Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 March, 2020

Daiichi-Sankyo

Daiichi Sankyo Company, Limited

Contents

Consolidated Financial Statements

1) Consolidated Statement of Financial Position

(Millions of Yen)

	Note	As of March 31, 2019	As of March 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	8,30	243,155	424,184
Trade and other receivables	9	419,609	309,363
Other financial assets	10	536,880	466,528
Inventories	11	176,067	173,362
Other current assets		15,471	10,546
Subtotal		1,391,183	1,383,984
Assets held for sale	12	2,000	134
Total current assets		1,393,184	1,384,119
Non-current assets			
Property, plant and equipment	6,13	229,085	247,053
Goodwill	6,14	77,851	76,760
Intangible assets	6,14	169,472	172,499
Investments accounted for using the equity method	15	2,200	383
Other financial assets	10	114,895	97,974
Deferred tax assets	16	94,809	114,748
Other non-current assets		6,551	12,079
Total non-current assets		694,866	721,499
Total assets		2,088,051	2,105,619

(Millions of Yen)

	Note	As of March 31, 2019	As of March 31, 2020
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	17,21	312,660	270,867
Bonds and borrowings	18,30	40,000	40,389
Other financial liabilities	18	530	9,490
Income taxes payable	16	10,451	9,937
Provisions	19	7,837	5,367
Other current liabilities		12,715	15,019
Subtotal		384,195	351,071
Liabilities directly associated with assets held for sale	12	349	—
Total current liabilities		384,544	351,071
Non-current liabilities			
Bonds and borrowings	18,30	220,585	183,811
Other financial liabilities	18	5,680	37,118
Post-employment benefit liabilities	20	10,384	5,263
Provisions	19	4,985	10,597
Deferred tax liabilities	16	17,166	15,641
Other non-current liabilities	21	195,000	195,840
Total non-current liabilities		453,802	448,273
Total liabilities		838,346	799,344
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	(162,964)	(162,519)
Other components of equity	22	115,166	82,094
Retained earnings		1,152,806	1,241,600
Total equity attributable to owners of the Company		1,249,642	1,305,809
Non-controlling interests			
Non-controlling interests		62	464
Total equity		1,249,705	1,306,274
Total liabilities and equity		2,088,051	2,105,619

2) Consolidated Statement of Profit or Loss

(Millions of Yen)

	Note	Year ended March 31, 2019	Year ended March 31, 2020
Revenue	6,24	929,717	981,793
Cost of sales	25,26	364,605	343,206
Gross profit		565,112	638,586
Selling, general and administrative expenses	26	277,695	302,320
Research and development expenses	26	203,711	197,465
Operating profit		83,705	138,800
Financial income	27	8,141	9,849
Financial expenses	27	5,910	7,813
Share of profit (loss) of investments accounted for using the equity method	15	(105)	327
Profit before tax		85,831	141,164
Income taxes	16	(7,591)	12,196
Profit for the year		93,422	128,967
Profit attributable to:			
Owners of the Company		93,409	129,074
Non-controlling interests		12	(107)
Profit for the year		93,422	128,967
Earnings per share	28		
Basic earnings per share (Yen)		144.20	199.21
Diluted earnings per share (Yen)		143.88	198.80

3) Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Note	Year ended March 31, 2019	Year ended March 31, 2020
Profit for the year		93,422	128,967
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	16	60,976	(7,682)
Remeasurements of defined benefit plans	16	205	(4,272)
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	16,32	9,289	(15,409)
Other comprehensive income for the year		70,471	(27,364)
Total comprehensive income for the year		163,893	101,602
Total comprehensive income attributable to:			
Owners of the Company		163,881	101,710
Non-controlling interests		12	(107)
Total comprehensive income for the year		163,893	101,602

4) Consolidated Statement of Changes in Equity

Year ended March 31, 2019

(Millions of yen)

	Note	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 for the year	16	–	–	–	–	9,289	60,976
Total comprehensive income for the year		–	–	–	–	9,289	60,976
Purchase of treasury shares		–	–	(45)	–	–	–
Cancellation of treasury shares		–	–	612	(187)	–	–
Dividends	23	–	–	–	–	–	–
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)

	Note	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 for the year	16	205	70,471	–	70,471	–	70,471
Total comprehensive income 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	23	–	–	(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

Year ended March 31, 2020

(Millions of yen)

	Note	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, 2019		50,000	94,633	(162,964)	1,805	66,628	46,732
Changes in accounting policies	2	–	–	–	–	–	–
Adjusted balance as of April 1, 2019		50,000	94,633	(162,964)	1,805	66,628	46,732
Profit for the year		–	–	–	–	–	–
Other comprehensive income for the year		–	–	–	–	(15,409)	(7,682)
Total comprehensive income for the year		–	–	–	–	(15,409)	(7,682)
Purchase of treasury shares		–	–	(85)	–	–	–
Cancellation of treasury shares		–	–	530	(194)	–	–
Dividends	23	–	–	–	–	–	–
Changes associated with obtaining control of subsidiaries		–	–	–	–	–	–
Changes associated with losing control of subsidiaries		–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	–	(9,785)
Total transactions with owners of the Company		–	–	445	(194)	–	(9,785)
Balance as of March 31, 2020		50,000	94,633	(162,519)	1,611	51,218	29,264

(Millions of yen)

	Note	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, 2019		–	115,166	1,152,806	1,249,642	62	1,249,705
Changes in accounting policies	2	–	–	(375)	(375)	–	(375)
Adjusted balance as of April 1, 2019		–	115,166	1,152,431	1,249,267	62	1,249,329
Profit for the year		–	–	129,074	129,074	(107)	128,967
Other comprehensive income for the year		(4,272)	(27,364)	–	(27,364)	–	(27,364)
Total comprehensive income for the year		(4,272)	(27,364)	129,074	101,710	(107)	101,602
Purchase of treasury shares		–	–	–	(85)	–	(85)
Cancellation of treasury shares		–	(194)	(64)	271	–	271
Dividends	23	–	–	(45,354)	(45,354)	–	(45,354)
Changes associated with obtaining control of subsidiaries		–	–	–	–	576	576
Changes associated with losing control of subsidiaries		–	–	–	–	(67)	(67)
Transfer from other components of equity to retained earnings		4,272	(5,512)	5,512	–	–	–
Total transactions with owners of the Company		4,272	(5,707)	(39,905)	(45,167)	509	(44,658)
Balance as of March 31, 2020		–	82,094	1,241,600	1,305,809	464	1,306,274

5) Consolidated Statement of Cash Flows

(Millions of Yen)

	Note	Year ended March 31, 2019	Year ended March 31, 2020
Cash flows from operating activities			
Profit before tax		85,831	141,164
Depreciation and amortization		46,169	52,611
Impairment losses		15,194	7,548
Financial income		(8,141)	(9,849)
Financial expenses		5,910	7,813
Share of (profit) loss of investments accounted for using the equity method		105	(327)
(Gain) loss on sale and disposal of non-current assets		(7,562)	(9,309)
(Increase) decrease in trade and other receivables		(187,792)	110,165
(Increase) decrease in inventories		(4,018)	(7,392)
Increase (decrease) in trade and other payables		60,419	(44,726)
Others, net		118,395	(29,650)
Subtotal		124,510	218,047
Interest and dividends received		5,437	7,261
Interest paid		(1,768)	(2,526)
Income taxes paid		(36,146)	(26,181)
Net cash flows from (used in) operating activities		92,033	196,601
Cash flows from investing activities			
Payments into time deposits		(452,338)	(881,884)
Proceeds from maturities of time deposits		378,448	908,646
Acquisition of securities		(149,672)	(152,836)
Proceeds from sale of securities		136,858	208,547
Acquisition of property, plant and equipment		(36,108)	(31,936)
Proceeds from sale of property, plant and equipment		1,901	157
Acquisition of intangible assets		(30,505)	(20,629)
Acquisition of subsidiaries		–	463
Proceeds from sale of subsidiary	33	752	37,128
Payments for loans receivable		(548)	(533)
Proceeds from collection of loans receivable		839	520
Others, net		7,852	14,028
Net cash flows from (used in) investing activities		(142,520)	81,673
Cash flows from financing activities			
Proceeds from bonds and borrowings		–	3,981
Repayments of bonds and borrowings	33	(20,000)	(40,387)
Purchase of treasury shares		(45)	(85)
Proceeds from sale of treasury shares		0	0
Dividends paid		(45,339)	(45,356)
Others, net	33	(819)	(9,790)
Net cash flows from (used in) financing activities		(66,203)	(91,637)
Net increase (decrease) in cash and cash equivalents		(116,689)	186,636
Cash and cash equivalents at the beginning of the year	8	357,702	243,155
Effect of exchange rate changes on cash and cash equivalents		2,143	(5,608)
Cash and cash equivalents at the end of the year	8	243,155	424,184

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 49 companies including the Company, 47 subsidiaries and 1 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, 2020 were approved on June 15, 2020 by Sunao Manabe, Representative Director, President and CEO.

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 accounting standard.

[IFRS 16 "Leases"]

The Group adopted IFRS 16 "Leases" (issued in January 2016; hereafter "IFRS 16") from the year ended March 31, 2020. In adopting IFRS 16, the Group did not restate the comparative information and recognized the cumulative effect from initial application as an adjustment to the opening balance of retained earnings.

Regarding the determination of whether a contract is or contains a lease on transition to IFRS 16, the Group elected the practical expedient prescribed in IFRS 16 paragraph C3 and continued to apply the assessment under IAS 17 "Leases" (hereafter "IAS 17") and IFRIC 4 "Determining whether an Arrangement Contains a Lease". From the date of initial application, this assessment is determined based on the provisions of IFRS 16.

As for leases as a lessee, the Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

A right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of the equivalent tangible fixed assets. In addition, a right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments are allocated to financial expenses and repayments of lease liabilities so that the interest expenses in each period during the lease term will result in a constant interest rate on the outstanding lease liability. A lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

As for leases as a lessee which the Group previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities were recognized at the date of initial application. Lease liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate is 0.61%. Right-of-use assets were measured at either:

・carrying amounts as if IFRS 16 had been applied since the commencement date of the leases, but discounted using the lessee's incremental borrowing rate at the date of initial application; or

・amounts equal to lease liabilities as adjusted for prepaid or accrued lease payments.

As for leases as a lessee which the Group previously classified as finance leases applying IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are measured respectively as the carrying amounts of lease assets and lease liabilities based on IAS 17 immediately before the date of initial application.

As a result, compared to the application of the previous accounting standards, at the beginning of the year ended March 31, 2020, right-of-use assets included in "Property, plant and equipment", "Trade and other receivables", "Other financial assets", "Deferred tax assets" and lease liabilities included in "Other financial liabilities" increased by 28,698 million yen, 2,881 million yen, 2,884 million yen, 46 million yen and 40,874 million yen, respectively, and "Intangible assets", "Other non-current liabilities", "Provisions" and "Retained earnings" decreased by 479 million yen, 3,424 million yen, 3,040 million yen and 375 million yen, respectively.

The Group applied following practical expedients in adopting IFRS 16:

・Right-of-use assets and lease liabilities for short-term leases and leases of low-value assets are not recognized;

・Leases for which the lease term will end within 12 months from the date of initial application are accounted for in the same way as short-term leases;

・Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

The following table shows the reconciliation of non-cancelable operating lease contracts at March 31, 2019 within the scope of IAS 17 and lease liabilities included in the consolidated statement of financial position at the date of initial application:

(Millions of Yen)

Operating lease contracts disclosed in the Group's consolidated financial statements as of March 31, 2019	29,104
Amounts discounted using the incremental borrowing rate as of April 1, 2019	24,525
Finance lease liabilities recognized on March 31, 2019	1,338
Leases of low-value assets	(596)
Cancelable operating lease contracts and other	16,945
Lease liabilities recognized as of April 1, 2019	42,212

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 ceases 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: 9 to 18 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

The Group adopted IFRS 16 by applying the transitional option in the standard based on which it did not restate comparative information and reported leases in accordance with IAS 17 and IFRIC 4. Explanations of accounting policies based on IAS 17 and IFRIC 4 are provided below only if they differ from the accounting policies in accordance with IFRS 16. the effects arising from this change in accounting policies are described in Note 2 “Basis of Preparation.”

a. As a lessee

i) Policies applied from the beginning of the current reporting period

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.
A right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of tangible fixed assets. In addition, a right-of use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate.
Lease payments are allocated to financial expenses and repayments of lease liabilities so that the interest expenses each period during the lease term will result in a constant interest rate on the outstanding lease liability.
A lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.
When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.
The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) Policies applied in previous reporting periods

A lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership of an asset, otherwise it was classified as an operating lease.

Under finance lease transactions, finance leases were recognized as leased assets and lease obligations at the lower of the fair value of the leased properties and the present value of the minimum lease payments.

Leased assets were depreciated by the straight-line method over the shorter of the lease term and the useful life.

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

b. As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, if the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset, then it is a finance lease; if not, then it is an operating lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

For the year ended March 31, 2019, the accounting policies applied by the Group to account for leases as a lessor are consistent with the requirements of IFRS 16. However, when the Group acts as an intermediate lessor, a sub-lease is classified by reference to the underlying asset, rather than by reference to the right-of-use asset.

(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 not amortized but 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)
- 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)
- Fair value of financial instruments (Note 30. Financial Instruments)
- Contingent liabilities (Note 36. Contingent Liabilities)

The impact due to the spread of the novel coronavirus on the Group’s business activities and performance is limited, though it is still difficult to anticipate the timing when the pandemic will be resolved. As a result, the Group does not currently expect any changes due to the pandemic in significant accounting judgments, estimates and assumptions in the preparation of the consolidated financial statements as of March 31, 2020.

5. Standards and Interpretations Issued but Not Yet Adopted

The new and revised accounting standards and interpretations issued and to be adopted by the Group in the year ending March 31, 2021 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, 2022 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, 2019		Year ended March 31, 2020		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	861,116	92.6	911,262	92.8	50,146	5.8
Healthcare (OTC) products	66,377	7.1	68,403	7.0	2,026	3.1
Others	2,223	0.3	2,127	0.2	(96)	(4.3)
Total	929,717	100.0	981,793	100.0	52,076	5.6

(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, 2019	595,901	160,220	89,759	83,835	929,717
Year ended March 31, 2020	607,712	183,081	95,728	95,271	981,793

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, 2019	270,072	165,077	33,520	7,738	476,409
As of March 31, 2020	282,865	167,016	39,146	7,284	496,313

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, 2019	Year ended March 31, 2020
Alfresa Holdings Corporation and its group companies	195,578	196,146
Suzuken Co., Ltd. and its group companies	93,697	95,459

7. Business Combination

(1) Significant business combination

Year ended March 31, 2019

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

Year ended March 31, 2020

There were no significant business combinations for the year ended March 31, 2020.

(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 10,371 million yen (undiscounted).

The exposure to foreign currency exchange risks at the reporting date is 71,218 thousand U.S. dollar. The impact of a 1% appreciation in the Yen against the U.S. dollar on profit before tax is 77 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 30 "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, 2019	Year ended March 31, 2020
Balance at the beginning of the year	5,760	7,661
Increase arising from business combination	-	-
Changes in fair value during the period	1,643	239
Settled during the period	-	-
Exchange differences	256	(150)
Balance at the end of the year	7,661	7,750

8. Cash and Cash Equivalents

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

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Cash and bank deposits	154,859	280,409
Short-term investments	88,295	143,775
Total	243,155	424,184

Note:
"Cash and cash equivalents" are classified as financial assets measured at amortized cost.

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, 2019	As of March 31, 2020
Notes and accounts receivable - trade	360,789	283,068
Accounts receivable - other	47,783	14,060
Other receivables	11,449	12,763
Allowance for doubtful accounts	(413)	(529)
Total	419,609	309,363

Note:
"Notes and accounts receivable - trade" and "Accounts receivable - other" are classified as financial assets measured at amortized cost.

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, 2019	As of March 31, 2020
Financial assets measured at amortized cost:		
Bank deposits	219,105	217,058
Loans receivable	412	412
Bonds	137,932	95,835
Others	143	119
Financial assets measured at fair value through profit or loss:		
Derivative assets	-	10
Others	179,285	153,091
Total	536,880	466,528

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, 2019	As of March 31, 2020
Financial assets measured at amortized cost:		
Loans receivable	797	737
Bonds	-	1,014
Others	6,349	15,378
Financial assets measured at fair value through profit or loss:		
Bonds	573	547
Others	9,317	9,694
Financial assets measured at fair value through other comprehensive income:		
Equity securities	97,801	70,558
Others	56	43
Total	114,895	97,974

(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, 2019	As of March 31, 2020
Maruho Co., Ltd.	6,549	6,555
Alfresa Holdings Corporation	10,096	6,455
Shizuoka Bank, Ltd.	7,876	6,138
Ultragenyx Pharmaceutical Inc.	-	6,014
MEDIPAL HOLDINGS CORPORATION	5,743	4,407
Others	67,589	41,030

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, 2019 and 2020, 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, 2019		Year ended March 31, 2020	
	Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)
Equity securities	14,308	10,647	22,335	14,453
Others	0	(30)	-	29

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, 2019	As of March 31, 2020
Merchandise and finished goods	122,594	122,526
Work in process	24,400	22,130
Raw materials	29,072	28,706
Total	176,067	173,362

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, 2019 and 2020 are 313,147 million yen and 308,982 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, 2019 and 2020 are 6,740 million yen and 8,022 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, 2019	As of March 31, 2020
Assets held for sale		
Property, plant and equipment	2,000	-
Intangible assets	-	134
Total	2,000	134
Liabilities directly associated with assets held for sale		
Deferred tax liabilities	349	-
Total	349	-

Notes:

1. Transactions involving the sale of assets classified as assets held for sale as of March 31, 2019 were completed during the first quarter of the year ended March 31, 2020.
2. Transactions involving the sale of assets and liabilities classified as assets and liabilities held for sale as of the second quarter of the year ended March 31, 2020 were completed during the third quarter of the year ended March 31, 2020. For more details, see Note 25 “Cost of sales.”

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, 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
Adjustment due to adoption of IFRS 16	41,605	1,374	77	-	43,057
Balance as of April 1, 2019	385,439	240,899	95,519	27,781	749,639
Individual acquisitions	22,222	14,608	6,758	26,631	70,221
Sales or disposals	(6,632)	(10,986)	(3,730)	(13)	(21,364)
Reclassification to assets held for sale	(18,148)	(31,374)	(2,513)	(638)	(52,675)
Exchange differences	(1,680)	(1,581)	(618)	(148)	(4,029)
Other increases and decreases	(413)	(298)	18	(32,488)	(33,182)
Balance as of March 31, 2020	380,786	211,265	95,433	21,123	708,609

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, 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
Adjustment due to adoption of IFRS 16	14,275	50	32	-	14,358
Balance as of April 1, 2019	222,728	189,179	79,947	-	491,855
Depreciation	13,966	11,855	6,080	-	31,902
Impairment loss	54	1,165	57	-	1,277
Sales or disposals	(6,412)	(10,576)	(3,644)	-	(20,633)
Reclassification to assets held for sale	(12,130)	(26,102)	(2,181)	-	(40,415)
Exchange differences	(791)	(857)	(448)	-	(2,097)
Other increases and decreases	(164)	(129)	(37)	-	(332)
Balance as of March 31, 2020	217,249	164,534	79,772	-	416,556

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, 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
Balance as of March 31, 2020	163,536	46,731	15,661	21,123	247,053

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 and 1,277 million yen were recognized for the year ended March 31, 2019 and 2020, respectively, and recorded in “Cost of sales”, “Selling, general and administrative expenses” and “Research and development expenses” 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 previous reporting period are as follows:

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 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, 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
Adjustment due to adoption of IFRS 16	-	-	(948)	-	(948)
Balance as of April 1, 2019	77,851	82,761	287,161	25,060	394,983
Individual acquisitions	-	1,172	29,085	4,226	34,484
Acquisition through business combinations	-	-	468	-	468
Sales or disposals	-	-	(8,953)	(2,503)	(11,456)
Reclassification to assets held for sale	-	-	(38,624)	-	(38,624)
Exchange differences	(1,090)	(1,748)	(4,435)	(461)	(6,645)
Other increases and decreases	-	(29,405)	29,450	(2,165)	(2,120)
Balance as of March 31, 2020	76,760	52,779	294,152	24,156	371,088

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, 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
Adjustment due to adoption of IFRS 16	-	-	(468)	-	(468)
Balance as of April 1, 2019	-	-	204,844	21,145	225,989
Amortization	-	-	19,250	1,313	20,564
Impairment loss	-	-	6,271	-	6,271
Sales or disposals	-	-	(8,953)	(2,497)	(11,451)
Reclassification to assets held for sale	-	-	(38,483)	-	(38,483)
Exchange differences	-	-	(3,914)	(400)	(4,315)
Other increases and decreases	-	-	14	-	14
Balance as of March 31, 2020	-	-	179,029	19,560	198,589

c. Carrying amounts

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 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
Balance as of March 31, 2020	76,760	52,779	115,123	4,596	172,499

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

The Group allocates major goodwill to two groups of cash-generating units, the prescription drug business and the healthcare (OTC) products business. The carrying amounts of goodwill allocated to each group as of March 31, 2019 and 2020 are 57,919 and 56,906 million yen to the prescription drug business, respectively, and 16,000 million yen to the healthcare (OTC) products business.

The carrying amount of intangible assets mainly consists of:

- commercial rights of TURALIO owned by Plexxikon Inc. of 25,522 million yen at March 31, 2020, which were in-process research and development of 27,386 million yen at March 31, 2019. They are amortized based on the straight-line method and the remaining amortization period as of March 31, 2020 is 13 years;
- commercial rights of Vimpat owned by Daiichi Sankyo Company Limited of 11,265 million yen and 9,729 million yen at March 31, 2019 and 2020, respectively, which are amortized based on the straight-line method with remaining amortization period as of March 31, 2020 of 6 years;
- patent rights for the introduction of gene therapy manufacturing technology from Ultragenyx Pharmaceutical Inc. of 15,205 million yen at March 31, 2020, which are amortized based on the straight-line metod with remaining amortization period as of March 31, 2020 of 3 years;
- in-process research and development of Quizartinib owned by Ambit Biosciences Corporation of 28,601 million yen and 26,585 million yen at March 31, 2019 and 2020, respectively;
- in-process research and development of Bempedoic Acid by Daiichi Sankyo Europe GmbH of 16,471 million yen and 15,821 million yen at March 31, 2019 and 2020.

(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 203,711 million yen and 197,465 million yen for the years ended March 31, 2019 and 2020, 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 and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2020. The pre-tax discount rates for the years ended March 31, 2019 and 2020 were 6.9% and 6.6%, respectively. 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 and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2020. The pre-tax discount rate for the year ended March 31, 2019 and 2020 was 7.7%. 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 15,084 million yen and 6,271 million yen were recognized for the years ended March 31, 2019 and 2020, respectively, and recorded in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

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.

The impairment loss for the year ended March 31, 2020 was mainly related to foreign subsidiaries’ commercial rights, and the Group recognized an impairment loss resulting mainly from an indicator of potential impairment that profitability declined due to market entry of competitive products etc.

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, 2019	As of March 31, 2020
Current assets	11,272	3,375
Non-current assets	797	1,046
Total assets	12,069	4,421
Current liabilities	7,151	2,504
Non-current liabilities	374	509
Total liabilities	7,526	3,013
Total equity	4,543	1,407

(2) Statement of Profit or Loss

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Revenue	37,581	7,891
Expenses	37,311	7,509
Profit for the year	269	381

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, 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.

Year ended March 31, 2020

(Millions of Yen)

	Balance as of April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2020
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	14,181	4,124	-	-	18,306
Depreciation and amortization	4,196	(1,050)	-	-	3,146
Unrealized gain and valuation loss of inventories	16,887	(552)	-	-	16,335
Unused tax losses	35,424	11,705	-	-	47,130
Accrued expenses	19,144	1,686	-	-	20,830
Accounts payable - other	12,125	(12,125)	-	-	-
Post-employment benefit liabilities	6,283	(4,661)	2,104	-	3,726
Valuation loss of securities	1,544	(149)	-	-	1,395
Impairment loss	7,506	422	-	-	7,929
lease liabilities	-	556	-	11,334	11,891
Others	21,535	959	-	(1,467)	21,028
Total	138,832	917	2,104	9,866	151,720
Deferred tax liabilities					
Intangible assets	17,341	(1,674)	-	-	15,667
Financial assets measured at fair value through other comprehensive income	21,404	-	(7,677)	-	13,726
Reserve for advanced depreciation of property, plant and equipment	6,781	(534)	-	-	6,247
Accounts receivable - other	11,959	(11,959)	-	-	-
Right-of-use assets	-	1,093	-	7,999	9,092
Others	3,700	2,420	-	1,759	7,880
Total	61,188	(10,655)	(7,677)	9,758	52,613
Net balance	77,643	11,572	9,782	108	99,106

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 Company and certain domestic consolidated subsidiaries applied for approval of a consolidated taxation system during the year ended March 31, 2020, and it will be adopted from the year ending March 31, 2021. Therefore, the relevant accounting as of and for the year ended March 31, 2020 assumes such adoption of a consolidated taxation system. As a result, “Deferred tax assets” increased by 13,050 million yen and “Income taxes” decreased by the same amount as of March 31, 2020.

(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, 2019	As of March 31, 2020
Deductible temporary differences	55,577	54,332
Unused tax losses		
Within 1 year	0	3,782
Over 1 year within 5 years	12,802	58,408
Over 5 years	157,097	33,437
Total	169,899	95,629
Unused tax credits		
Within 1 year	139	-
Over 1 year within 5 years	136	323
Over 5 years	3,201	2,479
Total	3,477	2,802

(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 120,106 million yen and 84,466 million yen at March 31, 2019 and 2020, 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, 2019	Year ended March 31, 2020
Current period income taxes	31,284	24,440
Deferred income taxes		
Origination and reversal of temporary differences	(8,520)	7,737
Change in income tax rate or imposition of new taxation	268	105
Adjustments and reversals of deferred tax assets	(30,623)	(20,087)
Total	(38,875)	(12,243)
Total income tax expenses	(7,591)	12,196

(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, 2019			Year ended March 31, 2020		
	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	(10,382)	71,359	60,976	(10,945)	3,263	(7,682)
Remeasurements of defined benefit plans	639	(433)	205	(6,370)	2,097	(4,272)
Exchange differences on translation of foreign operations	9,289	-	9,289	(15,409)	-	(15,409)
Total	(454)	70,925	70,471	(32,725)	5,361	(27,364)

(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, 2019	Year ended March 31, 2020
Statutory tax rate	30.5%	30.5%
Permanent non-deductible expenses such as entertainment expenses	1.9%	1.0%
Permanent non-taxable income such as dividends received	(0.4%)	(0.2%)
Changes in unrecognized deferred tax assets	(34.8%)	(14.2%)
Effect of different tax rates in foreign jurisdictions	(4.9%)	(3.2%)
Tax credit for research and development expenses	(2.6%)	(3.6%)
Adjustment to period-end deferred tax assets due to change in tax rate	0.3%	(0.1%)
Others	1.2%	(1.6%)
Effective tax rate	(8.8%)	8.6%

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 rate based on these taxes is 30.5% for the year ended March 31, 2019 and 2020. The statutory tax rate used for the calculation of deferred tax assets and liabilities is 30.5% for the years ended March 31, 2019 and 2020. 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, 2019	As of March 31, 2020
Notes and accounts payable-trade	73,465	70,149
Accounts payable - other	114,039	91,440
Others	125,156	109,277
Total	312,660	270,867

Note:
"Notes and accounts payable-trade" and "Accounts payable – other" are classified as financial liabilities measured at amortized cost.

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, 2019	As of March 31, 2020
Financial liabilities measured at amortized cost:		
Unsecured corporate bonds	40,000	20,000
Unsecured bank loans	-	20,000
Other borrowings	-	389
Total	40,000	40,389

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Financial liabilities measured at amortized cost:		
Unsecured corporate bonds	139,585	119,606
Unsecured bank loans	81,000	61,000
Other borrowings	-	3,204
Total	220,585	183,811

(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, 2019	As of March 31, 2020
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	107	-
Lease liabilities	422	9,490
Total	530	9,490

Note:

The Group has applied IFRS 16 for lease liabilities from the year ended March 31, 2020 and applied IAS 17 and IFRIC 4 for the year ended March 31, 2019.

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Financial liabilities measured at amortized cost:	2,952	3,227
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	1,811	1,248
Lease liabilities	916	32,641
Total	5,680	37,118

Note:

The Group has applied IFRS 16 for lease liabilities from the year ended March 31, 2020 and applied IAS 17 and IFRIC 4 for the year ended March 31, 2019.

(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, 2019	As of March 31, 2020	Interest rate	Maturity date
Daiichi Sankyo Company Limited	2nd Unsecured corporate bonds	June 24, 2009	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	140,000	-	-

(4) Terms of Borrowings

Terms of borrowings are as follows:

(Millions of Yen)

Category	As of March 31, 2019	As of March 31, 2020	Average interest rate	Repayment period
Current portion of long-term borrowings	-	20,000	0.00%	-
Long-term borrowings	81,000	61,000	0.01%	Year 2021 to 2023
Other borrowings	-	3,594	-	-
Total	81,000	84,594	-	-

Note:

Average interest rate is calculated using the ending balance of the borrowings and the interest rates as of March 31, 2020.

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, 2019

(Millions of Yen)

	Restructuring	Environmental measures	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	91	-	3,119	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	91	-	1,861	12,822
Current liabilities	6,485	91	-	1,259	7,837
Non-current liabilities	4,383	-	-	601	4,985
Total	10,869	91	-	1,861	12,822

Year ended March 31, 2020

(Millions of Yen)

	Restructuring	Environmental measures	Loss on litigation	Others	Total
Balance as of March 31, 2019	10,869	91	-	1,861	12,822
Adjustment due to adoption of IFRS 16	(3,040)	-	-	-	(3,040)
Balance as of April 1, 2019	7,828	91	-	1,861	9,782
Increase during the period	411	8,198	-	1,541	10,151
Utilized	(1,851)	(91)	-	(1,037)	(2,980)
Reversed unused	(604)	(0)	-	(94)	(698)
Interest cost due to unwinding of discount	3	-	-	2	6
Exchange differences	(200)	-	-	(117)	(317)
Other increases and decreases	-	-	-	21	21
Balance as of March 31, 2020	5,588	8,198	-	2,178	15,965
Current liabilities	3,809	198	-	1,359	5,367
Non-current liabilities	1,779	8,000	-	818	10,597
Total	5,588	8,198	-	2,178	15,965

(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, 2019 and 2020.

a. 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.

b. Environmental measures

In the year ended March 31, 2020, the Company decided to start removal work for contaminated soil storage facilities on the site of the former Yasugawa Plant from the following financial year.

Consequently, the estimated cost of the removal work of 8,198 million yen is recorded in “Provisions for environmental measures” as of March 31, 2020, and the resulting expenditure is expected to be incurred from the years ending March 31, 2021 to 2024. Details of the removal work are provided in Note 36 “Contingent Liabilities.”

c. 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.

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. The Group introduced a risk reserve contribution which contributes in advance in case of future financial risks from the year ended March 31, 2020. 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, 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
Current service cost	5,650	440	6,091
Interest cost	884	267	1,151
Benefits paid	(5,364)	(714)	(6,079)
Employee contributions	-	187	187
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	(325)	13	(311)
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	(2,144)	(457)	(2,601)
Past service cost	-	1	1
Curtailment and settlement	(1,153)	2	(1,150)
Exchange differences	-	(704)	(704)
Other increases and decreases	-	122	122
Balance as of March 31, 2020	146,109	16,292	162,402

Note:

Expenses related to employee benefits are reported in Note 26 "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, 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
Interest income	856	229	1,086
Benefits paid	(4,904)	(479)	(5,384)
Employer contributions	22,093	395	22,489
Employee contributions	-	187	187
Remeasurement – Return on plan assets	(8,925)	10	(8,914)
Curtailment and settlement	(916)	-	(916)
Exchange differences	-	(608)	(608)
Other increases and decreases	-	117	117
Balance as of March 31, 2020	151,469	14,168	165,637

Note:

The Group expects to contribute 14,140 million yen to defined benefit pension plans for the year ending March 31, 2021.

(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, 2019	As of March 31, 2020	As of March 31, 2019	As of March 31, 2020
Equity securities	49,586	47,485	-	-
Bonds	43,603	46,331	-	-
Real estate	-	-	3,530	5,853
Life insurance general accounts	-	-	19,467	19,211
Others	18,145	17,519	8,932	15,067
Total	111,335	111,336	31,930	40,132

(Millions of Yen)

	Overseas plans			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2019	As of March 31, 2020
Equity securities	1,509	1,330	-	-
Bonds	610	567	-	-
Others	2,242	2,360	9,953	9,910
Total	4,361	4,258	9,953	9,910

(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, 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
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	367	367
Exchange differences	-	(18)	(18)
Balance as of March 31, 2020	-	733	733

(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, 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

As of March 31, 2020

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	146,109	16,292	162,402
Fair value of plan assets	(151,469)	(14,168)	(165,637)
Funding deficit	(5,359)	2,124	(3,235)
Impact of asset ceiling	-	733	733
Post-employment benefit assets	7,547	40	7,587
Others	168	8	177
Post-employment benefit liabilities	2,356	2,907	5,263

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

a. Significant actuarial assumptions

Significant actuarial assumptions are as follows:

	As of March 31, 2019	As of March 31, 2020
Discount rate		
Plans in Japan	0.6%	0.7%
Overseas plans	0.8%~13.9%	0.5%~12.0%

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, 2019	As of March 31, 2020
Discount rate		
Effect on defined benefit obligations of 1% increase	(22,302)	(21,614)
Effect on defined benefit obligations of 1% decrease	26,936	26,363

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.

In addition, the Group makes a risk reserve contribution in consideration of future financial risks.

f. Maturity Analysis of Defined Benefit Obligations

The weighted average duration of the defined benefit obligations are 14.7 years and 14.9 years as of March 31, 2019 and 2020, respectively.

(7) Defined Contribution Plans

Expenses related to defined contribution plans, which are mainly employer contributions were 14,230 million yen and 15,029 million yen for the years ended March 31, 2019 and 2020, 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, 2019	As of March 31, 2020
Trade and other payables	1,929	1,972
Other non-current liabilities	9,546	7,790

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, 2018	2,800,000
March 31, 2019	2,800,000
March 31, 2020	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, 2018	709,011	50,000	94,633
March 31, 2019	709,011	50,000	94,633
March 31, 2020	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, 2018	61,343	163,531
March 31, 2019	61,124	162,964
March 31, 2020	60,943	162,519

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 29 “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. 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.

d. Remeasurements of Defined Benefit Plans

Remeasurements of defined benefit liabilities and assets.

23. Dividends

(1) Amount of Dividends Paid

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

Year ended March 31, 2020

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
Board of Directors' meeting held on October 31, 2019	Ordinary shares	22,678	35.0	September 30, 2019	December 2, 2019

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

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

Year ended March 31, 2020

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 15, 2020	Ordinary shares	22,682	35.0	March 31, 2020	June 16, 2020

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	834,508
	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

Year ended March 31, 2020

(Millions of Yen)

		Region				
		Japan	North America	Europe	Other regions	Total
Sales of finished goods and merchandise	Prescription drugs	535,513	158,759	94,741	92,520	881,534
	Healthcare (OTC) products	67,606	-	-	431	68,037
	Total	603,119	158,759	94,741	92,951	949,571
License fee revenue		673	20,281	673	1,427	23,055
Others		3,919	4,040	313	892	9,166
Total		607,712	183,081	95,728	95,271	981,793

(3) Contract balances

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

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Accounts receivable arising from contracts with customers	360,376	282,539
Contract liabilities	160,422	160,353

Notes:

1. The main contract liabilities are consideration received from customers prior to satisfaction of performance obligations regarding license fee revenue.
2. The amount of revenue recognized out of the balance of contract liabilities as of April 1, 2019 and 2020 were 3,923 million yen and 14,022 million yen, respectively.
3. The amount of revenue in accordance with performance obligations satisfied or partially satisfied in prior periods for the years ended March 31, 2019 and 2020 were 7,117 million yen and 10,910 million yen, respectively, which were 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.

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Within 1 year	13,520	13,017
Over 1 year within 5 years	45,421	48,110
Over 5 years	101,239	99,105
Total	160,181	160,234

25. Cost of Sales

On October 1, 2019, the assets of the Takatsuki Plant owned by Daiichi Sankyo Propharma Co., Ltd. were transferred to Taiyo Pharma Tech Co., Ltd. through a corporate split. On the same day, the land and structures of the Takatsuki Plant owned by the Company were transferred to Taiyo Pharma Tech Co., Ltd. through a corporate split. Subsequently, on the same day, all shares of Taiyo Pharma Tech Co., Ltd. owned by the Company were transferred to Taiyo Holdings Co., Ltd. As a result, a gain on sale of subsidiary of 18,811 million yen was recorded and deducted from cost of sales for the year ended March 31, 2020.

26. Major Expenses by Nature

Information related to major expenses by nature is as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Advertisement and promotional expenses	87,509	86,337
Salaries and bonuses	166,635	179,429
Statutory benefits	17,084	17,051
Post-employment benefits	21,246	21,956
Other employee benefit expenses	3,355	4,485
Rent and leases	14,428	8,215
Depreciation and amortization	46,169	52,611
Gain on sale of property, plant and equipment	(9,060)	(10,744)
Gain on sale of subsidiaries	(1,171)	(18,815)
Loss on disposal of property, plant and equipment	1,497	1,435
Impairment loss	15,194	7,548
Restructuring costs	(876)	(198)

27. Financial Income and Financial Expenses

(1) Financial Income

Breakdown of "Financial income" is as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Interest income		
Financial assets measured at amortized cost:		
Bank deposits	1,177	1,716
Loans receivable	32	34
Bonds	2,391	2,788
Others	0	319
Financial assets measured at fair value through profit or loss	266	350
Dividend income		
Financial assets measured at fair value through other comprehensive income:		
Dividend income from financial assets held at the end of the year	1,728	1,385
Dividend income from financial assets derecognized during the year	207	306
Financial assets measured at fair value through profit or loss	398	457
Gain on sale		
Financial assets measured at fair value through profit or loss	0	0
Gain from change in fair value and realized gain		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	-	680
Others	1,841	1,721
Others	98	89
Total	8,141	9,849

(2) Financial Expenses

Breakdown of "Financial expenses" is as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Interest expenses		
Financial liabilities measured at amortized cost:		
Borrowings	9	97
Bonds	1,896	1,350
Others	13	0
Lease liabilities	34	887
Others	383	(31)
Loss on change in fair value and realized loss		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	593	470
Others	1,057	1,936
Net foreign exchange losses	68	2,645
Others	1,853	455
Total	5,910	7,813

Notes:

1. The Group has applied IFRS 16 for lease liabilities from the year ended March 31, 2020 and applied IAS 17 and IFRIC 4 for the year ended March 31, 2019.
2. "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.

28. Earnings Per Share

(1) Basis for calculation of Basic Earnings per Share

	Year ended March 31, 2019	Year ended March 31, 2020
a. Profit Attributable to owners of the Company		
Profit attributable to owners of the Company (Millions of Yen)	93,409	129,074
Profit not attributable to owners of the Company (Millions of Yen)	-	-
Profit used to calculate basic earnings per share (Millions of Yen)	93,409	129,074
b. Weighted-average Number of Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	647,785	647,946
c. Basic Earnings per Share		
Basic earnings per share (Yen)	144.20	199.21

(2) Basis for calculation of Diluted Earnings per Share

	Year ended March 31, 2019	Year ended March 31, 2020
a. Diluted Profit Attributable to owners of the Company		
Profit used to calculate basic earnings per share (Millions of Yen)	93,409	129,074
Adjustments to profit (Millions of Yen)	-	-
Profit used to calculate diluted earnings per share (Millions of Yen)	93,409	129,074
b. Weighted-average Number of Diluted Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	647,785	647,946
Potential effect of issue of subscription right to shares (Thousands of shares)	1,443	1,322
Weighted-average number of ordinary shares (diluted) (Thousands of shares)	649,228	649,269
c. Diluted Earnings per Share		
Diluted earnings per share (Yen)	143.88	198.80

29. 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, 2019	Year ended March 31, 2020
Grant date	July 17, 2018	July 16, 2019
Granted (Shares)	76,988	45,210
Fair value (Yen)	4,017	5,989

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, 2020

Details of stock option plans and unexercised balances as of March 31, 2020 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	25,600	February 15, 2008	From February 16, 2008 to February 15, 2038
2nd issuance subscription rights to shares (as stock options)	172,200	38,500	November 17, 2008	From November 18, 2008 to November 17, 2038
3rd issuance subscription rights to shares (as stock options)	230,800	90,200	August 17, 2009	From August 18, 2009 to August 17, 2039
4th issuance subscription rights to shares (as stock options)	237,100	131,800	August 19, 2010	From August 20, 2010 to August 19, 2040
5th issuance subscription rights to shares (as stock options)	232,800	145,500	July 12, 2011	From July 13, 2011 to July 12, 2041
6th issuance subscription rights to shares (as stock options)	295,400	225,700	July 9, 2012	From July 10, 2012 to July 9, 2042
7th issuance subscription rights to shares (as stock options)	192,800	169,400	July 8, 2013	From July 9, 2013 to July 8, 2043
8th issuance subscription rights to shares (as stock options)	145,000	133,600	July 8, 2014	From July 9, 2014 to July 8, 2044
9th issuance subscription rights to shares (as stock options)	118,700	110,300	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	1,205,800	-	-

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, 2019		Year ended March 31, 2020	
	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	1,512,100	1	1,359,400	1
Granted	-	-	-	-
Exercised	(152,700)	1	(153,600)	1
Expired	-	-	-	-
Unexercised balance at the end of the year	1,359,400	1	1,205,800	1
Options outstanding	1,359,400	1	1,205,800	1
Range of exercise prices	1 Yen		1 Yen	
Weighted average remaining contractual life	23.45 years		22.61years	

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 4,397 yen and 7,227 yen for the years ended March 31, 2019 and 2020, respectively.

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

No stock options were granted in the year ended March 31, 2019 and 2020.

(5) Share-based Payment Expenses

Breakdown of share-based payment expenses is as follows:

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Equity-settled	312	270
Cash-settled	7,047	12,435
Total	7,360	12,706

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 11,228 million yen and 16,884 million yen as of March 31, 2019 and 2020, respectively.

30. 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 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

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
Increase during the period	-	256	-	256
Utilized	-	(49)	-	(49)
Reversed unused	(0)	(32)	-	(32)
Others (including exchange differences)	(0)	(57)	-	(57)
Balance as of March 31, 2020	0	529	0	530

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	As of March 31, 2020
Before due	358,510	280,399
Past due by 30 days	984	1,994
Past due by 31-60 days	303	138
Past due by 61-90days	84	99
Past due by more than 90 days	905	436
Total	360,789	283,068

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, 2019	As of March 31, 2020
U.S. dollar (Thousands of U.S. dollar)	770,317	(75,386)
Euro (Thousands of Euro)	99,639	61,322

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, 2019	As of March 31, 2020
U.S. dollar	(855)	82
Euro	(124)	(73)

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, 2019	As of March 31, 2020
Borrowings with variable interest rates	20,000	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, 2019	As of March 31, 20
Impact on profit before tax	(200)	(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, 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

As of March 31, 2020

(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	139,606	158,620	21,131	1,076	1,076	20,992	907	113,436
Unsecured bank loans	81,000	81,028	20,008	20,008	20,008	21,004	-	-
Other borrowings	3,594	3,710	412	412	412	412	412	1,649
Lease liabilities	42,131	48,653	10,090	7,462	4,274	2,891	2,613	21,322
Derivative liabilities	1,248	1,287	498	426	269	93	-	-
Total	267,581	293,301	52,140	29,385	26,040	45,393	3,933	136,407

(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, 2019		As of March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	179,585	184,001	139,606	141,984
Borrowings	81,000	81,026	84,594	84,649

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 1 that 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, 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.

As of March 31, 2020

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Derivative assets	-	10	-	10
Bonds	-	547	-	547
Others	9,208	153,577	-	162,786
Financial assets measured at fair value through other comprehensive income:				
Equity securities	54,253	-	16,304	70,558
Others	-	-	43	43
Total	63,462	154,135	16,348	233,945
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	1,248	-	1,248
Contingent consideration	-	-	7,750	7,750
Total	-	1,248	7,750	8,999

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 153,091 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 (0.2) ~ 22.0 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, 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."

Year ended March 31, 2020

(Millions of Yen)

	Financial assets measured at fair value through other comprehensive income
Balance at the beginning of the year	16,952
Gain (Loss)	(413)
Purchase	125
Sale and settlement	(315)
Balance at the end of the year	16,348

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, 2019 and 2020, 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, 2019	As of March 31, 2020
Derivative liabilities		
Interest related	1,811	1,248
Currency related	107	-
Total	1,918	1,248

(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, 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	-

Year ended March 31, 2020

(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	54,948	49,160	5,787

(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	49,160	49,160	-

(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, 2019	As of March 31, 2020
Cash plus marketable securities (note 1)	779,479	891,184
Bonds and borrowings	260,585	224,201
Net cash	518,894	666,983
Total shareholder return ratio (note 2)	48.5%	35.1%

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.

31. Lease Transactions

(1) Lessee

The Group has entered into rental agreements mainly for real estate and machinery, and determines that a contract that transfers the right to control the use of specified assets for a certain period of time in exchange for consideration is a lease or contains a lease. As such, the Group recognizes the right-of-use assets and lease liabilities at the commencement date. However, for short-term leases or leases of low-value underlying assets, the Group expenses lease payments related to these leases over the lease term on a straight-line basis.

Mainly for contracts that are related to real estate, the lessee's options to extend leases are granted with a view to securing flexibility of substituting assets, reducing administrative tasks for asset management and enhancing efficiency etc.

Options to extend a lease period will be exercised when the Group determines necessary, comprehensively considering the necessity of the subject assets in carrying out businesses, the difficulty in acquiring alternative assets and the costs incurred to manage the assets. If the Group determines that it is reasonably certain that an extension option will be exercised at the commencement date, it includes the extended period in the lease term and includes the lease payments for that period in the measurement of lease liabilities. The lease extendable period by exercising the option and lease payments related to the extendable period are generally commensurate with or approximate to the original lease term and lease payments.

In addition, leases of real estate can be canceled without paying any penalty by submitting the notice of termination to the lessor within a certain period of time prior to the termination.

The Group presents the right-of-use assets as property, plant and equipment in the statement of financial position. The movement and the details of right-of-use assets are as follows:

(Millions of Yen)

	Land, building and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of March 31, 2019	-	1,213	25	1,239
Adjustment due to adoption of IFRS 16	27,329	1,324	44	28,698
Balance as of April 1, 2019	27,329	2,538	70	29,938
Individual acquisitions	6,963	2,039	104	9,107
Depreciation	(5,267)	(1,360)	(68)	(6,696)
Sales or disposals	(73)	(337)	-	(410)
Other increases and decreases	(489)	(119)	(1)	(610)
Balance as of March 31, 2020	28,462	2,760	105	31,328

The following shows the expenses and cash outflows related to leases, and increase in the right-of-use assets for the year ended March 31, 2020:

(Millions of Yen)

	Year ended March 31, 2020
Depreciation costs of the right-of-use assets	
Land, building and structures	5,267
Machinery and vehicles	1,360
Tools, furniture and fixtures	68
Total	6,696
Interest expenses for lease liabilities	887
Expenses for short-term leases	1,289
Expenses for leases of low-value underlying assets	3,878
Cash outflows related to leases	15,092
Increase in right-of-use assets	9,107

For the maturity analysis of lease liabilities, see Note 30 "Financial instruments."

The Company sold and leased back the Daiichi Sankyo Nihonbashi Building in the year ended March 31, 2020 for reduction and optimization of the Group's total assets. The Gain from this transaction recognized in the consolidated statement of profit or loss was 10,644 million yen.

(2) Lessor

The Group rents company houses to its employees. This transaction is defined as a sublease, and the lease term is consistent with the lease term of the head lease. The Group classifies the sublease as a finance lease.

32. Other Comprehensive Income

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

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Other comprehensive income that are or may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Change for the year	9,325	(15,409)
Reclassification adjustments	(36)	-
Subtotal	9,289	(15,409)
Other comprehensive income, before adjustments for tax effects	9,289	(15,409)
Tax effects	-	-
Total	9,289	(15,409)

33. Cash Flow Information

(1) Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

(Millions of Yen)

	Borrowings	Bonds	Lease liabilities	Total
Balance as of April 1, 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
Adujustment due to adoption of IFRS 16	-	-	40,874	40,874
Balance as of April 1, 2019	81,000	179,585	42,212	302,798
Changes from financing cash flows	3,594	(40,000)	(9,733)	(46,139)
Non-cash changes				
Acquisitions	-	-	9,827	9,827
Exchange differences	-	-	(176)	(176)
Others	-	21	-	21
Balance as of March 31, 2020	84,594	139,606	42,131	266,332

(2) Proceeds from sale of subsidiaries

Year ended March 31, 2019

Disclosure is omitted due to the immateriality.

Year ended March 31, 2020

The breakdown of main assets and liabilities of subsidiaries at the time when control was lost by the Group, and the relationship between proceeds and net proceeds from such sale, were as follows:

(Millions of Yen)

	Year ended March 31, 2020
Breakdown of assets and liabilities at the time when the Group lost control of the subsidiaries	
Current assets	7,453
Non-current assets	12,748
Non-current liabilities	1,316

(Millions of Yen)

	Year ended March 31, 2020
Proceeds from sale received in cash	37,426
Cash and cash equivalents assets excluded at the time when the Group lost control of the subsidiaries	(297)
Net proceeds from sale of subsidiaries	37,128

34. 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, 2019 and 2020.

(2) Remuneration of Key Management Personnel

(Millions of Yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Remuneration and bonuses	658	695
Restricted share-based remuneration	111	108
Total	770	803

35. 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, 2019	As of March 31, 2020
Property, plant and equipment	26,335	69,422
Intangible assets	149,973	159,568
Total	176,309	228,991

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.

36. Contingent Liabilities

(1) Loan Guarantees

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

(Millions of Yen)

	As of March 31, 2019	As of March 31, 2020
Employees (housing and other loans)	476	391

(2) Others

a. Contingent liabilities related to environmental measures on the site of the former Yasugawa Plant

Between 2006 and 2008, after the Yasugawa Plant was shut down, the Company had carried out cleanup, excavation and removal of contaminated soil on the site. Since then it has been monitoring the quality of groundwater there through the observation wells installed around the site.

i) Removal of contaminated soil storage facilities

There are two storage facilities of contaminated soil on the site, which were built in 1993, and the Company has managed the facilities and monitored the quality of groundwater there without any issues noted. However, 26 years have passed since the installment of the facilities and the perception toward "Safety and Security" has changed globally during that period. Therefore, considering the risk of unexpected events, the Company, which values environmental stewardship, has decided to remove those facilities in order to avoid any potential business risks and issues related to managing those facilities.

ii) Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site

From March 2018 to September 2019, the Company examined the soil and groundwater of the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, since endrin exceeding the guideline value was continuously observed in some observation wells through monitoring. Consequently, the Company identified an area where endrin is excessively distributed. Complying with the Soil Contamination Countermeasures Act of Japan, the Company is continuously examining the area. The Company decided to begin a consultation process with the government and other authorities and discuss countermeasures with them.

The expected cost of i) Removal of contaminated soil storage facilities is included in "Provisions for environmental measures" as of March 31, 2020 and the amount is disclosed in Note 19 "Provisions."

Regarding ii) Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, the Company is going to discuss and plan countermeasures with the government and other authorities once the examination of the area is completed, which reflects that the area to implement countermeasure against contamination is partly under the jurisdiction of the government. Without consultation with the government, at this time the Company by itself cannot design a civil engineering plan against contamination and make a reliable cost estimation. As of March 31, 2020, therefore, the Company does not recognize any provision for the cost of countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site.

b. Possible compensation to Sun Pharmaceutical Industries Ltd.

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.

37. Major Consolidated Subsidiaries and Associates

Major consolidated subsidiaries and associates as of March 31, 2020 are as follows:

There were no significant changes in percentage of voting rights from March 31, 2019 except in relation to the associate accounted for using the equity method as explained below.

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 Biotech Co., Ltd.	Kitamoto, Saitama, 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
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	Rueil-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

Associate accounted for using the equity method

Company	Location	Function	Percentage of voting rights (%)
Hitachi Pharma Information Solutions, Ltd.	Chiyoda-ku, Tokyo, Japan	Other	27.2

Note:

Hitachi Pharma Evolutions, Ltd., which was the Group’s associate accounted for using the equity method as of March 31, 2019, merged with Hitachi Inspharma, Ltd., which was wholly owned by Hitachi, Ltd. in an absorption-type merger as of January 1, 2020 and changed its trade name to Hitachi Pharma Information Solutions, Ltd.

As a result, the Company has 27.2% of the voting rights as of March 31, 2020 (49.0% as of March 31, 2019).

38. Subsequent Events

At the meeting of the Board of Directors held on Monday, April 27, 2020, a share split and partial amendment to the Company's articles of incorporation were resolved as follows:

(1) Purpose of the share split

The share split aims to increase the liquidity of the shares by reducing the investment unit price for the Company's share, and to further expand the investor base.

(2) Outline of the share split

a. Method

Fixing Wednesday, September 30, 2020 as the record date, the Company will split its ordinary shares, owned by shareholders listed or recorded in the shareholder registry three-for-one.

b. Number of shares to be increased by the share split

i) Total number of shares issued before the share split	709,011,343
ii) Increase in the number of shares upon the share split	1,418,022,686
iii) Total number of shares issued after the share split	2,127,034,029
iv) Total number of shares issuable after the share split	8,400,000,000

c. Schedule

i) Announcement of record date	Friday, September 11, 2020
ii) Record date	Wednesday, September 30, 2020
iii) Effective date	Thursday, October 1, 2020

d. Others

The share split will not change the amount of stated capital.

(3) Effect of the share split on per share information

Per-share information calculated as if the share split had taken place at the beginning of the year ended March 31, 2019 is as follows:

	Year Ended March 31, 2019	Year Ended March 31, 2020
Basic earnings per share (Yen)	48.07	66.40
Diluted earnings per share (Yen)	47.96	66.27

(4) Partial amendment to the articles of incorporation

a. Reason for the amendment

In line with the share split, pursuant to the Article 184.2 of the Companies Act of Japan, the Company will amend, as of Thursday, October 1, 2020, the total number of shares issuable set by Article 6 in the Articles of Incorporation of the Company.

b. Details of the amendment to the articles of incorporation

Details are as follows:

(Underlined points indicate changes)

Before the amendment	After the amendment
(Total Number of Shares Issuable) Article 6. The total number of shares issuable by the Company shall be <u>2.8 billion shares</u>.	(Total Number of Shares Issuable) Article 6. The total number of shares issuable by the Company shall be <u>8.4 billion shares</u>.

c. Schedule for the amendment to the articles of incorporation

Date resolved at the Board of Directors meeting: Monday, April 27, 2020

Effective date of the amendment to the articles of incorporation: Thursday, October 1, 2020

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Daiichi Sankyo Co., Ltd. ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Board and its Members for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Board and its Members are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Board and its Members regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Board and its Members with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Toshihiro Otsuka
Designated Engagement Partner
Certified Public Accountant

Michiaki Yamabe
Designated Engagement Partner
Certified Public Accountant

Masahiro Emori
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 15, 2020

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.