–	–	(10,229)	10,688
Purchase of treasury shares	–	(51)	(50,033)	–	–	–
Cancellation of treasury shares	–	–	453	(74)	–	–
Dividends	–	–	–	–	–	–
Acquisition of non-controlling interests	–	(9,064)	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(4,369)
Others	–	–	–	–	–	–
Total transactions with owners of the Company	–	(9,116)	(49,579)	(74)	–	(4,369)
Balance as of March 31, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171

(Millions of yen)

	Equity attributable to owners of the Company					
	Other components of equity					
	Remeasure-ments of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2017	–	124,489	1,011,610	1,175,897	(4,469)	1,171,428
Profit for the year	–	–	60,282	60,282	(471)	59,811
Other comprehensive income (loss) for the year	1,620	2,078	–	2,078	–	2,078
Total comprehensive income (loss) for the year	1,620	2,078	60,282	62,361	(471)	61,890
Purchase of treasury shares	–	–	–	(50,085)	–	(50,085)
Cancellation of treasury shares	–	(74)	(75)	304	–	304
Dividends	–	–	(46,430)	(46,430)	–	(46,430)
Acquisition of non-controlling interests	–	–	–	(9,064)	5,007	(4,057)
Transfer from other components of equity to retained earnings	(1,620)	(5,989)	5,989	–	–	–
Others	–	–	–	–	(8)	(8)
Total transactions with owners of the Company	(1,620)	(6,063)	(40,516)	(105,276)	4,998	(100,277)
Balance as of March 31, 2018	–	120,504	1,031,376	1,132,982	58	1,133,041

Year ended March 31, 2019

(Millions of yen)

	Equity attributable to owners of the Company					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171
Changes in accounting policies	–	–	–	–	–	–
Adjusted balance as of April 1, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171
Profit for the year	–	–	–	–	–	–
Other comprehensive income (loss) for the year	–	–	–	–	9,289	60,976
Total comprehensive income (loss) for the year	–	–	–	–	9,289	60,976
Purchase of treasury shares	–	–	(45)	–	–	–
Cancellation of treasury shares	–	–	612	(187)	–	–
Dividends	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(75,415)
Others	–	–	–	–	–	–
Total transactions with owners of the Company	–	–	567	(187)	–	(75,415)
Balance as of March 31, 2019	50,000	94,633	(162,964)	1,805	66,628	46,732

(Millions of yen)

	Equity attributable to owners of the Company					
	Other components of equity					
	Remeasurements of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2018	–	120,504	1,031,376	1,132,982	58	1,133,041
Changes in accounting policies	–	–	(530)	(530)	–	(530)
Adjusted balance as of April 1, 2018	–	120,504	1,030,846	1,132,452	58	1,132,510
Profit for the year	–	–	93,409	93,409	12	93,422
Other comprehensive income (loss) for the year	205	70,471	–	70,471	–	70,471
Total comprehensive income (loss) for the year	205	70,471	93,409	163,881	12	163,893
Purchase of treasury shares	–	–	–	(45)	–	(45)
Cancellation of treasury shares	–	(187)	(115)	310	–	310
Dividends	–	–	(45,340)	(45,340)	–	(45,340)
Transfer from other components of equity to retained earnings	(205)	(75,621)	74,006	(1,615)	–	(1,615)
Others	–	–	–	–	(8)	(8)
Total transactions with owners of the Company	(205)	(75,808)	28,550	(46,691)	(8)	(46,699)
Balance as of March 31, 2019	–	115,166	1,152,806	1,249,642	62	1,249,705

5) Consolidated Statement of Cash Flows

(Millions of Yen)

	Note	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities			
Profit before tax		81,021	85,831
Depreciation and amortization		46,680	46,169
Impairment loss		36,672	15,194
Financial income		(8,642)	(8,141)
Financial expenses		4,223	5,910
Share of (profit) loss of investments accounted for using the equity method		(320)	105
(Gain) loss on sale and disposal of non-current assets		(5,125)	(7,562)
(Increase) decrease in trade and other receivables		2,535	(187,792)
(Increase) decrease in inventories		(19,394)	(4,018)
Increase (decrease) in trade and other payables		238	60,419
Others, net		(9,755)	118,395
Subtotal		128,134	124,510
Interest and dividends received		4,516	5,437
Interest paid		(2,038)	(1,768)
Income taxes paid		(22,173)	(36,146)
Net cash flows from (used in) operating activities		108,439	92,033
Cash flows from investing activities			
Payments into time deposits		(388,376)	(452,338)
Proceeds from maturities of time deposits		488,576	378,448
Acquisition of securities		(128,492)	(149,672)
Proceeds from sale of securities		165,458	136,858
Acquisition of property, plant and equipment		(23,399)	(36,108)
Proceeds from sale of property, plant and equipment		139	1,901
Acquisition of intangible assets		(14,609)	(30,505)
Proceeds from sale of subsidiary		-	752
Payments for loans receivable		(982)	(548)
Proceeds from collection of loans receivable		753	839
Others, net		9,501	7,852
Net cash flows from (used in) investing activities		108,568	(142,520)
Cash flows from financing activities			
Repayments of bonds and borrowings	32	-	(20,000)
Purchase of treasury shares		(50,085)	(45)
Proceeds from sale of treasury shares		1	0
Dividends paid		(46,420)	(45,339)
Others, net	32	(5,262)	(819)
Net cash flows from (used in) financing activities		(101,766)	(66,203)
Net increase (decrease) in cash and cash equivalents		115,241	(116,689)
Cash and cash equivalents at the beginning of the year	8	246,050	357,702
Effect of exchange rate changes on cash and cash equivalents		(3,590)	2,143
Cash and cash equivalents at the end of the year	8	357,702	243,155

Notes to the Consolidated Financial Statements

1. Reporting Entity

Daiichi Sankyo Company, Limited (the "Company") is a public company domiciled in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company's website (https://www.daiichisankyo.co.jp).The Daiichi Sankyo Group consists of 51 companies including the Company, 47 subsidiaries and 3 associates (collectively the "Group") and is engaged in manufacturing and marketing of pharmaceutical products.

The Group's consolidated financial statements for the year ended March 31, 2019 were approved on June 17, 2019 by Sunao Manabe, Representative Director, President and COO.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") under Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, as the Group meets the criteria of a "Specified Entity" defined under Article 1-2 of this ordinance.

(2) Basis of Measurement

The Group's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and other items as described in Note 3 "Significant Accounting Policies."

(3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese Yen, which is the functional currency of the Company. All financial information presented in Japanese Yen has been rounded down to the nearest million Japanese Yen.

(4) Changes in Accounting Policies

The significant accounting policies adopted in preparing the consolidated financial statements of the Group have not changed from the prior year except for the adoption of the following new and amended accounting standards and interpretation.

In the year ended March 31, 2019, the Group adopted the following accounting standards and interpretation in accordance with their effective date.

IFRS		Overview
IFRS 2	Share-based Payment	Amendment to classification and measurement of share based payments
IFRS 9	Financial Instruments	Amendment to rules for general hedge accounting Limited amendment to classification and measurement of financial assets and implementation of expected loss model
IFRS 15	Revenue from Contracts with Customers	Amendment to accounting for revenue
IAS 40	Investment Property	Amendment to clarify the rules for transfers of investment property
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Amendment to the exchange rate to be used on initial recognition of a related asset, expense or income when an entity has received or paid advance consideration in a foreign currency

a. IFRS 15 "Revenue from Contracts with Customers"

The Group applied IFRS 15 retrospectively in accordance with the transition method and recognized the cumulative effect from initial application as an adjustment to the opening balance of retained earnings for the year ended March 31, 2019, and did not restate the consolidated financial statements for the year ended March 31, 2018.

With the adoption of IFRS 15, from the year ended March 31, 2019, revenue from contracts with customers is recognized by applying the following five steps.

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

i) Sales of finished goods and merchandise

Revenue from sale of finished goods and merchandise is recognized when the performance obligation is satisfied, considering the following indicators:

- the Group has a present right to payment for the asset;
- the customer has legal title to the asset;
- the Group has transferred physical possession of the asset; and
- the customer has accepted the asset.

Revenue is measured at the amount after deducting the impact of trade discounts, cash discounts, rebates and returns from the consideration promised in the contract.

ii) License fee revenue

Revenue arising from license agreements is recognized at a point in time or over time depending on the content of performance obligation(s).

Based on the above five-step model, as a result of reconsidering the timing of revenue recognition in light of the satisfaction of performance obligations, in some contracts, license fees which were already recognized as revenue based on the former accounting standard are accounted for as contract liabilities and related license fees are recognized over a period in accordance with the method of measuring progress pertaining to satisfaction of performance obligations determined by each contract based on IFRS 15.

In addition, with the adoption of IFRS 15, from the year ended March 31, 2019, provisions for sales returns, rebates and deductions which were previously presented as "Provisions" (current), have been reclassified to refund liabilities, which are included in "Trade and other payables".

As a result, the opening balance of "Deferred tax assets", "Trade and other payables", and "Other non-current liabilities" increased by 233 million yen, 22,637 million yen and 557 million yen, respectively, and "Provisions" (current) and "Retained earnings" decreased by 22,431 million yen and 530 million yen, respectively, as compared to the balances which would be reported if the previous accounting standard was applied.

Also, "Deferred tax assets", "Trade and other payables", and "Other non-current liabilities" increased by 170 million yen, 21,961 million yen and 351 million yen, respectively, and "Provisions" (current) and "Retained earnings" decreased by 21,755 million yen and 387 million yen, respectively, as of March 31, 2019, as compared to the balances which would be reported if the previous accounting standard was applied.

b. IFRS 9 "Financial Instruments"

The Group applied IFRS 9 (2014) "Financial Instruments" from the year ended March 31, 2019. By applying this standard, the Group changed the methodology of impairment of its financial assets from the incurred loss model stipulated in IAS 39 "Financial Instruments: recognition and measurement" to the expected credit loss model. There was no impacct on the consolidated financial statements from applying this standard.

Except for the above, the new and amended accounting standards and interpretation did not have a material impact on the consolidated financial statements.

3. Significant Accounting Policies

(1) Basis of Consolidation

The Group's consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group's interests in equity-accounted associates.

a. Subsidiaries

A Subsidiary is an entity that is controlled by the Group. The Group controls an entity if the Group has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of its returns. Consolidation of a subsidiary begins from the date the Group obtains control of the subsidiary and cease when the Group loses control of the subsidiary. Changes in a parent's ownership interest in a subsidiary that occur after obtaining the control over the subsidiary and that do not result in the parent losing control of the subsidiary are accounted for as equity transactions.

All intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Associates

An associate is an entity over which the Group has significant influence but is not a subsidiary of the Group. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

An investment is accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence over the investment.

When significant influence over an associate is lost, and if there is still remaining ownership interest, the remaining equity interest is measured at fair value. The difference between the fair value and the carrying value at the date on which the equity method is discontinued, is recognized in profit or loss.

Investment in associates includes acquired goodwill.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the sum of the consideration transferred, the amount of non-controlling interest in the acquiree, and in the case of an acquisition achieved in stages, the fair value of the previously held equity interest at the date of acquisition. The consideration transferred is measured at fair value at the date of acquisition. Non-controlling interests are measured either at fair value or at the proportionate share of the acquiree's identifiable net assets for each business combination.

The excess of the acquisition cost over the Group's share of the acquiree's identifiable assets, liabilities, and contingent liabilities at fair value is recognized as goodwill. When the aggregate amount of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the resulting gain is recognized in profit or loss on the date of acquisition. Acquisition related costs are recognized as expenses in the period they are incurred.

(3) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rates at the end of the reporting period and the exchange differences arising on the settlement of monetary items or on translating monetary items are generally recognized in profit or loss. However, exchange differences arising from the translation of financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into the presentation currency at the closing rate at the end of the reporting period. Income and expenses of foreign operations are translated into the presentation currency at the average exchange rate for the period. When a subsidiary's functional currency is the currency of a hyperinflationary economy, adjustments are made to its separate financial statements to reflect current price levels, and income and expenses of the subsidiary are translated into the presentation currency at the closing rate at the end of the reporting period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income after the date of transition to IFRS. On the disposal of the entire interest in a foreign operation, or on the partial disposal of the interest in a foreign operation that involves the loss of control of a subsidiary or loss of significant influence over an associate, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated as a separate component of equity, is reclassified to profit or loss as a part of gain or loss on disposal.

(4) Financial Instruments

a. Non-derivative Financial Assets

i) Initial recognition and measurement

Financial assets are recognized on the contract date when the Group becomes a party to the contractual provisions of the instruments.

Financial assets, except for financial assets measured at fair value through profit or loss, are measured at fair value plus transaction costs that are attributable to the acquisition of the financial asset. However, trade receivables that do not contain a significant financing component are initially recognized at transaction price.

At initial recognition, financial assets are classified as (a) financial assets measured at amortized cost; (b) financial assets measured at fair value through other comprehensive income; or (c) financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

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

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

(b) Financial assets measured at fair value through other comprehensive income

Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

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

For equity instruments measured at fair value, except for equity instruments held for trading which must be measured at fair value through profit or loss, the Group made an irrevocable election to present subsequent changes in fair value of certain equity instruments in other comprehensive income.

(c) Financial assets measured at fair value through profit or loss

Financial assets, except for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value through other comprehensive income

Changes in the fair value of debt instruments classified as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gain and losses, which are recognized in profit or loss, and the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when debt instruments are derecognized.

Changes in the fair value of equity instruments designated as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, and the accumulated amount of other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decrease in fair value compared to acquisition cost is significant.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

iii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or are transferred in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred to another entity.

b. Impairment of Financial Assets

At the end of each reporting period, the Group evaluates whether the credit risk on financial assets measured at amortized cost has increased significantly since initial recognition, and a loss allowance for expected credit losses on such financial assets is recognized.

If the credit risk on financial assets has not increased significantly since initial recognition, a loss allowance is measured at an amount equal to 12-month expected credit losses. If the credit risk on financial assets has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. However, a loss allowance for trade receivables that do not contain a significant financing component is measured at an amount equal to lifetime expected credit losses.

The Group considers, as a general rule, that there has been a significant increase in the credit risk when payments have not been made for more than 30 days passed contractual due date. The Group considers not only the information regarding due date but also other reasonable and supportable information when determining whether credit risk has increased significantly since initial recognition. The Group considers that there has not been a significant increase in the credit risk when the financial assets are determined to have low credit risk at the end of reporting period.

Expected credit losses on financial assets are measured in a way that reflects the following factors:

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

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. When expected credit losses are recognized, the carrying amount of the financial asset is reduced through use of a loss allowance for expected credit losses, and expected credit losses are recognized in profit or loss. If, in a subsequent period, the amount of the expected credit losses decreases, the previously recognized credit losses are reversed by adjusting the loss allowance and the reversal is recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is reduced directly when they are expected to become uncollectible in the future and all collaterals are implemented or transferred to the Group.

c. Non-derivative Financial Liabilities

i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost or financial liabilities measured at fair value through profit or loss at initial recognition.

At initial recognition, financial liabilities are measured at fair value and, in the case of financial liabilities at amortized cost, the transaction costs that are directly attributable to the issue of the financial liabilities are deducted.

ii) Subsequent measurement

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

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising from termination of recognition are recognized in profit or loss.

(b) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value through profit or loss.

iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

d. Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset only when the Group has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

e. Derivatives and Hedge Accounting

Derivatives are utilized to hedge foreign currency risk and interest rate risk. The derivatives primarily used by the Group include forward foreign exchange contracts and interest-rate swaps.

At the inception of the hedging relationship the Group formally designates and documents the hedging relationship and the entity’s risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements.

The Group assesses at the inception of the hedging relationship, and on an ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements. At a minimum, the Group performs the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes earlier.

Derivatives are initially recognized at fair value with transaction costs recognized in profit or loss when they are incurred. After initial recognition, derivatives are measured at fair value.

Hedges that meet the criteria for hedge accounting are accounted for as follows:

i) Fair value hedges

Changes in the fair value of the hedging instruments are recognized in profit or loss. Changes in the fair value of hedged items attributable to the hedged risks are recognized in profit or loss, adjusting the carrying amount of the hedged item.

ii) Cash flow hedges

The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss. The cumulative amounts of changes in fair value of hedging instruments recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods when the hedged forecast cash flows or hedged items affect profit or loss. If hedged items result in the recognition of non-financial assets or non-financial liabilities, the cumulative amounts recognized in other comprehensive income are accounted for as adjustments in the carrying amount of the non-financial assets or non-financial liabilities. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss. The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised.

(5) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, readily available bank deposits, and short-term, highly liquid investments having maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise cost of raw materials, direct labor and other costs directly attributable to the inventories and cost of related production overheads. The cost of inventories is assigned by using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, Plant and Equipment

Property, plant and equipment is carried at cost less any accumulated depreciation and any impairment losses.
The cost of an item of property, plant and equipment include any costs directly attributable to the acquisition of the asset, costs of dismantlement, removal and restoration as well as borrowing costs eligible for capitalization.
An item of property, plant and equipment, except for land, is depreciated by the straight-line method based on the estimated useful life of the asset. The estimated useful lives of major items of property, plant and equipment are as follows:

- Buildings and structures: 15 to 50 years
- Machinery and vehicles: 4 to 8 years

The depreciation method, the residual value and the useful life of an item of property, plant and equipment are reviewed at least annually and adjusted as necessary.

(8) Goodwill and Intangible Assets

a. Goodwill

Goodwill is measured at cost less accumulated impairment loss and is not amortized. Goodwill arising from a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination.

b. Intangible Assets

Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.
The cost of a separately acquired intangible asset is measured at cost and the cost of an intangible asset acquired in a business combination is measured at its fair value at the acquisition date.
Internally generated research expenditure is recognized as an expense when it is incurred. Internally generated development expenditure is recognized as an intangible asset if all the criteria for capitalization can be demonstrated. However, due to the uncertainties relating to the research and development duration and process, it is considered that the criteria for capitalization are not met until marketing approval from a regulatory authority is obtained. Therefore, internally generated development expenditure is recognized as an expense when it is incurred.
Acquisition cost and development expenditure of software for internal use is recognized as an intangible asset if it can be demonstrated that the asset will generate probable future economic benefits.
Intangible assets with finite useful lives are amortized by the straight-line method based on the estimated useful life of the asset. The estimated useful lives of major items of intangible assets are as follows:

- Commercial rights: 5 to 14 years

The amortization method, the residual value and the useful lives of intangible assets are reviewed at least annually and adjusted as necessary.

(9) Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset, otherwise it is classified as an operating lease.
Under finance lease transactions, finance leases are recognized as leased assets and lease obligations at the lower of the fair value of the leased property and the present value of the minimum lease payments.
Leased assets are depreciated by the straight-line method over the shorter of the lease term and the useful life.
Under operating lease transactions, lease payments are recognized as an expense on a straight-line basis over the lease term.

(10) Impairment of Non-financial Assets

The Group assesses annually whether there is any indication that a non-financial asset or cash-generating unit that generates cash inflows may be impaired.
If there is any indication that an asset or cash-generating unit may be impaired, the recoverable amount of the asset is estimated. Goodwill, intangible assets with indefinite lives, and intangible assets not yet available for use are tested for impairment annually or at any time there is an indication that an asset may be impaired.
The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use, which is calculated based on the risk-adjusted future cash flows discounted by an appropriate discount rate.
If the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.
An impairment loss recognized for goodwill is not reversed in a subsequent period. It is assessed whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, an impairment loss recognized in prior periods is reversed and the carrying amount of the asset is increased to the recoverable amount. The reversal of the impairment loss is recognized in profit or loss. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years.

(11) Non-current Assets Held for Sale and Discontinued Operations

A non-current asset, or disposal group comprising assets and liabilities, is classified as asset held for sale if its carrying amount will be recovered primarily through sale rather than continuing use. The asset or disposal group is classified as held for sale only if it is available for immediate sale in its present condition, and the sale is highly probable meaning that the appropriate level of management of the Group is committed to the sale and principally that the sale is expected to be completed within one year. After the asset or disposal group is classified as held for sale, it is measured at the lower of its carrying amount and fair value less costs to sell, and is not depreciated or amortized. Discontinued operations include a component of an entity that either has been disposed of or is classified as held-for-sale, and represents a separate major line of business or geographic area of operations.

(12) Employee Benefits

a. Post-employment Benefits

i) Defined benefit plans

The present value of defined benefit obligations and related current service cost and, where applicable, past service cost are determined using the projected unit credit method for each plan separately.

The discount rate is determined by reference to market yields at the end of the reporting period on high-rated corporate bonds, reflecting the estimated timing of benefit payments.

Past service costs are recognized in profit or loss as incurred.

Actuarial gains and losses are recognized in other comprehensive income in the period when they are incurred and transferred to retained earnings immediately.

ii) Defined contribution plans

The contributions to defined contribution plans are recognized as expenses when the related service is rendered by the employees.

b. Others

Short-term employee benefits are not discounted and are recognized as expenses when the related service is rendered by the employees. The expected costs of accumulating short-term compensated absences are recognized as liabilities when the Group has present legal or constructive obligations to pay as a result of past employee service and when reliable estimates of the obligation can be made.

(13) Provisions

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The present value is determined by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent in the liabilities. The increase in the carrying amount of a provision reflecting the passage of time is recognized as a financial expense.

(14) Treasury Shares

Treasury shares are recognized as a deduction from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(15) Share-based Payments

The Company and certain of its subsidiaries have implemented stock option plans and restricted share-based remuneration plans as equity-settled share-based payment plans. The stock options are measured at the fair value at the date of grant using the Black-Scholes option pricing model, and recognized as expenses over the vesting period, with a corresponding increase in equity. The restricted shares are measured at the fair value at the date of grant based on the fair value of the equity instrument granted, and recognized as expenses over the vesting period, with a corresponding increase in equity.

In addition, the Group issues share appreciation rights to employees as a cash-settled share-based payment.

For the cash-settled share-based payments, the fair value of the amount of payments is recognized as an expense with a corresponding liability. The change in the fair value of the liability at each reporting date is recognized in profit or loss until the liability is settled.

(16) Revenue

Revenue from contracts with customers is recognized by applying the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

i) Sales of finished goods and merchandise

Revenue from sale of finished goods and merchandise is recognized when the performance obligation is satisfied, considering the following indicators:

- the Group has a present right to payment for the asset;
- the customer has legal title to the asset;
- the Group has transferred physical possession of the asset; and
- the customer has accepted the asset.

Revenue is measured at the amount after deducting the impact of trade discounts, cash discounts, rebates and returns from the consideration promised in the contract.

ii) License fee revenue

Revenue arising from license agreements is recognized at a point in time or over time depending on the content of performance obligation(s).

Some or all of an amount of variable consideration estimated are included in the transaction price only to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(17) Government Grants

Government grants are recognized at fair value when there is reasonable assurance that the Group complies with the conditions attached to them and that the grants will be received.

Government grants which are intended to compensate specific costs are recognized in profit or loss on a systematic basis over the period in which the Group recognizes the corresponding expenses.

Government grants related to assets are recognized as deferred revenue, and recognized in profit or loss on a systematic basis over the estimated useful lives of the relevant assets.

(18) Income Taxes

Income taxes comprise current and deferred income taxes.

Income taxes are recognized in profit or loss, except to the extent that the taxes arise from transactions or events which are recognized either in other comprehensive income or directly in equity, or the taxes arise from business combinations.

Current income taxes are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of assets or liabilities for accounting purpose and the tax basis, and unused tax losses and tax credits.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized.

When uncertainties exist if the taxing authorizes will accept a particular tax treatment, the said uncertainties are reflected when determining the taxable profit, the carrying amount for the tax basis, unused tax losses and tax credits, and the tax rate.

Deferred tax assets and liabilities are not recognized for temporary differences that arise from the initial recognition of goodwill or that arise from the initial recognition of assets or liabilities in transactions which are not business combinations and, at the time of transaction, affect neither accounting profit nor taxable profit or tax loss.

Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries and associates are recognized, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and that it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets for deductible temporary differences arising from investments in subsidiaries and associates are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements requires management of the Group to make judgments, estimates and assumptions that affect the amount of reported income, expenses, assets and liabilities as well as disclosure of contingent liabilities. However, due to uncertainty in the estimates and assumptions, it is possible that significant adjustments to carrying amounts of assets and liabilities may be required in future periods.

Significant items that required management to make estimates and judgments are as follows:

- Contingent consideration (Note 7. Business Combination)
- Impairment of non-financial assets (Note 13. Property, Plant and Equipment, Note 14. Goodwill and Intangible Assets)
- Useful lives of intangible assets (Note 14. Goodwill and Intangible Assets)
- Recoverability of deferred tax assets and uncertain tax positions (Note 16. Income Taxes)
- Provisions (Note 19. Provisions)
- Measurement of defined benefit obligations (Note 20. Employee Benefits)
- Revenue recognition (Note 24. Revenue)
- Measurement of share-based payments (Note 28. Share-based Payments)
- Fair value of financial instruments (Note 29. Financial Instruments)
- Contingent liabilities (Note 35. Contingent Liabilities)

5. Standards and Interpretations Issued but Not Yet Adopted

The major new and revised standards and interpretations that the Group has not early adopted are set out below.

IFRS		Mandatory application (from years beginning)	To be applied by the Group (year ending)	Overview
IFRS 9	Financial Instruments	January 1, 2019	March 31, 2020	Rules for classification of debt instruments containing prepayment features with negative compensation
IFRS 16	Leases	January 1, 2019	March 31, 2020	Amendment to accounting for leases
IAS 19	Employee Benefits	January 1, 2019	March 31, 2020	Clarification of accounting for a plan amendment, curtailment or settlement, which occurs during the annual reporting period
IAS 28	Investments in Associates and Joint Ventures	January 1, 2019	March 31, 2020	Clarification of rules for financial instruments in an associate or joint venture to which the equity method is not applied
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	March 31, 2020	Amendment to clarify the accounting for income tax treatments that contain uncertainty
IFRS 3	Business Combinations	January 1, 2020	March 31, 2021	Amendment to definition of “business” in relation to business combinations
IAS 1	Presentation of Financial Statements	January 1, 2020	March 31, 2021	Amendment to definition of “materiality”
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors			
IFRS 17	Insurance Contracts	January 1, 2021	March 31, 2022	Amendment to establish consistent accounting treatment for insurance contracts
IFRS 10	Consolidated Financial Statements	-	-	Amendment to accounting for sale of assets to associates
IAS 28	Investments in Associates and Joint Ventures			

By adopting IFRS 16, lease contracts which were classified as operating leases as a lessee under the previous accounting standard, IAS 17 “Leases”, for which lease expenses were recognized at the time of lease payments will be recorded as right-of-use assets and lease liabilities corresponding to each lease term in the consolidated statement of financial position at the lease commencement date and right-of-use assets will be depreciated over the lease term. The Group will not restate the comparative information in adopting IFRS16 and will recognize the cumulative effect from initial application as an adjustment to the opening balance of retained earnings. By adopting this standard, the Group estimates that the total assets and liabilities in the consolidated statement of financial position as of April 1, 2019 will increase by approximately 33,900 million yen and 34,300 million yen, respectively. It is not expected that there will be material impact on the consolidated statement of profit or loss.

Other accounting standards and interpretations which will be adopted in the year ending March 31, 2020 are not expected to have a material impact on the consolidated financial statements. The Group is currently evaluating the impact on the consolidated financial statements of applying standards and interpretations which will be adopted by the Group in the year ending March 31, 2021 and thereafter, and it is not yet estimable.

6. Operating Segment Information

(1) Reportable Segments

Disclosure is omitted as the Group has a single segment, "Pharmaceutical Operation".

(2) Information about products and services

Sales by products and services were as follows:

(Millions of Yen)

	Year ended March 31, 2018		Year ended March 31, 2019		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	884,907	92.2	861,116	92.6	(23,791)	(2.7)
Healthcare (OTC) products	72,943	7.6	66,377	7.1	(6,566)	(9.0)
Others	2,344	0.2	2,223	0.3	(120)	(5.1)
Total	960,195	100.0	929,717	100.0	(30,478)	(3.2)

(3) Information by geographical area

Revenue and non-current assets by geographical area were as follows:

a. Revenue

(Millions of Yen)

	Japan	North America	Europe	Other regions	Consolidated
Year ended March 31, 2018	618,308	185,751	79,566	76,568	960,195
Year ended March 31, 2019	595,901	160,220	89,759	83,835	929,717

Note:

Revenue is classified according to the geographical location of customers.

b. Non-current assets

(Millions of Yen)

	Japan	North America	Europe	Other regions	Consolidated
As of March 31, 2018	265,787	174,969	17,806	8,400	466,963
As of March 31, 2019	270,072	165,077	33,520	7,738	476,409

Note:

Non-current assets are primarily presented based on the geographical location of assets, and are comprised of property, plant and equipment, goodwill and intangible assets.

(4) Information on major customers

Customers for which sales were over 10% of total revenue in the Consolidated Statement of Profit or Loss are as follows:

(Millions of Yen)

Name of customer	Year ended March 31, 2018	Year ended March 31, 2019
Alfresa Holdings Corporation and its group companies	199,809	195,578
Suzuken Co., Ltd. and its group companies	98,603	93,697

7. Business Combination

(1) Significant business combination

Year ended March 31, 2018

There were no significant business combinations for the year ended March 31, 2018.

Year ended March 31, 2019

There were no significant business combinations for the year ended March 31, 2019.

(2) Contingent consideration

The contingent consideration in the business combination relates to commercial milestone for Ambit Biosciences Corporation's drug candidate for acute myeloid leukemia (Generic name: Quizartinib, Development code: AC220) and is measured at its acquisition date fair value. Maximum potential future cash outflows associated with the contingent consideration total 10,579 million yen (undiscounted).

The exposure to foreign currency exchange risks at the reporting date is 69,014 thousand U.S. dollar. The impact of a 1% appreciation in the Yen against the U.S. dollar on profit before tax is 76 million yen at the reporting date.

The fair value hierarchy level for this contingent consideration is level 3. The fair value change of contingent consideration is recognized in "Financial expenses." The fair value hierarchy is summarized in Note 29 "Financial Instruments."

Reconciliation of the movement in the contingent consideration which is classified as level 3 from the opening balances to the ending balances is as follows:

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Balance at the beginning of the year	6,066	5,760
Increase arising from business combination	-	-
Changes in fair value during the period	14	1,643
Settled during the period	-	-
Exchange differences	(320)	256
Balance at the end of the year	5,760	7,661

8. Cash and Cash Equivalents

Details of "Cash and cash equivalents" are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Cash and bank deposits	258,211	154,859
Short-term investments	99,490	88,295
Total	357,702	243,155

9. Trade and Other Receivables

Details of "Trade and other receivables" in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Notes and accounts receivable - trade	211,222	360,789
Other receivables	20,759	59,232
Allowance for doubtful accounts	(453)	(413)
Total	231,529	419,609

10. Other Financial Assets

(1) Breakdown of Other Financial Assets

Breakdown of "Other financial assets" is as follows:

a. Current Assets

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Financial assets measured at amortized cost:		
Bank deposits	192,085	219,105
Loans receivable	501	412
Bonds	102,777	137,932
Others	124	143
Financial assets measured at fair value through profit or loss:		
Bonds	1,257	-
Others	132,633	179,285
Total	429,380	536,880

Note:

"Others" in "Financial assets measured at fair value through profit or loss" are foreign-currency bank deposits embedding forward foreign exchange contracts.

b. Non-current Assets

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Financial assets measured at amortized cost:		
Loans receivable	888	797
Others	45,891	6,349
Financial assets measured at fair value through profit or loss:		
Bonds	554	573
Others	9,315	9,317
Financial assets measured at fair value through other comprehensive income:		
Equity securities	122,479	97,801
Others	47	56
Total	179,177	114,895

(2) Financial assets measured at fair value through other comprehensive income

Details of financial assets measured at fair value through other comprehensive income are as follows:

(Millions of Yen)

Equity Securities	Fair Value	
	As of March 31, 2018	As of March 31, 2019
Alfresa Holdings Corporation	7,590	10,096
Shizuoka Bank, Ltd.	9,399	7,876
Ono Pharmaceutical Co., Ltd.	11,496	7,569
Shin-Etsu Chemical Co., Ltd.	8,480	7,151
Others	85,559	65,162

Note:

Equity securities are held to reinforce transactions and business relationships. These securities are designated as financial assets measured at fair value through other comprehensive income.

(3) Derecognition of Financial Assets Measured at Fair value through Other Comprehensive Income

In the years ended March 31, 2018 and 2019, the Group disposed and derecognized some financial assets measured at fair value through other comprehensive income to improve the efficiency of assets by reassessing the business relationships.

Their fair value and accumulated gains and losses at the time of disposal are as follows:

(Millions of Yen)

	Year ended March 31, 2018		Year ended March 31, 2019	
	Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)
Equity securities	14,410	9,838	14,308	10,647
Others	2,262	(2,764)	0	(30)

Note:

When financial assets measured at fair value through other comprehensive income are derecognized, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

11. Inventories

Details of “Inventories” in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Merchandise and finished goods	122,921	122,594
Work in process	19,409	24,400
Raw materials	30,254	29,072
Total	172,586	176,067

Notes:

1. Inventories recognized as expenses and included in “Cost of sales” in the consolidated statement of profit or loss for the years ended March 31, 2018 and 2019 are 300,885 million yen and 313,147 million yen, respectively.
2. Write-down of inventories recognized during the period and included in “Cost of sales” in the consolidated statement of profit or loss for the years ended March 31 2018 and 2019 are 6,697 million yen and 6,740 million yen, respectively.

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

Details of “Assets held for sale” and “Liabilities directly associated with assets held for sale” on the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Assets held for sale		
Property, plant and equipment	-	2,000
Total	-	2,000
Liabilities directly associated with assets held for sale		
Deferred tax liabilities	-	349
Total	-	349

13. Property, Plant and Equipment

(1) Reconciliation of carrying amount

Reconciliation of the carrying amount and details of acquisition cost, accumulated depreciation and accumulated impairment loss of “Property, plant and equipment” on the consolidated statement of financial position are as follows:

a. Acquisition cost

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2017	333,770	237,783	97,788	10,384	679,726
Individual acquisitions	9,369	9,740	7,211	26,706	53,028
Sales or disposals	(2,140)	(9,173)	(4,455)	-	(15,769)
Exchange differences	(284)	(224)	264	(90)	(335)
Other increases and decreases	1,024	297	(37)	(25,020)	(23,735)
Balance as of March 31, 2018	341,740	238,423	100,770	11,979	692,914
Individual acquisitions	8,854	7,225	7,170	36,871	60,122
Sales or disposals	(4,073)	(6,867)	(11,982)	(13)	(22,937)
Reclassification to assets held for sale	(3,016)	-	(43)	-	(3,060)
Exchange differences	180	86	(79)	50	237
Other increases and decreases	148	656	(392)	(21,106)	(20,694)
Balance as of March 31, 2019	343,833	239,524	95,442	27,781	706,582

b. Accumulated depreciation and accumulated impairment loss

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2017	196,445	180,302	85,205	-	461,953
Depreciation	9,621	11,787	5,764	-	27,173
Sales or disposals	(1,781)	(8,514)	(4,416)	-	(14,712)
Exchange differences	(165)	124	161	-	120
Other increases and decreases	473	(10)	(29)	-	433
Balance as of March 31, 2018	204,593	183,689	86,685	-	474,968
Depreciation	8,632	11,625	5,581	-	25,839
Impairment loss	65	44	-	-	110
Sales or disposals	(3,879)	(6,101)	(11,952)	-	(21,933)
Reclassification to assets held for sale	(1,026)	-	(33)	-	(1,059)
Exchange differences	76	(117)	(30)	-	(71)
Other increases and decreases	(8)	(10)	(336)	-	(356)
Balance as of March 31, 2019	208,452	189,129	79,914	-	477,496

c. Carrying amounts

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2017	137,325	57,480	12,582	10,384	217,772
Balance as of March 31, 2018	137,147	54,734	14,084	11,979	217,946
Balance as of March 31, 2019	135,381	50,394	15,527	27,781	229,085

Note:
Depreciation of property, plant and equipment is included in “Cost of sales,” “Selling, general and administrative expenses,” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Impairment of Property, Plant and Equipment

The Group performed impairment testing for certain property, plant and equipment for which indicators of potential impairment were identified.

As a result of the impairment testing, impairment loss of 110 million yen was recognized for the year ended March 31, 2019, and recorded in “Cost of sales” in the consolidated statement of profit or loss.

(3) Finance Lease Contracts

Details of carrying amounts of property, plant and equipment held under finance lease contracts which are included in “Property, plant and equipment” in the consolidated statement of financial position are as follows:

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2017	-	1,337	74	1,411
Balance as of March 31, 2018	-	1,349	49	1,398
Balance as of March 31, 2019	-	1,213	25	1,239

14. Goodwill and Intangible Assets

(1) Reconciliation of Carrying Amount

Reconciliation of the carrying amount and details of acquisition cost, accumulated amortization and accumulated impairment loss of “Goodwill” and “Intangible assets” in the consolidated statement of financial position are as follows:

a. Acquisition cost

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2017	78,446	101,303	262,463	25,045	388,812
Individual acquisitions	-	6,831	11,472	2,546	20,850
Sales or disposals	-	(33,939)	(1,343)	(880)	(36,162)
Exchange differences	(2,966)	(2,812)	(1,805)	(424)	(5,042)
Other increases and decreases	-	(288)	257	(852)	(883)
Balance as of March 31, 2018	75,479	71,093	271,045	25,434	367,574
Individual acquisitions	-	21,016	5,285	2,249	28,552
Sales or disposals	-	-	(2,022)	(1,877)	(3,900)
Exchange differences	2,371	1,882	2,675	332	4,890
Other increases and decreases	-	(11,232)	11,125	(1,078)	(1,184)
Balance as of March 31, 2019	77,851	82,761	288,109	25,060	395,931

b. Accumulated amortization and accumulated impairment loss

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2017	-	-	150,562	21,205	171,768
Amortization	-	-	17,871	1,418	19,290
Impairment loss	-	31,612	5,060	-	36,672
Sales or disposals	-	(31,612)	(1,334)	(874)	(33,821)
Exchange differences	-	-	597	(433)	164
Other increases and decreases	-	-	(31)	(6)	(37)
Balance as of March 31, 2018	-	-	172,726	21,310	194,036
Amortization	-	-	18,759	1,391	20,150
Impairment loss	-	-	15,084	-	15,084
Sales or disposals	-	-	(2,022)	(1,877)	(3,900)
Exchange differences	-	-	814	357	1,172
Other increases and decreases	-	-	(48)	(36)	(85)
Balance as of March 31, 2019	-	-	205,313	21,145	226,458

c. Carrying amounts

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2017	78,446	101,303	111,901	3,839	217,044
Balance as of March 31, 2018	75,479	71,093	98,319	4,124	173,537
Balance as of March 31, 2019	77,851	82,761	82,795	3,915	169,472

Note:

Amortization of intangible assets is included in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Significant Goodwill and Intangible Assets

While the Group mainly allocated major goodwill to cash-generating units based on legal entities until the year ended March 31, 2018, the group reviewed the allocation of goodwill in the year ended March 31, 2019, as several years have passed since the acquisition of major subsidiaries, and the acquired knowledge, know-how, technologies and infrastructures are now utilized throughout the entire group.

In the prescription drug business, the entire global business is expected to benefit from the synergies of the business combinations, as the Company manages research and development, and commercialization on an integrated basis, and the integrated management structure of the business, including the oncology business, is enhanced.

Also, in the healthcare (OTC) products business, the entire business is expected to benefit from the synergies of the business combinations by realization of the synergies through the utilization of know-how and infrastructure of direct marketing business in the healthcare (OTC) products business, as well as through integrated business management.

Consequently, the Company decided to allocate major goodwill to two groups of cash-generating units, the prescription drug business and the healthcare (OTC) products business, from the year ended March 31, 2019. The carrying amounts of goodwill allocated to each group are 57,919 million yen to the prescription drug business and 16,000 million yen to the healthcare (OTC) products business.

The goodwill related to the acquisition of Plexxikon Inc. and Ambit Biosciences Corporation, which was disclosed as major goodwill in the consolidated financial statements for the year ended March 31, 2018, was allocated to the prescription drug business in the year ended March 31, 2019.

The carrying amount of intangible assets mainly consists of:

- commercial rights of Vimpat owned by Daiichi Sankyo Company Limited of 12,801 million yen and 11,265 million yen at March 31, 2018 and 2019, respectively, which are amortized based on the straight-line method over a period of 7 years;
- commercial rights of Zelboraf owned by Plexxikon Inc. of 21,232 million yen and 10,645 million yen at March 31, 2018 and 2019, respectively, which are amortized based on the straight-line method over a period of 10 years;
- in-process research and development of Pexidartinib owned by Plexxikon Inc. of 26,216 million yen and 27,386 million yen at March 31, 2018 and 2019, respectively; and
- in-process research and development of Quizartinib owned by Ambit Biosciences Corporation of 27,380 million yen and 28,601 million yen at March 31, 2018 and 2019, respectively.

(3) Research and Development Expenditure

Research expenses and development costs which do not meet the criteria for capitalization are expensed when incurred. The amount of expensed research and development expenditure is 236,046 million yen and 203,711 million yen for the years ended March 31, 2018 and 2019, respectively.

(4) Impairment of Goodwill

The Group performs impairment testing for goodwill annually and at any time there is an indication that goodwill may be impaired. Impairment tests for goodwill were performed as follows:

a. Prescription drug business

The recoverable amount was estimated based on value in use using the mid-term plan through fiscal 2022, which was approved by management, and the valuation included a terminal value after fiscal 2022.

The value in use was calculated using a pre-tax discount rate of 6.9% and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2019. The value in use exceeded the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

b. Healthcare (OTC) products business

The recoverable amount was estimated based on value in use using the mid-term plan through fiscal 2022, which was approved by management, and the valuation included a terminal value after fiscal 2022.

The value in use was calculated using a pre-tax discount rate of 7.7% and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2019. The value in use exceeded the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

(5) Impairment of Intangible Assets

The Group performs impairment testing for intangible assets for which indicators of potential impairment are identified and for intangible assets not yet available for use annually and at any time there is an indication that an asset may be impaired.

As a result of the impairment testing, impairment losses of 36,672 million yen and 15,084 million yen were recognized for the years ended March 31, 2018 and 2019, respectively, and recorded in “Cost of sales” and “Research and development expenses” in the consolidated statement of profit or loss.

The impairment loss for the year ended March 31, 2018 was mainly related to the Company`s research and development asset of CL-108, a combination drug for the treatment of pain and opioid-induced nausea and vomiting (OINV), and the Group recognized an impairment loss of 27,764 million yen due to the termination of development and commercialization agreement. The recoverable amount of the intangible assets was measured using value in use, which was assessed to be zero.

The impairment loss for the year ended March 31, 2019 was mainly related to commercial rights of Zelboraf owned by Plexxikon Inc., and the Group recognized an impairment loss of 9,538 million yen because of the indicator of potential impairment that profitability declined due to market entry of competitive products, and the carrying amount was reduced to the recoverable amount. The recoverable amount of the intangible assets was measured using value in use, and the amount of value in use using a pre-tax discount rate of 16.0% was 10,645 million yen.

15. Investments Accounted for Using the Equity Method

Summarized financial information of associates accounted for using the equity method is as follows:

(1) Statement of Financial Position

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Current assets	14,494	11,272
Non-current assets	948	797
Total assets	15,442	12,069
Current liabilities	11,439	7,151
Non-current liabilities	693	374
Total liabilities	12,133	7,526
Total equity	3,309	4,543

(2) Statement of Profit or Loss

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Revenue	38,609	37,581
Expenses	38,257	37,311
Profit for the year	351	269

16. Income Taxes

(1) Deferred Tax Assets and Liabilities

Sources of “Deferred tax assets” and “Deferred tax liabilities” are as follows:

Year ended March 31, 2018

(Millions of Yen)

	Balance as of April 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2018
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	12,718	606	-	-	13,325
Depreciation and amortization	3,032	(506)	-	-	2,525
Unrealized gain and valuation loss of inventories	19,701	(8,354)	-	-	11,347
Unused tax losses	3,943	(2,573)	-	-	1,370
Accrued expenses	15,787	607	-	-	16,394
Provisions for loss on litigation	-	11,607	-	-	11,607
Post-employment benefit liabilities	8,049	(515)	(626)	-	6,907
Valuation loss of securities	2,286	(120)	(602)	-	1,562
Impairment loss	775	(452)	-	309	632
Others	29,152	(2,991)	-	-	26,160
Total	95,446	(2,692)	(1,229)	309	91,833
Deferred tax liabilities					
Intangible assets	36,399	(16,725)	-	-	19,674
Financial assets measured at fair value through other comprehensive income	25,659	-	2,314	-	27,974
Reserve for advanced depreciation of property, plant and equipment	7,970	(573)	-	241	7,638
Long-term accounts receivable - other	-	11,425	-	-	11,425
Others	4,208	(722)	(26)	-	3,458
Total	74,238	(6,596)	2,287	241	70,171
Net balance	21,208	3,903	(3,517)	67	21,662

Notes:

1. The difference between the total amounts recognized in profit or loss and other comprehensive income in the table above and the total deferred income taxes in profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences.
2. The Group records tax assets and liabilities for uncertain tax positions based on the most probable estimate. Amounts exposed to uncertainty (possibility of favorable outcome) as of March 31, 2018 are income taxes payable of 56,108 million yen and deferred tax of 61,784 million yen.

Year ended March 31, 2019

(Millions of Yen)

	Balance as of April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2019
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	13,325	855	-	-	14,181
Depreciation and amortization	2,525	1,671	-	-	4,196
Unrealized gain and valuation loss of inventories	11,347	5,540	-	-	16,887
Unused tax losses	1,370	21,478	12,576	-	35,424
Accrued expenses	16,394	2,749	-	-	19,144
Provisions for loss on litigation	11,607	-	-	(11,607)	-
Accounts payable - other	-	517		11,607	12,125
Post-employment benefit liabilities	6,907	(190)	(432)	-	6,283
Valuation loss of securities	1,562	(18)	0	-	1,544
Impairment loss	632	6,874	-	-	7,506
Others	26,160	(4,624)	-	-	21,535
Total	91,833	34,854	12,143	-	138,832
Deferred tax liabilities					
Intangible assets	19,674	(2,332)	-	-	17,341
Financial assets measured at fair value through other comprehensive income	27,974	-	(6,569)	-	21,404
Reserve for advanced depreciation of property, plant and equipment	7,638	(507)	-	(349)	6,781
Long-term accounts receivable - other	11,425	-	-	(11,425)	-
Accounts receivable - other	-	534	-	11,425	11,959
Others	3,458	215	26	-	3,700
Total	70,171	(2,090)	(6,542)	(349)	61,188
Net balance	21,662	36,944	18,686	349	77,643

Notes:

1. The difference between the total amounts recognized in profit or loss and other comprehensive income in the table above and the total deferred income taxes in profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences.
2. For the fiscal year ended March 31, 2016, the Company recorded an allowance for tax uncertainties as a tax liability in connection with the Group’s restructuring. However, as the tax examination for the relevant fiscal year was completed and the Company’s tax treatment was finalized, the Company decided to reverse the tax liability.
   As a result, “Income taxes payable” decreased by 53,846 million yen and “Deferred tax assets” increased by 12,576 million yen as of March 31, 2019. In addition, the decrease in income taxes due to above amounting to 66,422 million yen was recognized as increase in “Financial assets measured at fair value through other comprehensive income” in other comprehensive income for the year ended March 31, 2019. While the carryforward of unused tax losses of the Company resulted from this unusual cause, it is expected that future taxable profit will constantly occur, and deferred tax assets are recognized to that extent.

(2) Unrecognized Deferred Tax Assets

Deductible temporary differences, unused tax losses (detail by expiry) and unused tax credits (detail by expiry) for which deferred tax assets are not recognized in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Deductible temporary differences	102,413	55,577
Unused tax losses		
Within 1 year	4,958	0
Over 1 year within 5 years	4,906	12,802
Over 5 years	62,486	157,097
Total	72,351	169,899
Unused tax credits		
Within 1 year	-	139
Over 1 year within 5 years	-	136
Over 5 years	2,959	3,201
Total	2,959	3,477

(3) Unrecognized Deferred Tax Liabilities

The total temporary differences associated with equity investments in subsidiaries and associates for which deferred tax liabilities are not recognized are 93,475 million yen and 120,106 million yen at March 31, 2018 and 2019, respectively. When the Group can control the timing of the reversal of the temporary differences and it is not probable that the temporary differences will be reversed in the foreseeable future, deferred tax liabilities are not recognized.

(4) Income Taxes Recognized through Profit or Loss

Details of income taxes recognized through profit or loss are as follows:

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Current period income taxes	24,384	31,284
Deferred income taxes		
Origination and reversal of temporary differences	(2,877)	(8,520)
Change in income tax rate or imposition of new taxation	(2,885)	268
Adjustments and reversals of deferred tax assets	2,588	(30,623)
Total	(3,173)	(38,875)
Total income tax expenses	21,210	(7,591)

Note: Impact of U.S. Tax Reform

The Tax Cuts and Jobs Act was enacted on December 2017 and reduced the U.S. federal corporate tax rate to 21% from 35%, effective from the fiscal year beginning on April 1, 2018. The Group remeasured deferred tax assets and liabilities of U.S. subsidiaries to reflect the effect of this corporate tax rate change in the year ended March 31, 2018. As a result, income taxes decreased by 2,885 million yen for the year ended March 31, 2018. In addition, since the corporate tax rate applicable to the year ended March 31, 2018 was reduced to 31.55% from 35%, income taxes decreased by 1,014 million yen.

(5) Income Taxes Related to Items in Other Comprehensive Income

Details of income taxes recognized through other comprehensive income are as follows:

(Millions of Yen)

	Year ended March 31, 2018			Year ended March 31, 2019		
	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect
Financial assets measured at fair value through other comprehensive income	16,218	(5,530)	10,688	(10,382)	71,359	60,976
Remeasurements of defined benefit plans	2,215	(599)	1,616	639	(433)	205
Exchange differences on translation of foreign operations	(10,229)	-	(10,229)	9,289	-	9,289
Share of other comprehensive income of investments accounted for using the equity method	3	-	3	-	-	-
Total	8,209	(6,130)	2,078	(454)	70,925	70,471

(6) Reconciliation of Effective Tax Rate

Major sources of differences between the statutory tax rate and effective tax rate are as follows:

	Year ended March 31, 2018	Year ended March 31, 2019
Statutory tax rate	30.7%	30.5%
Permanent non-deductible expenses such as entertainment expenses	2.9%	1.9%
Permanent non-taxable income such as dividends received	(1.3%)	(0.4%)
Changes in unrecognized deferred tax assets	3.2%	(34.8%)
Effect of different tax rates in foreign jurisdictions	1.7%	(4.9%)
Tax credit for research and development expenses	(4.1%)	(2.6%)
Adjustment to period-end deferred tax assets due to change in tax rate	(4.4%)	0.3%
Others	(2.5%)	1.2%
Effective tax rate	26.2%	(8.8%)

Note:

The Company is subject to corporate tax, inhabitant tax, and enterprise tax, which is tax deductible against taxable income for corporate tax purposes when paid. The applicable tax rates based on these taxes are 30.7% for the year ended March 31, 2018 and 30.5% for the year ended March 31, 2019. The statutory tax rate used for the calculation of deferred tax assets and liabilities is 30.5% for the years ended March 31, 2018 and 2019. Overseas operations are subject to income taxes of the jurisdictions in which they are located.

17. Trade and Other Payables

Details of "Trade and other payables" in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Notes and accounts payable-trade	68,811	73,465
Other accounts payable	73,946	114,039
Others	83,405	125,156
Total	226,164	312,660

18. Bonds and Borrowings, and Other Financial Liabilities

(1) Breakdown of Bonds and Borrowings

Breakdown of "Bonds and borrowings" in the consolidated statement of financial position is as follows:

a. Current Liabilities

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Unsecured corporate bonds	-	40,000
Unsecured bank loans	20,000	-
Total	20,000	40,000

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Unsecured corporate bonds	179,564	139,585
Unsecured bank loans	81,000	81,000
Total	260,564	220,585

(2) Breakdown of Other Financial Liabilities

Breakdown of "Other financial liabilities" in the consolidated statement of financial position is as follows:

a. Current Liabilities

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Derivative liabilities	-	107
Finance lease obligations	516	422
Total	516	530

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Derivative liabilities	1,786	1,811
Finance lease obligations	1,021	916
Others	5,347	2,952
Total	8,155	5,680

(3) Terms of Bonds

Terms of bonds are as follows:

(Millions of Yen)

Company name	Name of bond	Date of issuance	As of March 31, 2018	As of March 31, 2019	Interest rate	Maturity date
Daiichi Sankyo Company Limited	2nd Unsecured corporate bonds	June 24, 2009	40,000	40,000	1.78%	June 24, 2019
Daiichi Sankyo Company Limited	3rd Unsecured corporate bonds	September 18, 2013	20,000	20,000	0.55%	September 18, 2020
Daiichi Sankyo Company Limited	4th Unsecured corporate bonds	September 18, 2013	20,000	20,000	0.85%	September 15, 2023
Daiichi Sankyo Company Limited	5th Unsecured corporate bonds	July 25, 2016	75,000	75,000	0.81%	July 25, 2036
Daiichi Sankyo Company Limited	6th Unsecured corporate bonds	July 25, 2016	25,000	25,000	1.20%	July 25, 2046
Total	-	-	180,000	180,000	-	-

(4) Terms of Borrowings

Terms of borrowings are as follows:

(Millions of Yen)

Category	As of March 31, 2018	As of March 31, 2019	Average interest rate	Repayment period
Current portion of long-term borrowings	20,000	-	-	-
Long-term borrowings	81,000	81,000	0.01%	Year 2020 to 2023
Total	101,000	81,000	-	-

Note:

Average interest rate is calculated using the ending balance of the borrowings and the interest rates as of March 31, 2019.

19. Provisions

(1) Movement in provisions

Details of the movement in "Provisions" in the consolidated statement of financial position by class of provision are as follows:

Year ended March 31, 2018

(Millions of Yen)

	Sales returns	Sales rebates and deductions	Restructuring	Loss on litigation	Others	Total
Balance as of April 1, 2017	12,847	12,380	27,429	-	4,917	57,574
Increase during the period	14,713	8,306	4,544	39,763	3,285	70,613
Utilized	(12,732)	(12,983)	(12,552)	-	(3,753)	(42,021)
Reversed unused	-	-	(1,770)	-	(978)	(2,748)
Interest cost due to unwinding of discount	-	-	626	-	3	630
Exchange differences	(626)	526	444	(1,719)	82	(1,292)
Other increases and decreases	-	-	-	-	11	11
Balance as of March 31, 2018	14,202	8,229	18,722	38,044	3,568	82,767
Current liabilities	14,202	8,229	10,180	-	1,402	34,015
Non-current liabilities	-	-	8,541	38,044	2,166	48,752
Total	14,202	8,229	18,722	38,044	3,568	82,767

Year ended March 31, 2019

(Millions of Yen)

	Restructuring	Loss on litigation	Others	Total
Balance as of April 1, 2018	18,722	38,044	3,568	60,335
Increase during the period	1,579	-	3,210	4,789
Utilized	(7,198)	-	(2,973)	(10,172)
Reversed unused	(2,876)	-	(75)	(2,952)
Interest cost due to unwinding of discount	380	-	3	383
Exchange differences	263	-	(49)	213
Other increases and decreases	-	(38,044)	(1,732)	(39,776)
Balance as of March 31, 2019	10,869	-	1,953	12,822
Current liabilities	6,485	-	1,351	7,837
Non-current liabilities	4,383	-	601	4,985
Total	10,869	-	1,953	12,822

Note:

With the adoption of IFRS 15, from the year ended March 31, 2019, provisions for sales returns, rebates and deductions, which were previously presented as "Provisions" (current), have been reclassified to refund liabilities, which are included in "Trade and other payables". Therefore, those items are not shown in the above table for the year ended March31, 2019.

(2) Summary of Provisions and Expected Timing of Economic Benefits Outflow

Provisions are calculated based on management's best estimate of the future outflows of economic benefits as of the reporting dates. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in future periods.

The summary of provisions recorded by the Group and the periods in which the outflow of economic benefits is expected to occur are as set out below. There were no significant asset retirement obligations at March 31, 2018 and 2019.

a. Sales Returns

Provisions for sales returns are recorded by the Company and some consolidated subsidiaries at the amount of estimated loss of sales profit and costs of disposal. These payments are expected to be made mainly within one year.

b. Sales Rebates and Deductions

Provisions for sales rebates and deductions are recorded by the Company and some consolidated subsidiaries based on historical experience to make such payments. These payments are expected to be made mainly within one year.

c. Restructuring

Provisions for restructuring are recognized at the estimated amount of losses for planned restructurings mainly in relation to reduction of the number of employees in Japan, North America and Europe. Provisions for restructuring are recognized when the Group has a detailed formal plan and has raised a valid expectation in those affected that it is certain that the Group will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The timing of payments will be affected by the progress of the future restructuring of business operations.

d. Loss on litigation

Provisions for loss on litigation are recorded in relation to expected payments related to a lawsuit.

The timing of payments will be affected by the progress of the settlement procedures.

As the expected payments to the settlement fund of 358 million U.S. dollar recorded in "Provisions" (non-current liabilities) as of March 31,2018 became a fixed liability, the amount of 39,741 million yen was recorded in "Trade and other payables" as of March 31,2019.

20. Employee Benefits

The Company and its domestic subsidiaries mainly adopt the Group's joint defined benefit corporate pension plan and defined contribution plan.

Under the joint defined benefit corporate pension plan, upon retirement, employees enrolled in the plan for longer than a specified vesting period can elect to receive either a pension or lump-sum payment, and employees not fulfilling the vesting period requirement can receive a lump sum payment. In either case the benefits are based on 80% of points accumulated by the time of retirement. This pension plan is operated by a corporate pension fund independent of the Group, and the Group contributes to the plan the amount calculated based on the monthly points assigned for each participant. The fund is to be operated using the contributed amounts to ensure stable benefits to participants. In addition, the Company has established a retirement benefit trust for the joint defined benefit corporate pension plan and contributed marketable securities owned by the Company as trust assets.

Under the defined contribution plan, the Group contributes to a respective employee's individual account in the amount of the monetary value of monthly points, based on 20% of the accumulated points an employee accumulates to retirement, and does not owe a legal or constructive obligation to contribute more than this amount.

The Group may also pay additional, discretionary retirement lump-sum benefits, in addition to the employee benefits plans described above.

Certain overseas components have defined benefit and defined contribution plans.

(1) Present Value of Defined Benefit Obligations

Changes in present value of the defined benefit obligations are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2017	137,688	15,814	153,503
Current service cost	5,266	384	5,650
Interest cost	1,099	313	1,413
Benefits paid	(4,847)	(898)	(5,746)
Employee contributions	-	195	195
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	329	(362)	(32)
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	5,014	(443)	4,571
Past service cost	-	(25)	(25)
Exchange differences	-	1,113	1,113
Other increases and decreases	-	2	2
Balance as of March 31, 2018	144,550	16,094	160,645
Current service cost	5,544	393	5,937
Interest cost	1,009	312	1,322
Benefits paid	(5,668)	(757)	(6,426)
Employee contributions	-	306	306
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	858	332	1,190
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	2,281	1,111	3,392
Past service cost	-	10	10
Curtailment and settlement	-	(30)	(30)
Exchange differences	-	(642)	(642)
Other increases and decreases	(13)	1	(11)
Balance as of March 31, 2019	148,562	17,132	165,694

Note:

Expenses related to employee benefits are reported in Note 25 "Major Expenses by Nature."

(2) Fair Value of Plan Assets

Changes in fair value of plan assets are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2017	129,558	13,011	142,570
Interest income	1,036	264	1,300
Benefits paid	(4,819)	(623)	(5,442)
Employer contributions	4,875	405	5,280
Employee contributions	-	195	195
Remeasurement – Return on plan assets	7,154	2	7,156
Exchange differences	-	938	938
Balance as of March 31, 2018	137,805	14,194	151,999
Interest income	964	278	1,242
Benefits paid	(5,482)	(423)	(5,906)
Employer contributions	4,922	423	5,346
Employee contributions	-	306	306
Remeasurement – Return on plan assets	5,056	88	5,145
Exchange differences	-	(552)	(552)
Balance as of March 31, 2019	143,266	14,315	157,581

Note:

The Group expects to contribute 5,362 million yen to defined benefit pension plans for the year ending March 31, 2020.

(3) Fair Value of Plan Assets by Class

Breakdown of fair value of the plan assets by class is as follows:

(Millions of Yen)

	Plans in Japan			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2018	As of March 31, 2019	As of March 31, 2018	As of March 31, 2019
Equity securities	52,045	49,586	-	-
Bonds	47,758	43,603	-	-
Real estate	-	-	3,329	3,530
Life insurance general accounts	-	-	19,213	19,467
Others	5,210	18,145	10,247	8,932
Total	105,013	111,335	32,791	31,930

(Millions of Yen)

	Overseas plans			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2018	As of March 31, 2019	As of March 31, 2018	As of March 31, 2019
Equity securities	1,490	1,509	-	-
Bonds	551	610	-	-
Others	2,164	2,242	9,988	9,953
Total	4,206	4,361	9,988	9,953

(4) Asset Ceiling

Changes in the effect of asset ceiling are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2017	-	70	70
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	402	402
Exchange differences	-	9	9
Balance as of March 31, 2018	-	482	482
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	(77)	(77)
Exchange differences	-	(19)	(19)
Balance as of March 31, 2019	-	384	384

(5) Breakdown of Post-employment Benefit Liabilities

Breakdown of "Post-employment benefit liabilities" in the consolidated statement of financial position is as follows:

As of March 31, 2018

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	144,550	16,094	160,645
Fair value of plan assets	(137,805)	(14,194)	(151,999)
Funding deficit	6,745	1,900	8,646
Impact of asset ceiling	-	482	482
Post-employment benefit assets	1,175	7	1,182
Others	231	5	236
Post-employment benefit liabilities	8,152	2,395	10,547

As of March 31, 2019

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	148,562	17,132	165,694
Fair value of plan assets	(143,266)	(14,315)	(157,581)
Funding deficit	5,295	2,817	8,113
Impact of asset ceiling	-	384	384
Post-employment benefit assets	1,574	52	1,627
Others	251	7	258
Post-employment benefit liabilities	7,121	3,262	10,384

(6) Significant Assumptions and Other Information for Defined Benefit Plans

a. Significant actuarial assumptions

Significant actuarial assumptions are as follows:

	As of March 31, 2018	As of March 31, 2019
Discount rate		
Plans in Japan	0.7%	0.6%
Overseas plans	0.9%~11.5%	0.8%~13.9%

b. Sensitivity Analysis

Effect of a 1% change in actuarial assumptions on the defined benefit obligations is as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Discount rate		
Effect on defined benefit obligations of 1% increase	(22,035)	(22,302)
Effect on defined benefit obligations of 1% decrease	26,742	26,936

c. Sensitivity Analysis Method, Assumptions and Limitations

The results of the sensitivity analysis show how a 1% increase or decrease in the discount rate would lead to a decrease or increase in the defined benefit obligations as of the reporting date. The effect of the notional discount rate is calculated as an approximation provided by the logarithmic interpolation method, which reflects a conceptual average discount period, based on the notional balances of the defined benefit obligations provided by multiple discount rates.

d. Investment Policy and Management of Plan Assets

The Group manages the plan assets to secure necessary mid-to long-term returns and to build adequate high quality plan assets within acceptable risk levels, in order to ensure future payments of pension benefits and lump-sum payments.

A target rate of return is set using the result of Asset-liability management (“ALM”) analysis, aiming to maintain sound funding of pension financing into the future. Each individual asset is targeted to earn a rate of return exceeding the market rate for each investment category. In aggregate, a target rate of return is set aiming to exceed the combined market rate which is correlated to an investment portfolio for the market in each investment category.

To meet the target returns, the Group defines and pursues strategic asset allocation, which is designed to continue maximizing returns in the future (“the strategic asset mix”) with consideration of expected returns, standard deviations or risks and correlation of each of the investments. The strategic asset mix is determined through the assessment process, including the ALM analysis and the fund’s maturation assessment, from medium-term and long-term perspectives. The strategic asset mix is reviewed every three years, or as needed when there is a significant change in the investment environment.

e. Funding Policy and Rules Affecting Future Contributions

In relation to the joint defined benefit corporate pension plan adopted in Japan, the Group’s funds revise the amounts of contributions every five years to ensure balanced finances for future periods. The funds also revise the amounts of contributions in the event that the balance of the fund reserve falls below the amount of the liability reserve following adjustment by the amount of deficit eligible for carry-forward as of the fund’s reporting date.

The Company and its domestic subsidiaries, which have adopted the joint corporate pension fund, are required to make additional required contributions when the amount of the fund reserve as of the year-end falls below the minimum base amount. They are also required to make a contribution necessary to cover the cost associated with the payments of benefits for the fiscal year in case the reserve is expected to be depleted by the year-end.

f. Maturity Analysis of Defined Benefit Obligations

The weighted average duration of the defined benefit obligations are 15.0 years and 14.7 years as of March 31, 2018 and 2019, respectively.

(7) Defined Contribution Plans

Expenses related to defined contribution plans, which are mainly employer contributions were 14,502 million yen and 14,230 million yen for the years ended March 31, 2018 and 2019, respectively.

21. Government Grants

Amounts of government grants which are recognized as deferred revenue and recorded in "Trade and other payables" and "Other non-current liabilities" in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Trade and other payables	2,044	1,929
Other non-current liabilities	11,400	9,546

Note:

Government grants were received mainly to acquire property, plant and equipment related to development and production facilities for influenza vaccine. There are no unfulfilled conditions and other contingencies attached to the government grants presented above.

22. Capital and Other Components of Equity

(1) Share Capital and Capital Surplus

The number of authorized shares and details of fully paid issued shares are as follows:

a. Number of Authorized Shares

(Thousands of shares)

	Number of ordinary shares
April 1, 2017	2,800,000
March 31, 2018	2,800,000
March 31, 2019	2,800,000

b. Details of Fully Paid Issued Shares

	Number of issued shares (Thousands of shares)	Share Capital (Millions of Yen)	Capital surplus (Millions of Yen)
April 1, 2017	709,011	50,000	103,750
March 31, 2018	709,011	50,000	94,633
March 31, 2019	709,011	50,000	94,633

Note:

The shares issued by the Company are ordinary shares with no par value which have no restrictions on any rights.

(2) Treasury Shares

The number and amount of treasury shares are as follows:

	Number of treasury shares (Thousands of shares)	Amount (Millions of Yen)
April 1, 2017	45,783	113,952
March 31, 2018	61,343	163,531
March 31, 2019	61,124	162,964

Notes:

1. All treasury shares are owned by the Company.
2. The Company operates stock option plans and uses its treasury shares to settle the rights under these plans. Details of the stock option plans are presented in Note 28 "Share-based payments."
3. The Company operates restricted share-based remuneration plans and uses its treasury shares to settle the rights under these plans.

(3) Other Components of Equity

a. Subscription Rights to Shares

The Company operates stock option plans and subscription rights to shares are issued in accordance with the Japanese Companies Act.

b. Exchange Differences on Translation of Foreign Operations

Exchange differences arise from translating financial statements of foreign operations.

c. Cash flow Hedges

Effective portion of the cumulative net change in fair value of cash flow hedging instruments.

d. Financial Assets Measured at Fair Value through Other Comprehensive Income

Changes in fair value of financial assets measured at fair value through other comprehensive income.

e. Remeasurements of Defined Benefit Plans

Remeasurements of defined benefit liabilities and assets.

23. Dividends

(1) Amount of Dividends Paid

Year ended March 31, 2018

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 19, 2017	Ordinary shares	23,212	35.0	March 31, 2017	June 20, 2017
Board of Directors' meeting held on October 31, 2017	Ordinary shares	23,217	35.0	September 30, 2017	December 1, 2017

Year ended March 31, 2019

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 18, 2018	Ordinary shares	22,668	35.0	March 31, 2018	June 19, 2018
Board of Directors' meeting held on October 31, 2018	Ordinary shares	22,672	35.0	September 30, 2018	December 3, 2018

(2) Dividends with Record Date in the Year but whose Effective Date is in the Following Year

Year ended March 31, 2018

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 18, 2018	Ordinary shares	22,668	35.0	March 31, 2018	June 19, 2018

Year ended March 31, 2019

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2019	Ordinary shares	22,676	35.0	March 31, 2019	June 18, 2019

24. Revenue

(1) Goods and service

The main business of the Group is manufacturing and marketing of pharmaceutical products, and the promised goods or services to be transferred to customers are as follows:

a. Sales of finished goods and merchandise

The promised goods or services to be transferred to customers are mainly the sales of prescription drugs and healthcare (OTC) products. Regarding this type of sale, the Group recognizes revenue when finished goods and merchandise are transferred to and accepted by customers, because control of finished goods and merchandise is transferred and the performance obligation is satisfied at that time. The Group receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

The Group is obliged to take trade discounts, cash discounts, rebates and returns depending on the conditions of contracts. In this case, the transaction price is measured at the amount after deducting the estimated amounts of those items from the consideration promised in the contract with customers, and the amount of consideration expected to be returned to customers is recorded as a refund liability. The estimation of refund liabilities is based on the contractual conditions and/or historical experience.

b. License fee revenue

The Group receives consideration for upfront payments, milestone revenue and running royalties by entering into agreements to grant rights to third parties for the research and development of products, manufacturing and marketing of products, and usage of technologies.

Revenue from upfront payments is recognized at the time of granting a license if the performance obligation is satisfied at a point in time, and milestone revenue is recognized when a milestone agreed among parties such as application for approval to regulatory agencies is achieved, considering a possibility that significant reversal of revenue might occur subsequently. If a performance obligation is not satisfied at a point in time, its consideration is accounted for as a contract liability and recognized as revenue over a period in accordance with satisfaction of the performance obligation. Running royalties are measured based on sales of counterparties or other indexes, and recognized as revenue considering the timing of occurrence. The Group receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

(2) Disaggregation of revenue

Breakdown of revenue of the Group is as follows:

Year ended March 31, 2019

(Millions of Yen)

		Region				
		Japan	North America	Europe	Other regions	Total
Sales of finished goods and merchandise	Prescription drugs	519,934	144,845	88,405	81,322	843,508
	Healthcare (OTC) products	65,298	-	-	828	66,126
	Total	585,233	144,845	88,405	82,150	900,635
License fee revenue		287	8,053	886	1,297	10,524
Others		10,380	7,321	467	388	18,557
Total		595,901	160,220	89,759	83,835	929,717

(3) Contract balances

The balances of accounts receivable arising from contracts with customers and contract liabilities are as follows:

(Millions of Yen)

	As of April 1, 2018 Date of IFRS 15 adoption	As of March 31, 2019
Accounts receivable arising from contracts with customers	210,769	360,376
Contract liabilities	8,151	160,422

Notes:

1. The main contract liabilities are consideration received from customers prior to satisfaction of performance obligations regarding license fee revenue.
2. The balance of contract liabilities increased by 148,972 million yen during the year ended March 31, 2019 due to the upfront payment as a result of the collaboration agreement regarding global development and commercialization of DS-8201 with AstraZeneca.
3. The amount of revenue recognized for the year ended March 31, 2019 out of the balance of contract liabilities as of April 1, 2018 was 3,923 million yen.
4. The amount of revenue in accordance with performance obligations satisfied or partially satisfied in prior periods was 7,117 million yen, which was mainly related to milestone revenue and running royalties.

(4) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations were mainly related to license fee revenue, and the period in which revenue will be recognized are as set out in the table below.

The disclosure of contracts for which the initial expected period is within one year is omitted applying the practical expedient.

Year ended March 31, 2019

(Millions of Yen)

	Year ended March 31, 2019
Within 1 year	13,520
Over 1 year within 5 years	45,421
Over 5 years	101,239
Total	160,181

25. Major Expenses by Nature

Information related to major expenses by nature is as follows:

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Advertisement and promotional expenses	96,374	87,509
Salaries and bonuses	162,449	166,635
Statutory benefits	17,632	17,084
Post-employment benefits	21,091	21,246
Other employee benefit expenses	4,612	3,355
Rent and leases	15,391	14,428
Depreciation and amortization	46,680	46,169
Gain on sale of property, plant and equipment	(8,288)	(9,060)
Loss on disposal of property, plant and equipment	3,163	1,497
Impairment loss	36,672	15,194
Restructuring costs	4,496	(876)

26. Financial Income and Financial Expenses

(1) Financial Income

Breakdown of "Financial income" is as follows:

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Interest income		
Financial assets measured at amortized cost:		
Bank deposits	852	1,177
Loans receivable	26	32
Bonds	1,335	2,391
Others	0	0
Financial assets measured at fair value through profit or loss	252	266
Dividend income		
Financial assets measured at fair value through other comprehensive income:		
Dividend income from financial assets held at the end of the year	1,817	1,728
Dividend income from financial assets derecognized during the year	223	207
Financial assets measured at fair value through profit or loss	237	398
Gain on sale		
Financial assets measured at fair value through profit or loss	-	0
Gain from change in fair value and realized gain		
Financial assets and liabilities measured at fair value through profit or loss		
Derivatives	312	-
Others	1,875	1,841
Net foreign exchange gains	1,664	-
Others	44	98
Total	8,642	8,141

(2) Financial Expenses

Breakdown of "Financial expenses" is as follows:

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Interest expenses		
Financial liabilities measured at amortized cost:		
Borrowings	100	9
Bonds	1,896	1,896
Finance lease liabilities	32	34
Others	20	13
Others	633	383
Loss on change in fair value and realized loss		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	439	593
Others	760	1,057
Net foreign exchange losses	-	68
Others	339	1,853
Total	4,223	5,910

Note:
"Others" in "Financial expenses" for the year ended March 31, 2019 is mainly the change in the fair value of contingent consideration related to the acquisition of Ambit Biosciences Corporation.

27. Earnings Per Share

(1) Basis for calculation of Basic Earnings per Share

	Year ended March 31, 2018	Year ended March 31, 2019
a. Profit Attributable to owners of the Company		
Profit attributable to owners of the Company (Millions of Yen)	60,282	93,409
Profit not attributable to owners of the Company (Millions of Yen)	-	-
Profit used to calculate basic earnings per share (Millions of Yen)	60,282	93,409
b. Weighted-average Number of Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	660,161	647,785
c. Basic Earnings per Share		
Basic earnings per share (Yen)	91.31	144.20

(2) Basis for calculation of Diluted Earnings per Share

	Year ended March 31, 2018	Year ended March 31, 2019
a. Diluted Profit Attributable to owners of the Company		
Profit used to calculate basic earnings per share (Millions of Yen)	60,282	93,409
Adjustments to profit (Millions of Yen)	-	-
Profit used to calculate diluted earnings per share (Millions of Yen)	60,282	93,409
b. Weighted-average Number of Diluted Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	660,161	647,785
Potential effect of issue of subscription right to shares (Thousands of shares)	1,550	1,443
Weighted-average number of ordinary shares (diluted) (Thousands of shares)	661,712	649,228
c. Diluted Earnings per Share		
Diluted earnings per share (Yen)	91.10	143.88

28. Share-based Payments

The Company operates stock option plans and has implemented restricted share-based remuneration plans since the year ended March 31, 2018. In addition, some subsidiaries issue share appreciation rights as cash-settled share-based payments.

(1) Details of Restricted Share-based Remuneration Plans, the Number of Shares Granted During the Year, and their Fair Values

Details of restricted share-based remuneration plans, the number of shares granted during the year, and their fair values are as follows:

	Year ended March 31, 2018	Year ended March 31, 2019
Grant date	July 18, 2017	July 17, 2018
Granted (Shares)	123,324	76,988
Fair value (Yen)	2,456.5	4,017

Notes:

1. Restricted shares are granted to members of the Company's Board of Directors and Corporate Officers, excluding external Board members ("holders of subscription rights to restricted shares").
2. The transfer restriction period is four years, and the restriction is cancelled when the transfer restriction period expires on the condition that holders of subscription rights to restricted shares continuously served as either a member of the Company's Board of Directors or as a Corporate Officer who does not concurrently serve as a member of the Company's Board of Directors throughout the restriction period.
3. The Company forms a restricted share allotment agreement with the holders of subscription rights to restricted shares which prohibits them from transferring, creating any security interest on, or otherwise disposing of the Company's ordinary shares that have been received by allotment under the agreement for a specified period. The agreement also includes the Company's right to acquire the said ordinary shares without contribution in the case where specified events happen.

(2) Details of Stock Option Plans and Unexercised Balances as of March 31, 2019

Details of stock option plans and unexercised balances as of March 31, 2019 are as follows:

	Number of stock options		Grant date	Exercise period of granted options
	Granted (Shares)	Unexercised (Shares)		
1st issuance subscription rights to shares (as stock options)	101,900	32,200	February 15, 2008	From February 16, 2008 to February 15, 2038
2nd issuance subscription rights to shares (as stock options)	172,200	56,600	November 17, 2008	From November 18, 2008 to November 17, 2038
3rd issuance subscription rights to shares (as stock options)	230,800	105,400	August 17, 2009	From August 18, 2009 to August 17, 2039
4th issuance subscription rights to shares (as stock options)	237,100	161,600	August 19, 2010	From August 20, 2010 to August 19, 2040
5th issuance subscription rights to shares (as stock options)	232,800	173,300	July 12, 2011	From July 13, 2011 to July 12, 2041
6th issuance subscription rights to shares (as stock options)	295,400	250,300	July 9, 2012	From July 10, 2012 to July 9, 2042
7th issuance subscription rights to shares (as stock options)	192,800	181,100	July 8, 2013	From July 9, 2013 to July 8, 2043
8th issuance subscription rights to shares (as stock options)	145,000	145,000	July 8, 2014	From July 9, 2014 to July 8, 2044
9th issuance subscription rights to shares (as stock options)	118,700	118,700	July 7, 2015	From July 8, 2015 to July 7, 2045
10th issuance subscription rights to shares (as stock options)	135,200	135,200	July 5, 2016	From July 6, 2016 to July 5, 2046
Total	1,861,900	1,359,400	-	-

Notes:

1. The stock option plans are equity-settled.
2. Stock options are granted to members of the Company’s Board of Directors and Corporate Officers, excluding external Board members.

3. Persons to whom stock options are granted (“holders of subscription rights to shares”) may exercise their subscription rights to shares until the end of the fiscal year that ends within 10 years from the day following their resignation from the office as a Member of the Board of Directors or as a Corporate Officer of the Company which they held when the subscription rights to shares were granted. If the holders of subscription rights to shares concurrently serve as a Member of the Board of Directors and Corporate Officer, the day of resignation from the office is the day they retire from the office as a Member of the Board of Directors, regardless of whether they continued to hold the position of a Corporate Officer. If the holders of subscription rights to shares served as a Corporate Officer when the subscription rights to shares were granted and if they took office as a Member of the Board of Directors upon their resignation as a Corporate Officer, the day when they resigned from the office is the day when they resign from the office as a Member of the Board of Directors, and not the day when they retire as a Corporate Officer.
4. There are no vesting conditions for the stock options.
5. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.

(3) Movement in the Number of Stock Options and the Exercise Prices

Movement in the number of stock options and the exercise prices are as follows:

	Year ended March 31, 2018		Year ended March 31, 2019	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)
Unexercised balance at the beginning of the year	1,569,600	1	1,512,100	1
Granted	-	-	-	-
Exercised	(57,500)	1	(152,700)	1
Expired	-	-	-	-
Unexercised balance at the end of the year	1,512,100	1	1,359,400	1
Options outstanding	1,512,100	1	1,359,400	1
Range of exercise prices	1 Yen		1 Yen	
Weighted average remaining contractual life	24.26 years		23.45 years	

Notes:
1. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.
2. Weighted average share price at the exercise date for the stock options which were exercised during the period is 3,055 yen and 4,397 yen for the years ended March 31, 2018 and 2019, respectively.

(4) Fair Value Measurement of Stock Options Granted During the Period

No stock options were granted in the year ended March 31, 2018 and 2019.

(5) Share-based Payment Expenses

Breakdown of share-based payment expenses is as follows:

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Equity-settled	272	312
Cash-settled	5,740	7,047
Total	6,012	7,360

Notes:
1. Equity-settled share-based payment transactions relate to the restricted share-based remuneration plans.
2. Cash-settled share-based payment transaction consists of Stock Appreciation Right (“SAR”) and Restricted Stock Unit (“RSU”), which some consolidated subsidiaries grant to specific employees.
   For a SAR, the Company pays cash based on the difference between the stock price on the grant date and the exercise date, and rights are vested three years after the grant date and are exercisable within the following seven years.
   RSU rights are vested three years after the grant date, and the Company pays cash based on the stock price as of the date the rights are vested and applicable dividends.

3. Liabilities arising from cash-settled share-based payment transactions are 8,585 million yen and 11,228 million yen as of March 31, 2018 and 2019, respectively.

29. Financial Instruments

(1) Risk Management

The Group is exposed to credit risks, foreign currency exchange risks, interest rates risks, market price fluctuation risks and liquidity risks arising from operating and financing activities. The Group uses derivative instruments only to hedge these risks, and the Group's policy is not to enter into speculative derivative transactions. Each group company's finance department executes and manages derivative transactions. A derivative transaction management policy is established, which states limitation of authorities and transaction amounts. Derivative transactions are executed and managed in accordance with this policy and are reported to the Board of Directors.

a. Credit Risk

Trade receivables, such as notes receivables and accounts receivable- trade, are exposed to the credit risk of the customers. The Company's Sales Administration Department periodically monitors the condition of major customers and controls outstanding balances and due dates for each individual customer in accordance with the credit management policy to identify collectability issues at an early stage in an effort to mitigate the credit risks. Consolidated subsidiaries also perform the same controls in accordance with the Company's credit management policy.

The Group is exposed to credit risks of financial institutions holding deposits and issuers of bonds. The Group executes transactions only with highly rated counterparties within credit limits, which are determined for each of the counterparties in accordance with the fund management policy to minimize concentration risk.

Derivative transactions are exposed to credit risks of counterparties. The Group executes transactions only with highly rated financial institutions in order to mitigate the counterparties' credit risk.

The maximum exposure to credit risks at the reporting date is the carrying value of instruments stated in the consolidated statement of financial position. The Group does not hold securities as collateral.

The Group deems that there is debt default if the following events occur because it is considered that all or a part of accounts receivable cannot be collected or it is extremely difficult to collect, and measures expected credit losses for each accounts recievable as a financial asset with high credit risk. Financial assets which are individually immaterial are grouped by similarity of the nature of risks, and impairment is assessed as a whole.

- Critical financial difficulty of counterparty
- Uncollectable accounts receivable, or delay of collection against repeated demand for payment
- Bankruptcy of counterparty, or increase in possibility that counterparty needs financial reform

Year ended March 31, 2018

i) Ageing Analysis of Financial Assets that are Past Due at the End of Reporting Period and Not Impaired

Ageing analysis of financial assets that are past due at the end of reporting period and not impaired is as follows:

(Millions of Yen)

	As of March 31, 2018
Past due by 1-30 days	316
Past due by 31-60 days	68
Past due by 61-90 days	27
Past due by 91-120 days	68
Past due by more than 120 days	340

Note: There are no assets which are held as collateral or other compensation for the above balances.

ii) Movement in Allowance for Doubtful Accounts

The Group considers collectability of receivables based on credit conditions of the counterparties and recognizes an allowance for doubtful accounts. The movement in allowance for doubtful accounts is as follows:

(Millions of Yen)

	Year ended March 31, 2018
Balance at the beginning of the year	481
Increase during the period	91
Utilized	(19)
Reversed unused	(90)
Others (including exchange differences)	(7)
Balance at the end of the year	454

Year ended March 31, 2019

i) Movement in Allowance for Doubtful Accounts

The movement in allowance for doubtful accounts is as follows:

(Millions of Yen)

	Recorded at an amount equal to 12-month expected credit losses	Recorded at an amount equal to lifetime expected credit losses		Total
		Trade receivable	Credit impaired financial assets	
Balance as of April 1, 2018	0	452	1	454
Increase during the period	-	98	-	98
Utilized	-	(63)	-	(63)
Reversed unused	(0)	(66)	(0)	(67)
Others (including exchange differences)	(0)	(8)	-	(8)
Balance as of March 31, 2019	0	412	0	413

ii) Credit Risk Exposure

Ageing analysis of trade receivable that are past due at the end of reporting period is as set out in the table below. There was no material past due items or credit risk exposure in financial assets other than trade receivable.

(Millions of Yen)

	As of March 31, 2019
Before due	358,510
Past due by 30 days	984
Past due by 31-60 days	303
Past due by 61-90days	84
Past due by more than 90 days	905
Total	360,789

The Group has securities and other assets as collaterals for accounts receivables from wholesalers. There is no material effect on the allowance for doubtful accounts due to these collaterals.

b. Foreign Currency Exchange Risks

Trade receivables, trade payables denominated in foreign currencies, which arise from the Company's global operations, are exposed to foreign currency exchange risks.

i) Exposure to Foreign Currency Exchange Risks

Net exposure to foreign currency exchange risks is as set out below. The amount does not include exposure to foreign currency exchange risks that is hedged by derivatives.

	As of March 31, 2018	As of March 31, 2019
U.S. dollar (Thousands of U.S. dollar)	(132,190)	770,317
Euro (Thousands of Euro)	8,836	99,639

ii) Foreign Exchange Sensitivity Analysis

The impact of a 1% appreciation in the Yen against the U.S. dollar and Euro on profit before tax for the financial instruments held by the Group at each year-end is as set out below. This analysis is based on the assumption that other factors remain constant. The exposure to fluctuations of all foreign currencies other than U.S. dollar and Euro is not significant.

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
U.S. dollar	140	(855)
Euro	(11)	(124)

c. Interest Rate Risks

Borrowings with variable interest rates are exposed to interest rate risks. The Group uses interest rates swaps to hedge interest rate risks.

i) Exposure to Interest Rate Risk

Exposure to the interest rate risk is as set out below. The amount does not include the exposure to interest rate risks that are hedged by derivatives.

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Borrowings with variable interest rates	40,000	20,000

ii) Interest Rate Sensitivity Analysis

The impact of a 1% increase in the interest rates on profit before tax for the financial instruments held by the Group at each year-end is set out below. This analysis is based on the assumptions that other factors remain constant.

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Impact on profit before tax	(400)	(200)

d. Market Price Fluctuation Risk

The Group holds bonds and shares issued by companies including business partners which are exposed to market price fluctuation risks. The Group regularly monitors the fair value of the instruments and financial condition of the issuers (business partners) and continuously reconsiders composition of holdings of securities to manage market price fluctuation risks.

Some subsidiaries use cash-settled share-based payment transactions based on the Company's shares, which are exposed to share price fluctuation risks.

e. Liquidity Risk

Liquidity risk is the risk that the Group is not able to meet the obligations associated with its financial liabilities as they become due. The Group continuously monitors cash flow planning and actual results to manage liquidity risks. The Group also has commitment line contracts with financial institutions and maintains credit lines which are useable to manage liquidity risks.

Outstanding balances by due date of major financial liabilities are as follows:

As of March 31, 2018

(Millions of Yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Unsecured Corporate bonds	179,564	202,059	1,896	41,541	21,131	1,076	1,076	135,335
Unsecured bank loans	101,000	101,044	20,008	8	20,008	20,008	20,008	21,004
Derivative liabilities	1,786	2,123	462	462	462	396	251	87
Total	282,351	305,227	22,367	42,012	41,602	21,481	21,335	156,427

As of March 31, 2019

(Millions of Yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Unsecured Corporate bonds	179,585	200,162	41,541	21,131	1,076	1,076	20,992	114,343
Unsecured bank loans	81,000	81,036	8	20,008	20,008	20,008	21,004	-
Derivative liabilities	1,918	1,806	581	473	405	256	89	-
Total	262,504	283,004	42,130	41,613	21,489	21,341	42,085	114,343

(2) Fair Value of Financial Instruments

a. Fair value and carrying amount of financial instruments

Comparison between fair value and carrying amount of financial instruments is as follows:

(Millions of Yen)

	As of March 31, 2018		As of March 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	179,564	182,657	179,585	184,001
Borrowings	101,000	101,030	81,000	81,026

b. Measurement of Fair Values

Measurement methods of fair values are as follows:

i) Other Financial Assets and Other Financial Liabilities

For financial instruments traded in an active market, the fair value is determined by reference to the quoted market price. When there is no active market, the fair value of the financial instruments is measured by using appropriate valuation methods. The fair value of derivatives is measured by reference to quotes obtained from financial institutions which are contractual counterparties.

ii) Bonds

The fair value of bonds is determined by reference to the quoted market price. The bonds are categorized as Level 1 in the fair value hierarchy.

iii) Borrowings

The fair value of borrowings with variable interest rates reflects the market rate in the short-term and therefore approximates the carrying value. Fair value of borrowings with fixed interest rates is discounted using an expected market interest rate based on the assumption that the total principal amount is newly borrowed on the same terms and conditions. The borrowings are categorized as level 3 in the fair value hierarchy.

Fair value of all other financial assets and liabilities approximates carrying amounts.

(3) Fair Value Hierarchy

a. Fair Value Hierarchy

The fair value hierarchy of financial instruments is summarized as follows:

Level 1: Fair value measured at quoted prices in active markets for identical assets or liabilities

Level 2: Fair value measured using inputs other than quoted prices included in Level 1that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured by appropriate valuation methods using inputs that are not based on observable market data

Transfers of financial instruments among these levels are recognized at the end of each quarter of the year.

As of March 31, 2018

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Bonds	-	1,811	-	1,811
Others	8,837	133,110	-	141,948
Financial assets measured at fair value through other comprehensive income:				
Equity securities	103,637	-	18,842	122,479
Others	-	-	47	47
Total	112,475	134,922	18,889	266,287
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	1,786	-	1,786
Contingent consideration	-	-	5,760	5,760
Total	-	1,786	5,760	7,547

Notes:

1. There were no transfers of financial instruments between the levels.
2. ”Others” categorized as level 2 under “Financial assets measured at fair value through profit or loss” includes 132,633 million yen of foreign-currency bank deposits embedding forward foreign exchange contracts. The fair value of financial instruments categorized as Level 2 is measured using the quoted price obtained from the financial institutions.
3. The fair value of unlisted shares is categorized as Level 3 and measured at fair value using comparable peer company analysis and other valuation models, such as the net asset method. Since unobservable inputs, such as EBITDA, are used in these valuation models, the fair value of these shares is categorized as Level 3. To measure fair value, EBITDA ratio in the range of 5.6~29.5 is used based on the corresponding comparable peer companies. When the EBITDA ratio increases, the fair value also increases.
4. ”Contingent consideration” under “Financial liabilities measured at fair value through profit or loss” is included in “Other non-current liabilities” in the consolidated statement of financial position.

As of March 31, 2019

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Bonds	-	573	-	573
Others	8,817	179,786	-	188,603
Financial assets measured at fair value through other comprehensive income:				
Equity securities	80,905	-	16,895	97,801
Others	-	-	56	56
Total	89,722	180,359	16,952	287,034
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	1,918	-	1,918
Contingent consideration	-	-	7,661	7,661
Total	-	1,918	7,661	9,580

Notes:

1. There were no transfers of financial instruments between the levels.
2. ”Others” categorized as level 2 under “Financial assets measured at fair value through profit or loss” includes 179,285 million yen of foreign-currency bank deposits embedding forward foreign exchange contracts. The fair value of financial instruments categorized as Level 2 is measured using the quoted price obtained from the financial institutions.
3. The fair value of unlisted shares is categorized as Level 3 and measured at fair value using comparable peer company analysis and other valuation models, such as the net asset method. Since unobservable inputs, such as EBITDA, are used in these valuation models, the fair value of these shares is categorized as Level 3. To measure fair value, EBITDA ratio in the range of 6.2~25.6 is used based on the corresponding comparable peer companies. When the EBITDA ratio increases, the fair value also increases.
4. ”Contingent consideration” under “Financial liabilities measured at fair value through profit or loss” is included in “Other current liabilities” and “Other non-current liabilities” in the consolidated statement of financial position.

b. Reconciliation of Level 3 Fair Values

The following table shows reconciliation from the opening balances to the ending balances for Level 3 fair values.

Year ended March 31, 2018

(Millions of Yen)

	Financial assets measured at fair value through other comprehensive income
Balance at the beginning of the year	17,118
Gain (Loss)	3,715
Purchase	322
Sale and settlement	(2,267)
Balance at the end of the year	18,889

Notes:

The above table does not include contingent consideration arising from business combinations, which is included in Note 7 “Business Combination.”

Year ended March 31, 2019

(Millions of Yen)

	Financial assets measured at fair value through other comprehensive income
Balance at the beginning of the year	18,889
Gain (Loss)	(1,950)
Purchase	20
Sale and settlement	(7)
Balance at the end of the year	16,952

Note:
The above table does not include contingent consideration arising from business combinations, which is included in Note 7 "Business Combination."

(4) Derivatives and Hedge Accounting

a. Cash Flow Hedges

The Group uses forward foreign exchange contracts to hedge movements of cash flows associated with future business transactions denominated in foreign currencies. When criteria for hedge accounting are met, they are designated as cash flow hedges. The effective portion of changes in fair value related to hedging instruments is recognized in other comprehensive income, and the ineffective portion of changes in fair value is recognized in profit or loss. The accumulated amount recognized in equity through other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss. In the year ended March 31, 2018 and 2019, there is no reclassification to profit or loss.

b. Derivatives Not Designated as Hedging Instruments

The Group uses derivatives when economically reasonable even if the hedging arrangement does not meet the criteria for hedge accounting.

The Group uses the following derivatives which are not designated as hedging instruments:

- Forward foreign exchange contracts to hedge foreign currency exchange risk; and
- Interest rates swaps to hedge fluctuations of variable interest rates for borrowings.

The Group does not hold derivatives for speculative purposes.

c. Fair Values of Derivatives

Fair values of derivatives are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Derivative liabilities		
Interest related	1,786	1,811
Currency related	-	107
Total	1,786	1,918

(5) Offsetting Financial assets and Financial liabilities

Details of offsetting financial assets and financial liabilities with the same counterparty are as follows:

Year ended March 31, 2018

(Millions of Yen)

Financial assets	Transaction type	Total amount of financial asset already recognized	Total amount of financial liability already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial asset presented in Consolidated Statement of Financial Position
Cash and cash equivalents	Notional pooling	567	30	537

(Millions of Yen)

Financial liabilities	Transaction type	Total amount of financial liability already recognized	Total amount of financial asset already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial liability presented in Consolidated Statement of Financial Position
Bonds and borrowings	Notional pooling	30	30	-

Year ended March 31, 2019

(Millions of Yen)

Financial assets	Transaction type	Total amount of financial asset already recognized	Total amount of financial liability already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial asset presented in Consolidated Statement of Financial Position
Cash and cash equivalents	Notional pooling	11,821	11,566	254

(Millions of Yen)

Financial liabilities	Transaction type	Total amount of financial liability already recognized	Total amount of financial asset already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial liability presented in Consolidated Statement of Financial Position
Bonds and borrowings	Notional pooling	11,566	11,566	-

(6) Capital Management

The Group recognizes the necessity of securing liquidity and fund raising capacity to enable flexible investments to enhance shareholder returns as well as to achieve sustainable growth.

Therefore, the Group monitors movement in mid-to-long term liquidity, credit ratings which demonstrate the soundness of financial condition, and the appropriate capital structure.

In addition, one of the Group's objectives is to achieve ROE of more than 8% in fiscal 2022 through implementing business-operations strategies and investments for future growth, as set out in the fourth mid-term business plan.

The major indicators the Group employs for capital management are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Cash plus marketable securities (note 1)	786,456	779,479
Bonds and borrowings	280,564	260,585
Net cash	505,891	518,894
Total shareholder return ratio (note 2)	159.1%	48.5%

Notes:

1. "Cash plus marketable securities" includes cash and cash equivalents, and securities with original maturities of more than three months.
2. "Total shareholder return ratio" is calculated based on (Dividends plus total acquisition costs of treasury shares) / Profit attributable to owners of the Company.

There are no significant capital adequacy requirements applicable to the Group.

30. Lease Transactions

The Group has lease contracts as lessee for certain real estate and machinery. Certain lease arrangements include renewal options and rent escalation clauses. There are no limitations arising from the lease contracts.

(1) Finance Leases

Future lease payments for finance leases are as follows:

(Millions of Yen)

	Future minimum lease payments		Present value of future minimum lease payments	
	As of March 31, 2018	As of March 31, 2019	As of March 31, 2018	As of March 31, 2019
Within 1 year	542	456	516	422
Over 1 year within 5 years	1,023	920	993	883
Over 5 years	27	32	27	32
Total	1,593	1,410	1,537	1,338
Less - Interest	(56)	(71)	-	-
Present value of future minimum lease payments	1,537	1,338	1,537	1,338

(2) Operating Leases

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

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Within 1 year	4,938	4,958
Over 1 year within 5 years	13,199	11,997
Over 5 years	13,135	12,148
Total	31,273	29,104

31. Other Comprehensive Income

Reclassification adjustments related to "Other comprehensive income" are as follows:

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Other comprehensive income that are or may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Change for the year	(10,230)	9,325
Reclassification adjustments	1	(36)
Subtotal	(10,229)	9,289
Share of other comprehensive income of investments accounted for using the equity method		
Change for the year	3	-
Reclassification adjustments	-	-
Subtotal	3	-
Other comprehensive income, before adjustments for tax effects	(10,225)	9,289
Tax effects	-	-
Total	(10,225)	9,289

32. Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

(Millions of Yen)

	Borrowings	Bonds	Finance lease liabilities	Total
Balance as of April 1, 2017	101,000	179,543	1,600	282,144
Changes from financing cash flows	-	-	(1,196)	(1,196)
Non-cash changes				
Acquisitions	-	-	1,206	1,206
Exchange differences	-	-	(73)	(73)
Others	-	21	-	21
Balance as of March 31, 2018	101,000	179,564	1,537	282,101
Changes from financing cash flows	(20,000)	-	(811)	(20,811)
Non-cash changes				
Acquisitions	-	-	553	553
Exchange differences	-	-	59	59
Others	-	21	-	21
Balance as of March 31, 2019	81,000	179,585	1,338	261,924

33. Related Parties

(1) Transactions with Related Parties

Transactions with related parties are on the same terms as the normal course of business. There were no material transactions with related parties for the years ended March 31, 2018 and 2019.

(2) Remuneration of Key Management Personnel

(Millions of Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Remuneration and bonuses	633	658
Restricted share-based remuneration	91	111
Total	724	770

34. Commitments

Total contractual amounts of commitments for acquisition of assets after the end of each year are as follows:

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Property, plant and equipment	41,078	26,335
Intangible assets	76,389	149,973
Total	117,468	176,309

Note:
The commitments for intangible assets mainly relate to the acquisitions of sales licenses for technology introduction, and represent the milestone payments based on the achievement of milestones associated with the medical research and development objectives. The amounts presented above represent the maximum payments if all milestones are achieved and may differ from the actual amounts paid.

35. Contingent Liabilities

(1) Loan Guarantees

The Company provides loan guarantees in relation to its associate's and employees' borrowings from financial institutions as shown below. In the event that the associate and employees are unable to repay their debt, the Company will need to bear the unpaid amounts.

(Millions of Yen)

	As of March 31, 2018	As of March 31, 2019
Japan Vaccine Co., Ltd. (operating capital)	1,000	-
Employees (housing and other loans)	580	476

(2) Others

The Company concluded an agreement with Sun Pharmaceutical Industries Ltd. ("Sun Pharma") in April 2014 under which Sun Pharma acquired Ranbaxy Laboratories Ltd. ("Ranbaxy") in exchange for receipt by Daiichi Sankyo of shares in Sun Pharma on March 24, 2015 ("the closing date").
Based on the agreement with Sun Pharma, the Company could be required to indemnify Sun Pharma for 63.5% of penalties and damages arising from quality issues of Ranbaxy prior to the closing date, which are paid to U.S. federal or state governmental authorities by Sun Pharma or Ranbaxy, with a maximum cap amount of 325 million U.S. dollar. This obligation lasts for seven years from the closing date. In April 2015, Daiichi Sankyo sold all of the acquired Sun Pharma shares, while the aforementioned agreement remains in effect.
Although the Company could incur damages as a result of the above-mentioned contingent liabilities, it is not considered possible at present to reasonably estimate the monetary amount of any such damages.

The Group estimates the possible outflow of economic benefits due to settlement of contingent liabilities by using all available inputs at the reporting date. Except for the items noted above, there are no contingent liabilities that could have a significant impact on the Group's operations in future periods.
No provision is recognized for the above contingent liabilities since the possibility of outflow of economic benefits is considered remote, or the provision cannot be reasonably estimated.

36. Major Consolidated Subsidiaries and Associates

Major consolidated subsidiaries and associates as of March 31, 2019 are as follows:
There were no significant changes in percentage of voting rights from March 31, 2018.

Consolidated Subsidiaries

Company	Location	Function	Percentage of voting rights (%)
Daiichi Sankyo Espha Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Healthcare Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Propharma Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Chemical Pharma Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo RD Novare Co.,Ltd.	Edogawa-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Business Associe Co., Ltd.	Chuo-ku, Tokyo, Japan	Other	100.0
Kitasato Daiichi Sankyo Vaccine Co., Ltd.	Kitamoto, Saitama, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Biotech Co., Ltd.	Kitamoto, Saitama, Japan	Pharmaceuticals	100.0
Japan Vaccine Distribution Co., Ltd. (note)	Chiyoda-ku, Tokyo, Japan	Pharmaceuticals	50.0
Daiichi Sankyo U.S. Holdings, Inc.	New Jersey, United States	Pharmaceuticals	100.0
Daiichi Sankyo Inc.	New Jersey, United States	Pharmaceuticals	100.0
Plexxikon Inc.	California, United States	Pharmaceuticals	100.0
American Regent, Inc.	New York, United States	Pharmaceuticals	100.0
Ambit Biosciences Corp.	California, United States	Pharmaceuticals	100.0
Daiichi Sankyo Europe GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo France SAS	Ryu El Malmaison, France	Pharmaceuticals	100.0
Daiichi Sankyo Deutschland GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo Italia S.p.A.	Rome, Italy	Pharmaceuticals	100.0
Daiichi Sankyo España S.A.	Madrid, Spain	Pharmaceuticals	100.0
Daiichi Sankyo UK Ltd.	Buckinghamshire, United Kingdom	Pharmaceuticals	100.0
Daiichi Sankyo (China) Holdings Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.	Beijing, China	Pharmaceuticals	100.0
Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Taiwan Ltd.	Taipei, Taiwan	Pharmaceuticals	100.0
Daiichi Sankyo Korea Co., Ltd.	Seoul, South Korea	Pharmaceuticals	100.0
Daiichi Sankyo Brasil Farmacêutica LTDA.	Sao Paulo, Brazil	Pharmaceuticals	100.0

Associates accounted for using the equity method

Company	Location	Function	Percentage of voting rights (%)
Japan Vaccine Co., Ltd.	Chiyoda-ku, Tokyo, Japan	Pharmaceuticals	50.0
Hitachi Pharma Evolutions Ltd.	Chiyoda-ku, Tokyo, Japan	Other	49.0

Notes:
The Group includes Japan Vaccine Distribution Co., Ltd. as its consolidated subsidiary because the Group has substantial control over Japan Vaccine Distribution Co., Ltd. despite the fact that the Group does not own more than 50% of the voting interest.

37. Subsequent Events

The Company transferred and leased back its own fixed assets on April 25, 2019 for reduction and optimization of the Group's total assets. The overview of the transaction is as follows:

- Name of the assets: Daiichi Sankyo Nihonbashi Building
- Address of the assets: 3-14-2, Nihonbashi, Chuo-ku, Tokyo
- Type of assets: Land and building
- Current use of the assets: facilities for administration
- Execution date of the transfer agreement: March 29, 2019
- Execution date of the lease agreement: April 25, 2019
- Date of the transfer: April 25, 2019
- Gain from the transfer: Approximately 10.6 billion yen*

* The amount of gain is approximate after deduction of costs relating to the transfer and will be recorded in the first quarter for the year ending March 31, 2020.

Due to the arrangement between the Company and the transferee, the name of the transferee, the transfer price and the book value of the assets shall not be disclosed. There are no capital, personal or business relationships to be disclosed between the Group and the transferee, and the transferee is not a related party of the Group.

Independent Auditor's Report

To the Board of Directors of Daiichi Sankyo Co., Ltd.:

We have audited the accompanying consolidated financial statements of Daiichi Sankyo Co., Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Daiichi Sankyo Co., Ltd. and its subsidiaries as at March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

We have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

KPMG AZSA LLC

KPMG AZSA LLC
June 17, 2019
Tokyo, Japan