Consolidated Financial Statements under IFRS with Independent Auditor's Report

Astellas Pharma Inc. and Subsidiaries

For the fiscal year ended 31 March 2020

Consolidated Financial Statements

(1) Consolidated Statement of Income

	Note	Fiscal year ended 31 March 2019 (Millions of yen)	Fiscal year ended 31 March 2020 (Millions of yen)	Fiscal year ended 31 March 2020 (Millions of U.S. dollars)
Revenue	6	1,306,348	1,300,843	$11,934
Cost of sales		(292,050)	(276,739)	(2,539)
Gross profit		1,014,299	1,024,104	9,395
Selling, general and administrative expenses		(490,263)	(499,295)	(4,581)
Research and development expenses		(208,682)	(224,226)	(2,057)
Amortisation of intangible assets	17	(35,212)	(21,164)	(194)
Share of profit (loss) of investments accounted for using equity method		(1,627)	(1,660)	(15)
Other income	7	14,152	12,154	112
Other expenses	8	(48,755)	(45,921)	(421)
Operating profit		243,912	243,991	2,238
Finance income	10	6,358	4,363	40
Finance expenses	11	(1,302)	(3,004)	(28)
Profit before tax		248,967	245,350	2,251
Income tax expense	12	(26,702)	(49,939)	(458)
Profit		222,265	195,411	$1,793
Profit attributable to:				
Owners of the parent		222,265	195,411	1,793
Earnings per share:		(Yen)	(Yen)	(U.S. dollars)
Basic	13	115.05	104.15	$0.96
Diluted	13	114.94	104.08	0.95

(2) Consolidated Statement of Comprehensive Income

	Note	Fiscal year ended 31 March 2019 (Millions of yen)	Fiscal year ended 31 March 2020 (Millions of yen)	Fiscal year ended 31 March 2020 (Millions of U.S. dollars)
Profit		222,265	195,411	$1,793
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income		5,060	(7,611)	(70)
Remeasurements of defined benefit plans		(2,553)	1,271	12
Subtotal		2,508	(6,339)	(58)
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	14	(2,523)	(32,380)	(297)
Subtotal		(2,523)	(32,380)	(297)
Other comprehensive income		(15)	(38,719)	(355)
Total comprehensive income		222,250	156,692	$1,438
Total comprehensive income attributable to:				
Owners of the parent		222,250	156,692	1,438

(3) Consolidated Statement of Financial Position

	Note	(Millions of yen) As of 31 March 2019	(Millions of yen) As of 31 March 2020	(Millions of U.S. dollars) As of 31 March 2020
Assets				
Non-current assets				
Property, plant and equipment	15	173,483	268,600	$2,464
Goodwill	16	225,864	267,510	2,454
Intangible assets	17	429,707	738,507	6,775
Trade and other receivables	22	25,248	34,014	312
Investments accounted for using equity method		3,653	4,692	43
Deferred tax assets	18	92,958	52,876	485
Other financial assets	19	81,457	74,264	681
Other non-current assets	20	8,121	10,184	93
Total non-current assets		1,040,489	1,450,646	13,309
Current assets				
Inventories	21	151,511	151,017	1,385
Trade and other receivables	22	342,628	347,042	3,184
Income tax receivable		20,113	23,556	216
Other financial assets	19	2,607	9,459	87
Other current assets	20	25,080	18,049	166
Cash and cash equivalents	23	311,074	318,391	2,921
Subtotal		853,012	867,514	7,959
Assets held for sale	24	4,147	-	-
Total current assets		857,159	867,514	7,959
Total assets		1,897,648	2,318,160	$21,268

	Note	(Millions of yen) As of 31 March 2019	(Millions of yen) As of 31 March 2020	(Millions of U.S. dollars) As of 31 March 2020
Equity and liabilities				
Equity				
Share capital	25	103,001	103,001	$945
Capital surplus	25	177,301	177,506	1,628
Treasury shares	25	(164,629)	(7,178)	(66)
Retained earnings		991,957	905,851	8,311
Other components of equity	25	150,767	109,989	1,009
Total equity attributable to owners of the parent		1,258,396	1,289,168	11,827
Total equity		1,258,396	1,289,168	11,827
Liabilities				
Non-current liabilities				
Trade and other payables	32	1,572	3,142	29
Deferred tax liabilities	18	5,175	27,661	254
Retirement benefit liabilities	28	40,163	38,074	349
Provisions	29	5,416	6,135	56
Other financial liabilities	30	52,882	129,272	1,186
Other non-current liabilities	31	36,379	25,999	239
Total non-current liabilities		141,587	230,284	2,113
Current liabilities				
Trade and other payables	32	185,280	171,954	1,578
Income tax payable		17,587	4,009	37
Provisions	29	22,843	14,241	131
Other financial liabilities	30	14,136	345,707	3,172
Other current liabilities	31	255,913	262,797	2,411
Subtotal		495,759	798,708	7,328
Liabilities directly associated with assets held for sale	24	1,906	-	-
Total current liabilities		497,665	798,708	7,328
Total liabilities		639,252	1,028,992	9,440
Total equity and liabilities		1,897,648	2,318,160	$21,268

(4) Consolidated Statement of Changes in Equity

(Millions of yen)

	Note	Equity attributable to owners of the parent					
						Other components of equity	
		Share capital	Capital surplus	Treasury shares	Retained earnings	Subscription rights to shares	Exchange differences on translation of foreign operations
As of 1 April 2018		103,001	177,219	(135,951)	976,076	1,477	128,179
Cumulative effect of accounting change		-	-	-	-	-	-
Restated balance		103,001	177,219	(135,951)	976,076	1,477	128,179
Comprehensive income							
Profit		-	-	-	222,265	-	-
Other comprehensive income		-	-	-	-	-	(2,523)
Total comprehensive income		-	-	-	222,265	-	(2,523)
Transactions with owners							
Acquisition of treasury shares	25	-	-	(160,442)	-	-	-
Disposals of treasury shares	25	-	(281)	1,345	(713)	(350)	-
Cancellation of treasury shares	25	-	-	130,419	(130,419)	-	-
Dividends	26	-	-	-	(72,066)	-	-
Share-based payments	27	-	364	-	-	-	-
Transfers		-	-	-	(3,187)	-	-
Total transactions with owners		-	82	(28,678)	(206,384)	(350)	-
As of 31 March 2019		103,001	177,301	(164,629)	991,957	1,127	125,656
Comprehensive income							
Profit		-	-	-	195,411	-	-
Other comprehensive income		-	-	-	-	-	(32,380)
Total comprehensive income		-	-	-	195,411	-	(32,380)
Transactions with owners							
Acquisition of treasury shares	25	-	-	(52,899)	-	-	-
Disposals of treasury shares	25	-	(313)	954	(413)	(228)	-
Cancellation of treasury shares	25	-	-	209,396	(209,396)	-	-
Dividends	26	-	-	-	(73,539)	-	-
Share-based payments	27	-	518	-	-	-	-
Transfers		-	-	-	1,831	-	-
Total transactions with owners		-	205	157,451	(281,517)	(228)	-
As of 31 March 2020		103,001	177,506	(7,178)	905,851	899	93,277

(Millions of yen)

	Note	Equity attributable to owners of the parent					Total equity
		Other components of equity				Total	
		Fair value movements on available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	Remeasure-ments of defined benefit plans	Total		
As of 1 April 2018		18,289	-	-	147,945	1,268,289	1,268,289
Cumulative effect of accounting change		(18,289)	18,289	-	-	-	-
Restated balance		-	18,289	-	147,945	1,268,289	1,268,289
Comprehensive income							
Profit		-	-	-	-	222,265	222,265
Other comprehensive income		-	5,060	(2,553)	(15)	(15)	(15)
Total comprehensive income		-	5,060	(2,553)	(15)	222,250	222,250
Transactions with owners							
Acquisition of treasury shares	25	-	-	-	-	(160,442)	(160,442)
Disposals of treasury shares	25	-	-	-	(350)	1	1
Cancellation of treasury shares	25	-	-	-	-	-	-
Dividends	26	-	-	-	-	(72,066)	(72,066)
Share-based payments	27	-	-	-	-	364	364
Transfers		-	635	2,553	3,187	-	-
Total transactions with owners		-	635	2,553	2,837	(232,143)	(232,143)
As of 31 March 2019		-	23,984	-	150,767	1,258,396	1,258,396
Comprehensive income							
Profit		-	-	-	-	195,411	195,411
Other comprehensive income		-	(7,611)	1,271	(38,719)	(38,719)	(38,719)
Total comprehensive income		-	(7,611)	1,271	(38,719)	156,692	156,692
Transactions with owners							
Acquisition of treasury shares	25	-	-	-	-	(52,899)	(52,899)
Disposals of treasury shares	25	-	-	-	(228)	1	1
Cancellation of treasury shares	25	-	-	-	-	-	-
Dividends	26	-	-	-	-	(73,539)	(73,539)
Share-based payments	27	-	-	-	-	518	518
Transfers		-	(560)	(1,271)	(1,831)	-	-
Total transactions with owners		-	(560)	(1,271)	(2,059)	(125,920)	(125,920)
As of 31 March 2020		-	15,813	-	109,989	1,289,168	1,289,168

(Millions of U.S. dollars)

	Note	Equity attributable to owners of the parent					
						Other components of equity	
		Share capital	Capital surplus	Treasury shares	Retained earnings	Subscription rights to shares	Exchange differences on translation of foreign operations
As of 31 March 2019		$945	$1,627	$ (1,510)	$9,101	$10	$1,153
Comprehensive income							
Profit		-	-	-	1,793	-	-
Other comprehensive income		-	-	-	-	-	(297)
Total comprehensive income		-	-	-	1,793	-	(297)
Transactions with owners							
Acquisition of treasury shares	25	-	-	(485)	-	-	-
Disposals of treasury shares	25	-	(3)	9	(4)	(2)	-
Cancellation of treasury shares	25	-	-	1,921	(1,921)	-	-
Dividends	26	-	-	-	(675)	-	-
Share-based payments	27	-	5	-	-	-	-
Transfers		-	-	-	17	-	-
Total transactions with owners		-	2	1,445	(2,583)	(2)	-
As of 31 March 2020		$945	$1,628	$(66)	$8,311	$8	$856

(Millions of U.S. dollars)

	Note	Equity attributable to owners of the parent					Total equity
		Other components of equity				Total	
		Fair value movements on available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
As of 31 March 2019		$-	$220	$-	$1,383	$11,545	$11,545
Comprehensive income							
Profit		-	-	-	-	1,793	1,793
Other comprehensive income		-	(70)	12	(355)	(355)	(355)
Total comprehensive income		-	(70)	12	(355)	1,438	1,438
Transactions with owners							
Acquisition of treasury shares	25	-	-	-	-	(485)	(485)
Disposals of treasury shares	25	-	-	-	(2)	0	0
Cancellation of treasury shares	25	-	-	-	-	-	-
Dividends	26	-	-	-	-	(675)	(675)
Share-based payments	27	-	-	-	-	5	5
Transfers		-	(5)	(12)	(17)	-	-
Total transactions with owners		-	(5)	(12)	(19)	(1,155)	(1,155)
As of 31 March 2020		$-	$145	$-	$1,009	$11,827	$11,827

(5) Consolidated Statement of Cash Flows

	Note	Fiscal year ended 31 March 2019 (Millions of yen)	Fiscal year ended 31 March 2020 (Millions of yen)	Fiscal year ended 31 March 2020 (Millions of U.S. dollars)
Cash flows from operating activities				
Profit before tax		248,967	245,350	$2,251
Depreciation and amortisation		63,458	66,396	609
Impairment losses (reversal of impairment losses)		11,446	13,796	127
Finance income and expenses		(5,055)	(1,359)	(12)
(Increase) decrease in inventories		(5,480)	(6,038)	(55)
(Increase) decrease in trade and other receivables		(25,640)	(16,391)	(150)
Increase (decrease) in trade and other payables		40,828	(21,363)	(196)
Other		20	(10,400)	(95)
Subtotal		328,543	269,991	2,477
Income tax paid		(69,913)	(47,993)	(440)
Net cash flows from operating activities		258,630	221,998	2,037
Cash flows from investing activities				
Purchases of property, plant and equipment		(25,190)	(41,267)	(379)
Proceeds from sale of property, plant and equipment		20,949	6,924	64
Purchase of intangible assets		(26,938)	(36,621)	(336)
Payments for acquisition of subsidiaries	37	(19,292)	(320,764)	(2,943)
Interest and dividends received		2,798	2,062	19
Other		5,916	(127)	(1)
Net cash flows provided by (used in) investing activities		(41,757)	(389,793)	(3,576)
Cash flows from financing activities				
Increase (decrease) in bonds and borrowings		-	326,000	2,991
Acquisition of treasury shares	25	(160,442)	(52,899)	(485)
Dividends paid to owners of the parent	26	(72,066)	(73,539)	(675)
Repayments of lease liabilities		-	(17,660)	(162)
Other		(1,173)	(847)	(8)
Net cash flows provided by (used in) financing activities		(233,681)	181,055	1,661
Effect of exchange rate changes on cash and cash equivalents		(2,118)	(5,942)	(55)
Cash and cash equivalents reclassified to assets held for sale		(1,732)	-	-
Net increase (decrease) in cash and cash equivalents		(20,657)	7,317	67
Cash and cash equivalents at the beginning of the year	23	331,731	311,074	2,854
Cash and cash equivalents at the end of the year	23	311,074	318,391	$2,921

Notes to Consolidated Financial Statements

1. Reporting Entity

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

The Group’s consolidated financial statements for the fiscal year ended 31 March 2020 were authorised for issue on 18 June 2020 by Kenji Yasukawa, Representative Director, President and Chief Executive Officer, and Naoki Okamura, Representative Director, Corporate Executive Vice President, Chief Strategy Officer and Chief Financial Officer.

2. Basis of Preparation

(1) Compliance with IFRS

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

(2) Basis of measurement

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

(3) Presentation currency

The Group’s consolidated financial statements are presented in Japanese yen, which is also the Company’s functional currency, and figures are rounded to the nearest million yen, except as otherwise indicated.

For the convenience of readers outside Japan, the accompanying consolidated financial statements are also presented in U.S. dollars by translating Japanese yen amounts at the exchange rate of ¥109 to U.S. $1, the approximate rate of exchange at the end of 31 March 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

(4) Changes in accounting policies

The Group has newly adopted the following accounting standard from the fiscal year ended 31 March 2020.

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

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

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

Accounting policies on leases are described in “3. Significant Accounting Policies (10)”.

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

The reconciliation of non-cancellable operating lease commitments disclosed by applying IAS 17 “Leases” as of the end of the fiscal year ended 31 March 2019 to the amount of lease liabilities recognised in the consolidated statement of financial position at the date of initial application is as follows:

(Millions of yen)

	Amount
Non-cancellable operating lease commitments disclosed as of 31 March 2019	60,904
Discounted using the weighted average incremental borrowing rate (3.2%)	51,298
Finance lease liabilities disclosed as of 31 March 2019	1,199
Short-term leases and leases for which the underlying asset is of low value	(647)
Cancellable operating lease contracts	13,505
Extension or termination options that are reasonably certain to be exercised	26,960
Lease liabilities recognised at the date of initial application (1 April 2019)	92,315

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

There was no material new or amended IFRS standards and interpretations that the Group had not adopted among those issued by the date of the approval of the Group’s consolidated financial statements.

3. Significant Accounting Policies

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

(1) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group has power over the entity, is exposed to, or has rights, to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and they are deconsolidated from the date on which the Group loses control. All intragroup assets and liabilities, transactions and unrealised gains or losses arising from intragroup transactions are eliminated on consolidation.

(ii) Associates

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

(iii) Joint arrangements

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

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

(2) Business combinations

Business combinations are accounted for using the acquisition method.

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

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

- Deferred tax assets or liabilities, liabilities (or assets, if any) related to employee benefits, and liabilities related to share-based payment transactions are recognised and measured in accordance with IAS 12 “Income Taxes”, IAS 19 “Employee Benefits”, and IFRS 2 “Share-based Payment”, respectively; and
- Non-current assets and disposal groups classified as held for sale are measured in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.
- Right-of-use assets and lease liabilities are measured in accordance with IFRS 16 “Leases”.

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

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

(3) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or an approximation of the rate.

Monetary assets and liabilities denominated in foreign currencies at the end of fiscal year are translated into the functional currency using the exchange rates at the end of fiscal year and exchange differences arising from translation are recognised in profit or loss.

(iii) Foreign operations

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

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

(4) Revenue

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

(i) Sales of pharmaceutical products

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

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

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

(ii) Royalty income

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

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

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

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

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

(5) Research and development expenses

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

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

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

(6) Finance income and finance expenses

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

Financial expenses mainly comprise interest expense and fees.

(7) Income tax expense

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income tax expense levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax assets and current tax liabilities on a net basis.

(8) Earnings per share

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

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

(9) Property, plant and equipment (except for right-of-use assets)

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

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

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

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

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

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

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

(10) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease based on the substance of the contract. The Group determines the lease term as the non-cancellable period of a lease in consideration of both options to extend and terminate the lease from perspective of reasonability and certainty. The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics. For short-term leases and leases for which the underlying asset is of low value, the Group may recognise the lease payments as an expense over the lease term instead of recognising a right-of-use asset and a lease liability.

(i) Right-of-use asset

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

Right-of-use assets are depreciated on a straight-line basis after the commencement date of the lease over the shorter of the useful life of the right-of-use asset or the end of the lease term (2 to 40 years).

(ii) Lease liability

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

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

The lease accounting policy for the fiscal year ended 31 March 2019 is as follows.

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

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

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

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

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

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

(11) Goodwill

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

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

(12) Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Impairment of goodwill

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

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

(iii) Reversal of impairment loss

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

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

(14) Financial instruments

(i) Initial recognition and measurement

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

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

(ii) Financial assets

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

(a) Financial assets measured at amortised cost

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

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

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

(b) Financial assets at FVTOCI (debt instruments)

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

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

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

(c) Financial assets at FVTOCI (equity instruments)

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

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

(d) Financial assets at FVTPL

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

(iv) Financial liabilities

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

(a) Financial liabilities at FVTPL

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

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

(b) Financial liabilities measured at amortised cost

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

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

(v) Derecognition

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

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

(15) Cash and cash equivalents

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

(16) Inventories

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

(17) Assets held for sale

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

(18) Equity

(i) Ordinary shares

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

(ii) Treasury shares

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

(19) Share-based payments

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

(i) Equity-settled share-based payment plan

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

(ii) Cash-settled share-based payment plan

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

(20) Employee benefits

(i) Retirement benefits

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

(a) Defined benefit plans

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

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

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

(b) Defined contribution plans

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

(ii) Short-term employee benefits

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

(21) Provisions

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

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

(22) Government grants

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

4. Significant Accounting Estimates, Judgments and Assumptions

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

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

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

In addition, there are many uncertain factors that might be affected by Coronavirus Disease (COVID-19). These include the market penetration of new products, regulatory timelines, research and development schedule for new drugs and cost necessary for crisis response. However, when making the following significant accounting estimates, COVID-19 is assumed to have a limited impact on the Group's future performance in consideration of the fact that it did not have a material impact on the Group's financial results for the fiscal year ended 31 March 2020, as well as other factors such as the Group's business nature and product characteristics. If such estimates and underlying assumptions differ from actual results, there is a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next fiscal year.

- Revenue recognition (Notes 6 and 31)
- Property, plant and equipment, goodwill and intangible assets (Notes 15, 16 and 17)
- Provisions (Note 29)
- Retirement benefits (Note 28)
- Recoverability of deferred tax assets (Note 18)
- Income tax expense (Note 12)
- Financial instruments measured at fair value which have no market price in active markets (Notes 33 and 37)

5. Segment Information

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

Information about products and services

Revenue by type of product and service is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
XTANDI	333,050	399,989
Prograf	195,706	192,926
Betanis/Myrbetriq/BETMIGA	147,178	161,564
Vesicare	94,974	44,721
Other	535,439	501,643
Total	1,306,348	1,300,843

Information about geographical areas

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

Revenue by geographical areas

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Japan	396,615	375,174
United States	427,772	448,083
Other	481,961	477,586
Total	1,306,348	1,300,843

Note: Revenue by geographical areas is categorised based on the geographical location of each Group company, whereas it was categorised based on that of customers in the fiscal year ended 31 March 2019. Accordingly, the amounts for the fiscal year ended 31 March 2019 have been reclassified. The effect of this change was immaterial.

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

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Japan	408,922	462,132
United States	325,023	711,393
Other	95,108	101,092
Total	829,053	1,274,617

Information about major customers

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

(Millions of yen)

	Segment	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
McKesson Group	Pharmaceutical	151,260	162,361

6. Revenue

(1) Breakdown of revenue

The breakdown of revenue is as follows:

Fiscal year ended 31 March 2019

(Millions of yen)

	Japan	United States	Established Markets	Greater China	International	Others	Total
Sales of pharmaceutical products							
XTANDI	32,317	164,740	118,970	2,174	14,850	-	333,050
Prograf	45,445	14,040	74,413	31,346	30,462	-	195,706
Betanis/Myrbetriq/BETMIGA	32,694	80,770	25,313	1,249	7,153	-	147,178
Vesicare	22,256	36,893	29,376	1,871	4,578	-	94,974
Other	235,353	114,569	49,226	25,697	60,419	4,597	489,862
Subtotal	368,065	411,012	297,299	62,336	117,461	4,597	1,260,771
Royalty income	1,443	-	2,660	-	5,212	24,004	33,319
Other	-	10,553	-	81	-	1,624	12,258
Total	369,509	421,565	299,959	62,418	122,673	30,225	1,306,348

Fiscal year ended 31 March 2020

(Millions of yen)

	Japan	United States	Established Markets	Greater China	International	Others	Total
Sales of pharmaceutical products							
XTANDI	35,767	203,478	135,441	3,198	22,106	-	399,989
Prograf	44,331	13,230	71,483	32,195	31,686	-	192,926
Betanis/Myrbetriq/BETMIGA	34,342	89,244	28,178	1,376	8,424	-	161,564
Vesicare	20,177	5,450	13,067	1,845	4,182	-	44,721
Other	209,272	127,005	44,401	21,754	55,312	2,345	460,089
Subtotal	343,890	438,406	292,571	60,367	121,710	2,345	1,259,289
Royalty income	1,512	-	3,532	-	13,082	17,638	35,764
Other	-	5,049	-	-	-	741	5,790
Total	345,402	443,455	296,103	60,367	134,792	20,725	1,300,843

(Note) Effective from the fiscal year ended 31 March 2020, the Group has changed its regional classification as it changed its commercial organisation structure. Accordingly, revenue is categorised into “Japan”, “United States”, “Established Markets”, “Greater China”, “International” and “Others” whereas it was previously categorised into “Japan”, “Americas”, “EMEA” and “Asia and Oceania”. Accordingly, the amounts for the fiscal year ended 31 March 2019 have been reclassified.

Established Markets: Europe, Canada, Australia
Greater China: China, Hong Kong, Taiwan
International: Russia, Latin America, Middle East, Africa, South East Asia, South Asia, Korea, Export sales, etc.

(2) Contract balances

The breakdown of contract balances is as follows:

(Millions of yen)

	As of 1 April 2018	As of 31 March 2019	As of 31 March 2020
Receivables from contracts with customers			
Trade and notes receivables	305,930	320,426	324,150
Loss allowance	(1,669)	(1,470)	(1,429)
Total	304,261	318,956	322,721
Contract liabilities	40,321	24,725	12,345

(Note) With regard to upfront payments mainly related to licensing contracts, the Group recognises the portion as contract liabilities for which it has received consideration from customers but has not yet satisfied the corresponding performance obligations. Of the revenue recognised in the fiscal years ended 31 March 2019 and 2020, the amounts included in the balance of contract liabilities as of the beginning of the fiscal years were ¥16,589 million and ¥12,667 million, respectively.

(3) Performance obligations

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

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Total amount of transaction price allocated to unsatisfied performance obligations	24,725	12,345
Scheduled period for satisfying performance obligations		
Within 1 year	13,320	11,695
1 year to 3 years	11,027	524
More than 3 years	378	125

7. Other Income

The breakdown of other income is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Gain on sale of property, plant and equipment	4,138	3,923
Gain on remeasurement relating to business combinations	5,812	-
Net foreign exchange gains	735	-
Other	3,468	8,231
Total other income	14,152	12,154

(Notes) 1. "Gain on remeasurement relating to business combinations" for the fiscal year ended 31 March 2019 was due to Potenza Therapeutics, Inc. becoming a wholly owned subsidiary.

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

8. Other Expenses

The breakdown of other expenses is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Impairment losses for property, plant and equipment	4,114	510
Impairment losses for intangible assets	7,332	13,286
Fair value remeasurements on contingent consideration	3,810	11,188
Restructuring costs	19,678	1,829
Litigation costs	12,301	1,201
Net foreign exchange losses	-	8,928
Other	1,520	8,979
Total other expenses	48,755	45,921

(Notes) 1. The main item of "Impairment losses for intangible assets" for the fiscal year ended 31 March 2019 was due to the discontinuation of development activities for certain projects.

2. The main item of "Restructuring costs" for the fiscal year ended 31 March 2019 was due to the implementation of an early retirement incentive program for employees of the Company and its domestic subsidiaries.

3. The main item of "Litigation costs" for the fiscal year ended 31 March 2019 was due to a government investigation of patient assistance foundations in connection with a U.S. subsidiary.

4. "Fair value remeasurements on contingent consideration", which was included in "Other" for the fiscal year ended 31 March 2019, is separately presented for the fiscal year ended 31 March 2020 since its quantitative materiality increased along with progress made in the development of fezolinetant. As a result of this change, ¥3,810 million, which was included and presented in "Other" for the fiscal year ended 31 March 2019, has been reclassified to "Fair value remeasurements on contingent consideration".

5. The main item of "Impairment losses for intangible assets" for the fiscal year ended 31 March 2020 was due to the revision of contracts with Cytokinetics, Incorporated.

6. The amount of “Net foreign exchange losses” for the fiscal year ended 31 March 2020 includes foreign exchange losses resulting from forward foreign exchange contracts (¥9,585 million).
7. The main item of “Other” for the fiscal year ended 31 March 2020 was an expense recognised in connection with the acquisition of Audentes Therapeutics, Inc. For details, please refer to Note “37. Business Combinations”.

9. Employee Benefit Expenses

The breakdown of employee benefit expenses is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Rewards and salaries	156,044	154,632
Bonuses	57,523	56,615
Social security and welfare expenses	30,767	26,979
Retirement benefit expenses—Defined contribution plan	14,578	14,076
Retirement benefit expenses—Defined benefit plan	6,621	6,392
Restructuring and termination benefits	17,180	4,877
Other employee benefit expenses	2,859	2,647
Total employee benefit expenses	285,571	266,218

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

10. Finance Income

The breakdown of finance income is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Interest income	2,690	2,161
Dividend income		
Financial assets at FVTOCI (equity instruments)		
Investments derecognised during the year	-	8
Investments held at the end of the year	80	79
Other	3,588	2,115
Total finance income	6,358	4,363

(Note) Interest income was mainly earned on cash and cash equivalents.

11. Finance Expenses

The breakdown of finance expenses is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Interest expense	689	2,232
Other	613	772
Total finance expenses	1,302	3,004

(Note) Interest expense was mainly related to financial liabilities measured at amortised cost. “Interest expense”, which was included in “Other” for the fiscal year ended 31 March 2019, is separately presented for the fiscal year ended 31 March 2020 since its quantitative materiality increased. As a result of this change, ¥689 million, which was included and presented in “Other” for the fiscal year ended 31 March 2019, has been reclassified to “Interest expense”.

12. Income Tax Expense

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

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Current income tax expense	50,834	30,783
Deferred income tax expense	(24,132)	19,157
Income tax expense recognised on the consolidated statement of income	26,702	49,939

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

(Millions of yen)

	Fiscal year ended 31 March 2019			Fiscal year ended 31 March 2020		
	Before tax	Tax benefit (expense)	Net of tax	Before tax	Tax benefit (expense)	Net of tax
Remeasurements of defined benefit plans	(3,885)	1,333	(2,553)	1,763	(491)	1,271
Exchange differences on translation of foreign operations	(2,523)	-	(2,523)	(32,380)	-	(32,380)
Financial assets at FVTOCI	7,348	(2,288)	5,060	(10,994)	3,383	(7,611)
Total other comprehensive income	940	(955)	(15)	(41,611)	2,892	(38,719)

Reconciliation of effective tax rate

The Company is subject mainly to corporate tax, inhabitant tax, and enterprise tax on its income and the effective statutory tax rate calculated based on those taxes for the fiscal years ended 31 March 2019 and 2020 was both 30.5%. Foreign subsidiaries are subject to income taxes on their income in their respective countries of domicile.

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
	%	%
Effective statutory tax rate	30.5	30.5
Tax credit for research and development expenses	(2.5)	(1.4)
Non-deductible expenses	3.3	4.5
Non-taxable income	(7.5)	(1.7)
Difference in tax rates applied to foreign subsidiaries	(10.2)	(8.8)
Undistributed earnings of foreign subsidiaries	0.4	(0.6)
Other	(3.2)	(2.2)
Actual tax rate	10.7	20.4

13. Earnings per Share

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

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Basis of calculating basic earnings per share		
Profit attributable to owners of the parent (Millions of yen)	222,265	195,411
Profit not attributable to ordinary shareholders of the parent (Millions of yen)	-	-
Profit used to calculate basic earnings per share (Millions of yen)	222,265	195,411
Weighted average number of ordinary shares (Thousands of shares)	1,931,882	1,876,193
Basis of calculating diluted earnings per share		
Profit used to calculate basic earnings per share (Millions of yen)	222,265	195,411
Adjustment (Millions of yen)	-	-
Profit used to calculate diluted earnings per share (Millions of yen)	222,265	195,411
Weighted average number of ordinary shares (Thousands of shares)	1,931,882	1,876,193
Increase in the number of ordinary shares due to exercise of subscription rights to shares (Thousands of shares)	1,861	1,355
Weighted average number of diluted ordinary shares (Thousands of shares)	1,933,743	1,877,548
Earnings per share (attributable to owners of the parent)		
Basic (Yen)	115.05	104.15
Diluted (Yen)	114.94	104.08

14. Other Comprehensive Income

Reclassification adjustments of other comprehensive income are as follows:

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Other comprehensive income that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Amount arising during the year	(2,576)	(32,407)
Reclassification adjustment	53	28
Subtotal	(2,523)	(32,380)
Tax effect	-	-
Total other comprehensive income that may be reclassified to profit or loss	(2,523)	(32,380)

15. Property, Plant and Equipment

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

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

(Millions of yen)

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

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

2. “Other” mainly includes exchange differences.

The movement of property, plant and equipment for the fiscal year ended 31 March 2020 is as follows:

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Equipment, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Cost							
Balance at 1 April 2019	190,359	150,917	73,764	16,917	16,288	-	448,245
Cumulative effect of accounting change	(3,181)	(2,059)	(2,363)	-	-	83,061	75,458
Restated balance	187,179	148,858	71,401	16,917	16,288	83,061	523,704
Acquisitions	9,318	5,596	5,756	109	20,983	11,792	53,553
Business combinations	2,168	614	1,199	-	1,190	3,792	8,964
Disposals	(4,177)	(4,999)	(5,432)	(307)	(372)	(18)	(15,305)
Reclassification from construction in progress	17,619	2,118	2,163	48	(21,948)	-	-
Other	2,517	(19,195)	12,165	(103)	(2,269)	156	(6,729)
Balance at 31 March 2020	214,624	132,992	87,252	16,664	13,872	98,783	564,186
Accumulated depreciation and accumulated impairment losses							
Balance at 1 April 2019	(91,826)	(120,602)	(62,334)	-	-	-	(274,763)
Cumulative effect of accounting change	1,772	236	1,148	-	-	-	3,156
Restated balance	(90,055)	(120,366)	(61,186)	-	-	-	(271,607)
Depreciation	(7,884)	(5,886)	(6,166)	-	-	(17,582)	(37,519)
Impairment losses (reversal of impairment losses)	(385)	(46)	-	-	-	(79)	(510)
Disposals	1,949	4,526	5,300	-	-	18	11,793
Other	(1,821)	12,849	(8,457)	-	-	(316)	2,256
Balance at 31 March 2020	(98,195)	(108,923)	(70,508)	-	-	(17,960)	(295,586)
Carrying amounts							
Balance at 1 April 2019	97,124	28,492	10,215	16,917	16,288	83,061	252,097
Balance at 31 March 2020	116,429	24,069	16,743	16,664	13,872	80,823	268,600

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

2. The main item of “Other” was due to the effect of unifying the use of account titles as a result of the unification of the Group’s fixed asset system.

Impairment losses (reversal of impairment losses) for property, plant and equipment are included in the consolidated statement of income under “Other expenses” and “Other income”.

Impairment losses (reversal of impairment losses) recognised for property, plant and equipment for the fiscal years ended 31 March 2019 and 2020 amounted to ¥4,114 million and ¥510 million, respectively.

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

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Equipment, furniture and fixtures	Total
Balance at 1 April 2018	41	1	1,344	1,386
Balance at 31 March 2019	32	1,823	1,194	3,049

16. Goodwill

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

(Millions of yen)

	Cost	Accumulated impairment losses	Carrying amount
Balance at 1 April 2018	212,976	-	212,976
Business combinations	6,997	-	6,997
Exchange differences	5,891	-	5,891
Balance at 31 March 2019	225,864	-	225,864
Business combinations	46,297	-	46,297
Exchange differences	(4,651)	-	(4,651)
Balance at 31 March 2020	267,510	-	267,510

(Notes) 1. The increase due to business combinations in the fiscal year ended 31 March 2019 mainly reflected the acquisition of Potenza Therapeutics, Inc. For details on the business combination, please refer to Note “37. Business Combinations”.

2. The increase due to business combinations in the fiscal year ended 31 March 2020 mainly reflected the acquisition of Audentes Therapeutics, Inc. For details on the business combination, please refer to Note “37. Business Combinations”.

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

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

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

For the fiscal year ended 31 March 2020, goodwill is allocated to the Americas cash-generating unit and the whole pharmaceutical business, and the carrying amounts of goodwill were ¥116,402 million and ¥151,108 million, respectively.

For the impairment test, the value in use, which is calculated based on the three-year business plan approved at the board of directors meeting, is used as the recoverable amount. The Group uses a discount rate calculated based on a weighted average cost of capital (WACC) determined for each geographical area. The after-tax discount rates used for the impairment test of the Americas cash-generating unit and the whole pharmaceutical business were 8.0% and 6.0%, respectively. The pre-tax discount rates used for the impairment test of the Americas cash-generating unit and the whole pharmaceutical business were 10.4% and 7.6%, respectively. Also, a growth rate of 2.0% for the Americas cash-generating unit and 1.0% for the whole pharmaceutical business were reflected in calculating the terminal value after the three-year business plan. The growth rate reflects the status of the country and the industry to which the cash-generating unit belongs.

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

17. Intangible Assets

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

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

(Millions of yen)

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

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

2. "Other" mainly includes exchange differences.

The movement of intangible assets for the fiscal year ended 31 March 2020 is as follows:

(Millions of yen)

	Patents and technologies	Marketing Rights	IPR&D	Software	Other	Total
Cost						
Balance at 1 April 2019	359,681	51,680	348,971	70,070	1,861	832,262
Acquisitions	25,434	-	10,794	15,506	-	51,734
Business combinations	101,335	-	201,267	12	-	302,614
Disposals	-	-	-	(4,483)	(18)	(4,501)
Reclassification	9,801	-	(9,801)	-	-	-
Other	(3,473)	(835)	(2,951)	(1,086)	(1)	(8,345)
Balance at 31 March 2020	492,778	50,845	548,279	80,020	1,842	1,173,764
Accumulated amortisation and accumulated impairment losses						
Balance at 1 April 2019	(267,730)	(46,077)	(47,716)	(39,284)	(1,748)	(402,556)
Amortisation	(18,850)	(2,314)	-	(7,702)	(11)	(28,877)
Impairment losses (reversal of impairment losses)	-	-	(13,283)	(3)	-	(13,286)
Disposals	-	-	-	4,477	-	4,477
Other	3,269	785	-	917	13	4,985
Balance at 31 March 2020	(283,310)	(47,606)	(60,999)	(41,595)	(1,746)	(435,257)
Carrying amounts						
Balance at 1 April 2019	91,951	5,602	301,254	30,786	113	429,707
Balance at 31 March 2020	209,467	3,239	487,280	38,425	96	738,507

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

2. “Other” mainly includes exchange differences.

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

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

Impairment test and impairment losses for intangible assets

For intangible assets, the Group assesses the necessity of impairment mainly by individual asset. Also, intangible assets not yet being amortised are tested for impairment annually whether or not there is any indication of impairment. For the impairment test, the value in use is mainly used as the recoverable amount. The discount rate is calculated based on the WACC, and the range of post-tax discount rate used for the calculation of the value in use is 6.0% to 9.0%, and that of the pre-tax discount rate is 7.5% to 13.6%.

As a result of the impairment test, the Group recognised the following impairment losses for the fiscal years ended 31 March 2019 and 2020.

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

For the fiscal year ended 31 March 2020, impairment losses (reversal of impairment losses) recognised for intangible assets were ¥13,286 million, and mainly composed of impairment losses of ¥10,929 million resulting from revision of contracts with Cytokinetics, Incorporated.

Significant intangible assets

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

Significant intangible assets recognised in the consolidated statement of financial position as of 31 March 2020 were mainly composed of the rights related to AT132, technology platform and manufacturing technology for Adeno-associated viruses based gene therapy resulting from the acquisition of Audentes Therapeutics, Inc. in 2020, the rights related to fezolinetant resulting from the acquisition of Ogeda SA in 2017, the rights related to zolbetuximab resulting from the acquisition of Ganymed Pharmaceuticals AG in 2016, the rights related to the research and development of enzalutamide (XTANDI) acquired through the license agreement with Medivation, Inc., and the rights related to the research and development of YM311/roxadustat (Evrenzo) acquired through the license agreement with FibroGen, Inc. The carrying amounts of those intangible assets were ¥103,029 million, ¥82,536 million, ¥72,815 million, ¥64,017 million, ¥48,328 million and ¥54,229 million, respectively. The carrying amount of the rights related to AT132, technology platform and manufacturing technology for Adeno-associated viruses based gene therapy resulting from the acquisition of Audentes Therapeutics, Inc. reflects a provisional fair value as the purchase price allocation is incomplete. For details, please refer to Note “37. Business Combinations”.

For intangible assets already starting amortisation (except for intangible assets related to the acquisition of Audentes Therapeutics, Inc., whose carrying amount reflects provisional fair value), the remaining amortisation period was 10 years in the fiscal year ended 31 March 2019 and 9 years in the fiscal year ended 31 March 2020. The intangible assets not yet being amortised are tested for impairment annually.

18. Deferred Taxes

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

For the fiscal year ended 31 March 2019

(Millions of yen)

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

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

For the fiscal year ended 31 March 2020

(Millions of yen)

	As of 1 April 2019	Recognised in profit or loss	Recognised in other comprehensive income	Business combinations	Other	As of 31 March 2020
Financial assets at FVTOCI	(10,502)	72	3,383	-	1,158	(5,888)
Retirement benefit assets and liabilities	10,352	763	(491)	-	(367)	10,257
Property, plant and equipment	1,952	(3,028)	-	(70)	1	(1,145)
Intangible assets	(44,693)	(465)	-	(65,628)	344	(110,442)
Accrued expenses	22,860	258	-	97	(127)	23,088
Inventories	62,400	(3,439)	-	-	(593)	58,367
Tax loss carry-forwards	5,194	(2,028)	-	16,353	(509)	19,011
Other	40,220	(11,290)	-	4,286	(1,249)	31,966
Total	87,782	(19,157)	2,892	(44,962)	(1,341)	25,214

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

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

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Deductible temporary differences	32,389	33,709
Tax loss carry-forwards	3,999	11,990
Unused tax credits	2,218	3,594
Total	38,606	49,292

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

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Year 1	279	317
Year 2	367	156
Year 3	159	186
Year 4	189	114
Year 5 or later	3,005	11,217
Total	3,999	11,990

19. Other Financial Assets

The breakdown of other financial assets is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Other financial assets (non-current)		
Financial assets at FVTPL	19,482	20,639
Financial assets measured at amortised cost	9,664	12,569
Loss allowances	(15)	(13)
Financial assets at FVTOCI (equity instruments)	52,327	41,068
Total other financial assets (non-current)	81,457	74,264
Other financial assets (current)		
Financial assets measured at amortised cost	2,607	2,907
Financial assets at FVTOCI (debt instruments)	-	6,552
Total other financial assets (current)	2,607	9,459
Total other financial assets	84,064	83,723

20. Other Assets

The breakdown of other assets is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Other non-current assets		
Long-term prepaid expenses	3,794	3,325
Retirement benefit assets	3,868	4,115
Other	459	2,744
Total other non-current assets	8,121	10,184
Other current assets		
Prepaid expenses	12,743	11,483
Other	12,337	6,566
Total other current assets	25,080	18,049

21. Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Raw materials	42,469	44,197
Work in progress	17,020	18,090
Merchandise and finished goods	92,023	88,731
Total	151,511	151,017

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

The cost of inventories recognised as an expense in “Cost of sales” for the fiscal years ended 31 March 2019 and 2020 amounted to ¥229,994 million and ¥204,639 million, respectively.

The write-down of inventories recognised as an expense for the fiscal years ended 31 March 2019 and 2020 amounted to ¥2,784 million and ¥6,347 million, respectively.

22. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Trade and notes receivables	320,426	324,150
Other accounts receivables	57,132	58,335
Loss allowances	(9,682)	(1,429)
Total trade and other receivables	367,876	381,056
Non-current assets	25,248	34,014
Current assets	342,628	347,042

23. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Cash and deposits	297,477	313,126
Short-term investments (cash equivalents)	13,597	5,265
Cash and cash equivalents in the consolidated statement of financial position	311,074	318,391
Cash and cash equivalents in the consolidated statement of cash flows	311,074	318,391

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

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

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Assets		
Property, plant and equipment		
Buildings and structures	543	-
Other tangible assets	822	-
Cash and cash equivalents	1,732	-
Other	1,049	-
Total assets	4,147	-
Liabilities		
Other	1,906	-
Total liabilities	1,906	-

25. Equity and Other Components of Equity

(1) Share capital and capital surplus

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

	Number of authorised shares (Thousands of shares)	Number of ordinary issued shares (Thousands of shares)	Share capital (Millions of yen)	Capital surplus (Millions of yen)
As of 1 April 2018	9,000,000	2,068,823	103,001	177,219
Increase	-	-	-	364
Decrease	-	(89,000)	-	(281)
As of 31 March 2019	9,000,000	1,979,823	103,001	177,301
Increase	-	-	-	518
Decrease	-	(118,036)	-	(313)
As of 31 March 2020	9,000,000	1,861,787	103,001	177,506

(Note) Decrease in the number of ordinary issued shares during the fiscal years ended 31 March 2019 and 2020 resulted from the cancellation of treasury shares.

(2) Treasury shares

The movement of treasury shares is as follows:

	Number of shares (Thousands of shares)	Amount (Millions of yen)
As of 1 April 2018	92,670	135,951
Increase	91,085	160,442
Decrease	(89,769)	(131,763)
As of 31 March 2019	93,986	164,629
Increase	28,885	52,899
Decrease	(118,595)	(210,349)
As of 31 March 2020	4,276	7,178

(3) Other components of equity

Subscription rights to shares

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

26. Dividends

For the fiscal year ended 31 March 2019

(1) Dividends paid

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

(Notes) 1. The amount of dividends approved by resolution of the Annual Shareholders Meeting on 15 June 2018 includes dividends of ¥23 million corresponding to the Company’s shares held in the executive remuneration BIP trust.

2. The amount of dividends approved by resolution of the Board of Directors meeting on 31 October 2018 includes dividends of ¥26 million corresponding to the Company’s shares held in the executive remuneration BIP trust.

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

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

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

For the fiscal year ended 31 March 2020

(1) Dividends paid

Resolution	Class of shares	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders Meeting held on 18 June 2019	Ordinary shares	35,856	19.00	31 March 2019	19 June 2019
Board of Directors meeting held on 31 October 2019	Ordinary shares	37,748	20.00	30 September 2019	2 December 2019

(Notes) 1. The amount of dividends approved by resolution of the Annual Shareholders Meeting on 18 June 2019 includes dividends of ¥26 million corresponding to the Company's shares held in the executive remuneration BIP trust.

2. The amount of dividends approved by resolution of the Board of Directors meeting on 31 October 2019 includes dividends of ¥39 million corresponding to the Company's shares held in the executive remuneration BIP trust.

(2) Dividends whose record date is in the fiscal year ended 31 March 2020 but whose effective date is in the following fiscal year are as follows:

Resolution	Class of shares	Amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on 14 May 2020	Ordinary shares	37,210	20.00	31 March 2020	1 June 2020

(Note) The amount of dividends above includes dividends of ¥60 million corresponding to the Company's shares held in the executive remuneration BIP trust and the stock-delivery ESOP trust.

27. Share-based Payments

(1) Performance-linked Stock Compensation Scheme

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

From the fiscal year ended 31 March 2016, the Company has introduced a Performance-linked Stock Compensation Scheme for Directors (excluding outside Directors and Directors who are Audit & Supervisory Committee Members) and Corporate Executives (hereinafter "Directors, etc.") for the purpose of promoting management focused on increasing enterprise and shareholder value over the medium- to long-term.

The Scheme employs a framework referred to as the executive remuneration BIP (Board Incentive Plan) trust (hereinafter the "BIP Trust"). The BIP Trust acquires the Company's shares and delivers those shares to Directors, etc. based on the level of growth of enterprise and shareholder value. The Performance-linked Stock Compensation Scheme under which the Company's shares are delivered from the BIP Trust is accounted for as an equity-settled share-based payment transaction.

Effective from the compensation scheme for the fiscal year ended 31 March 2020 which constitutes the initial business year of the period subject to the evaluation, the index used for determining the number of shares to be delivered has changed from financial indicators used previously to a stock price indicator to increase correlation with enterprise and shareholder value and create a compensation scheme with a stronger emphasis on increasing shareholder value. In line with the abolishment of the Corporate Executives (Shikkou-Yakuin) system and the new establishment of the Corporate Executives (Tantou-Yakuin) system from the fiscal year ending 31 March 2021, the eligible persons of the Performance-linked Stock Compensation Scheme will be changed from Corporate Executives (Shikkou-Yakuin) to Corporate Executives (Tantou-Yakuin).

(ii) Expenses recognised in the consolidated statement of income

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Total expenses recognised for the Performance-linked Stock Compensation Scheme	392	565

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

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

		Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Share price at the grant date		1,884.0 yen	1,510.0 yen
Vesting period	(Note 1)	3 years	3 years
Expected dividend yield	(Note 2)	2.3%	2.2%
Discount rate	(Note 3)	(0.1%)	(0.3%)
Weighted average fair value		1,770 yen	1,121 yen

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

(2) Share option plans

(i) Outline of share option plans

The Company had adopted share option plans through the fiscal year ended 31 March 2015, and has granted share options to Directors and Corporate Executives of the Company. The purpose of share option plans is to improve the sensitivity to the share price and financial results of the Company and also increase the enterprise value by motivating the members to whom share options are granted.

After obtaining approval at the Company's Annual Shareholders Meeting, share options are granted as subscription rights to shares to individuals approved at the Company's Board of Directors meeting.

Holders of subscription rights to shares can exercise their share subscription rights only from the day following the date of resignation from their position as Director or Corporate Executive of the Company.

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

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

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

	Fiscal year ended 31 March 2019		Fiscal year ended 31 March 2020	
	Weighted average exercise price (Yen)	Number of shares	Weighted average exercise price (Yen)	Number of shares
Outstanding, beginning of the year	1	2,108,000	1	1,527,400
Granted	-	-	-	-
Exercised	1	(580,600)	1	(351,100)
Forfeited or expired	-	-	-	-
Outstanding, end of the year	1	1,527,400	1	1,176,300
Options exercisable, end of the year	1	1,527,400	1	1,176,300

(Notes) 1. The number of share options is presented as the number of underlying shares.
2. The weighted average share prices at the date of exercise for share options exercised during the fiscal years ended 31 March 2019 and 2020 were ¥1,670 and ¥1,572, respectively.

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

	Expiration date	Exercise price per share (Yen)	Number of shares	
			As of 31 March 2019	As of 31 March 2020
Granted on August 2005	24 June 2025	1	10,000	10,000
Granted on February 2007	27 June 2026	1	8,500	8,500
Granted on August 2007	26 June 2027	1	16,500	16,500
Granted on September 2008	24 June 2028	1	23,500	18,000
Granted on July 2009	23 June 2029	1	94,000	75,000
Granted on July 2010	23 June 2030	1	183,000	127,000
Granted on July 2011	20 June 2031	1	315,000	226,500
Granted on July 2012	20 June 2032	1	413,000	284,500
Granted on July 2013	19 June 2033	1	275,500	240,500
Granted on July 2014	18 June 2034	1	188,400	169,800
Total		-	1,527,400	1,176,300

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

28. Retirement Benefits

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

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

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

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

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

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

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

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

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

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

As of 31 March 2019

(Millions of yen)

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

As of 31 March 2020

(Millions of yen)

	Pension and lump-sum payment			Other
	Japan	Overseas	Total	
Present value of defined benefit obligations	117,211	33,455	150,665	2,466
Fair value of plan assets	(105,157)	(14,015)	(119,172)	-
Net defined benefit liability (asset)	12,053	19,440	31,493	2,466
Amounts in the consolidated statement of financial position				
Assets (other non-current assets)	(4,115)	-	(4,115)	-
Liabilities (retirement benefit liabilities)	16,168	19,440	35,608	2,466

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

(Millions of yen)

	Pension and lump-sum payment			Other
	Japan	Overseas	Total	
Balance at 1 April 2018	123,513	36,386	159,899	1,787
Current service cost	4,903	1,121	6,024	235
Interest cost	881	695	1,576	54
Remeasurements of defined benefit obligations				
−actuarial gains/losses arising from changes in demographic assumptions	(2)	122	120	(2)
−actuarial gains/losses arising from changes in financial assumptions	2,759	862	3,621	60
−other	(64)	116	52	(70)
Past service cost, and gains and losses arising from settlements	-	(207)	(207)	-
Contributions to the plan by plan participants	-	116	116	-
Payments from the plan	(8,005)	(1,016)	(9,021)	(81)
Effect of changes in foreign exchange rates, and other	(382)	(1,424)	(1,807)	55
Balance at 31 March 2019	123,601	36,771	160,373	2,039
Current service cost	4,441	1,124	5,565	314
Interest cost	706	636	1,342	57
Remeasurements of defined benefit obligations				
−actuarial gains/losses arising from changes in demographic assumptions	-	(78)	(78)	17
−actuarial gains/losses arising from changes in financial assumptions	(496)	(2,418)	(2,914)	100
−other	(65)	313	248	70
Past service cost, and gains and losses arising from settlements	-	(0)	(0)	-
Contributions to the plan by plan participants	-	126	126	-
Payments from the plan	(10,504)	(1,495)	(11,998)	(69)
Effect of changes in foreign exchange rates, and other	(473)	(1,524)	(1,997)	(61)
Balance at 31 March 2020	117,211	33,455	150,665	2,466

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

(Millions of yen)

	Pension and lump-sum payment			Other
	Japan	Overseas	Total	
Balance at 1 April 2018	114,280	13,278	127,557	-
Interest income	811	250	1,061	-
Remeasurements of the fair value of the plan assets				
−return on plan assets	(273)	365	92	-
− actuarial gains/losses arising from changes in financial assumptions	(165)	(32)	(197)	-
Contributions to the plan				
−by employer	2,700	1,198	3,898	-
−by plan participants	-	116	116	-
Payments from the plan	(5,624)	(59)	(5,683)	-
Effect of movements in exchange rates, and other	(280)	(449)	(729)	-
Balance at 31 March 2019	111,449	14,667	126,115	-
Interest income	630	255	886	-
Remeasurements of the fair value of the plan assets				
−return on plan assets	(105)	(736)	(842)	-
−actuarial gains/losses arising from changes in financial assumptions	63	(16)	47	-
Contributions to the plan				
−by employer	2,412	1,017	3,429	-
−by plan participants	-	126	126	-
Payments from the plan	(8,965)	(662)	(9,627)	-
Effect of movements in exchange rates, and other	(326)	(636)	(962)	-
Balance at 31 March 2020	105,157	14,015	119,172	-

The Group expects to contribute ¥3,461 million to its defined benefit plans in the fiscal year ending 31 March 2021.

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

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Japan		
Equity	16,881	14,005
Bonds	42,985	45,513
Cash and other investments	51,583	45,639
Total	111,449	105,157
Overseas		
Equity	4,180	3,554
Bonds	3,031	3,248
Cash and other investments	7,456	7,213
Total	14,667	14,015
Total fair value of plan assets	126,115	119,172

(i) Japanese plan assets

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

(ii) Overseas plan assets

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

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

	As of 31 March 2019	As of 31 March 2020
Discount rate (%)		
Japan	0.4%-0.6%	0.5%-0.6%
Overseas	1.4%-2.4%	1.8%-2.9%

The impact of a 0.5% increase or decrease in the discount rate as significant actuarial assumption used on the defined benefit obligations as of 31 March 2020 would result in an ¥11,028 million decrease or a ¥12,487 million increase, respectively, in the defined benefit obligation.

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

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

	As of 31 March 2019	As of 31 March 2020
Japan	13.5 years	13.6 years
Overseas	17.9 years	17.4 years

29. Provisions

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

(Millions of yen)

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

The movement of provisions for the fiscal year ended 31 March 2020 is as follows:

(Millions of yen)

	Asset retirement obligations	Other	Total
Balance at 1 April 2019	2,556	25,703	28,259
Increase during the year	1,396	12,252	13,648
Decrease due to intended use during the year	(569)	(19,733)	(20,302)
Decrease due to reversal during the year	(60)	(644)	(704)
Other	(28)	(497)	(525)
Balance at 31 March 2020	3,295	17,081	20,376
Non-current	3,292	2,842	6,135
Current	2	14,239	14,241
Total provisions	3,295	17,081	20,376

(Notes) 1. The Group recognises asset retirement obligations that is expected to pay in the future based on past performance in order to provide for the restoration of rented offices. The outflow of economic benefits is mainly expected more than one year after the end of each fiscal year.
2. The decrease due to intended use during the year for “Other” in the fiscal year ended 31 March 2020 includes payments of costs related to a government investigation of patient assistance foundations in connection with a U.S. subsidiary.

30. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Other financial liabilities (non-current)		
Financial liabilities at FVTPL		
Contingent consideration	51,404	59,926
Financial liabilities measured at amortised cost		
Finance lease liabilities	769	-
Lease liabilities	-	69,227
Other	709	119
Total other financial liabilities (non-current)	52,882	129,272
Other financial liabilities (current)		
Financial liabilities at FVTPL		
Forward foreign exchange contracts	353	264
Contingent consideration	12,681	-
Financial liabilities measured at amortised cost		
Finance lease liabilities	430	-
Lease liabilities	-	18,105
Bonds and borrowings	-	326,000
Other	673	1,339
Total other financial liabilities (current)	14,136	345,707
Total other financial liabilities	67,018	474,980

(Notes) 1. As described in “(4) Changes in accounting policies” under “2. Basis of Preparation,” with the application of IFRS 16, lease liabilities have been recognised from the fiscal year ended 31 March 2020.
2. The balances of bonds (commercial papers) and borrowings included in other financial liabilities (current) as of 31 March 2020 were ¥186,000 million and ¥140,000 million, respectively. In addition, the average interest rates calculated using the balances and interest rates as of 31 March 2020 were 0.0% and 0.1%, respectively.

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

(Millions of yen)

	As of 31 March 2019
Minimum lease payments	
Not later than one year	430
Later than one year but not later than five years	756
Later than five years	13
Present value of finance lease liabilities	1,199

31. Other Liabilities

The breakdown of other liabilities is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Other non-current liabilities		
Other long-term employee benefit obligations	21,385	23,110
Contract liabilities	11,405	649
Refund liabilities	1,519	1,176
Other	2,070	1,063
Total other non-current liabilities	36,379	25,999
Other current liabilities		
Accrued bonuses	32,195	39,976
Accrued paid absences	11,325	11,921
Other accrued expenses	64,490	64,360
Contract liabilities	13,320	11,695
Refund liabilities	127,867	130,627
Other	6,716	4,219
Total other current liabilities	255,913	262,797

32. Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Trade payables	95,410	91,843
Other payables	91,442	83,253
Total trade and other payables	186,852	175,096
Non-current	1,572	3,142
Current	185,280	171,954

33. Financial Instruments

(1) Capital management

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

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

The Group is not subject to material capital regulation.

(2) Classification of financial assets and financial liabilities

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

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Financial assets		
Financial assets at FVTPL	19,482	20,639
Financial assets measured at amortised cost		
Trade and other receivables	367,876	381,056
Loans and other financial assets	12,255	15,464
Cash and cash equivalents	311,074	318,391
Financial assets at FVTOCI (debt instruments)	-	6,552
Financial assets at FVTOCI (equity instruments)	52,327	41,068
Total financial assets	763,014	783,170
Financial liabilities		
Financial liabilities at FVTPL		
Forward foreign exchange contracts	353	264
Contingent consideration	64,085	59,926
Financial liabilities measured at amortised cost		
Trade and other payables	186,852	175,096
Lease liabilities	-	87,332
Bonds and borrowings	-	326,000
Other	2,580	1,458
Total financial liabilities	253,870	650,076

(Notes)
1. Financial assets at FVTPL, loans and other financial assets, financial assets at FVTOCI (debt instruments), and financial assets at FVTOCI (equity instruments) are included in "Other financial assets" in the consolidated statement of financial position.
2. Financial liabilities at FVTPL, lease liabilities, bonds and borrowings and "Other" under financial liabilities measured at amortised cost are included in "Other financial liabilities" in the consolidated statement of financial position.
3. As described in "(4) Changes in accounting policies" under "2. Basis of Preparation," with the application of IFRS 16, lease liabilities have been recognised from the fiscal year ended 31 March 2020.

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

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

(Millions of yen)

Description	As of 31 March 2019	As of 31 March 2020
Quoted equity shares		
FibroGen, Inc.	29,971	18,790
Other	6,461	5,185
Unquoted equity shares	15,896	17,094

In the fiscal years ended 31 March 2019 and 2020, the Group disposed of and derecognised certain equity instruments designated as financial assets at FVTOCI through sales and other means, mainly for the purpose of revising business relationships.

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

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Fair value	68	1,224
Cumulative gain and loss	(494)	760

In the fiscal years ended 31 March 2019 and 2020, cumulative gains and losses (after tax) transferred from other components of equity to retained earnings due to derecognition and a significant decrease in the fair value of equity instruments designated as financial assets at FVTOCI were ¥ (635) million and ¥560 million, respectively.

(3) Financial risk management policy

The Group is exposed to financial risks such as credit risk, liquidity risk, foreign exchange risk and interest rate risk in operating businesses. To mitigate them, it manages risks in accordance with certain policies and procedures.

The Group uses derivatives only for the purpose of hedging financial risks and does not use them for speculative purposes.

(i) Credit risk

(a) Credit risk management

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

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

(b) Concentrations of credit risk

The Group is not exposed to any credit risk excessively concentrated in a specific counterparty or group to which a specific counterparty belongs.

(c) Maximum exposure to credit risk

Other than guaranteed obligations, the Group's maximum exposure to credit risks without taking into account any collateral held or other credit enhancements is the carrying amount of financial instruments less impairment losses in the consolidated statement of financial position. The Group's maximum exposures to credit risks of guaranteed obligations as of 31 March 2019 and 2020 were ¥221 million and ¥155 million, respectively.

(d) Collateral

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

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

(Millions of yen)

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

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

(Millions of yen)

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

The credit risk exposure of financial assets measured at amortised cost and financial assets at FVTOCI (debt instruments) as of 31 March 2020 is as follows:

(Millions of yen)

	Financial assets for which loss allowance is measured at an amount equal to 12-month expected credit losses	Financial assets for which loss allowance is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets on which credit risk has increased significantly since initial recognition	Credit-impaired financial assets	Financial assets for which loss allowance is always measured at an amount equal to lifetime expected credit losses	
Trade and other receivables	58,322	10	3	324,150	382,485
Loans and other financial assets	10,470	-	-	5,007	15,476
Financial assets at FVTOCI (debt instruments)	6,552	-	-	-	6,552
Total	75,344	10	3	329,156	404,513

The movement of loss allowances in the fiscal year ended 31 March 2020 is as follows:

(Millions of yen)

	Financial assets for which loss allowance is measured at an amount equal to 12-month expected credit losses	Financial assets for which loss allowance is measured at an amount equal to lifetime expected credit losses			Total
		Financial assets on which credit risk has increased significantly since initial recognition	Credit-impaired financial assets	Financial assets for which loss allowance is always measured at an amount equal to lifetime expected credit losses	
Balance at 1 April 2019	-	8,222	5	1,470	9,698
Increase during the year	-	-	-	361	361
Decrease due to intended use during the year	-	-	(2)	(118)	(120)
Decrease due to reversal during the year	-	(8,212)	(0)	(125)	(8,337)
Other	-	(0)	-	(160)	(161)
Balance at 31 March 2020	-	10	3	1,429	1,441

(ii) Liquidity risk

Liquidity risk management

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

Financial liabilities by maturity date are as follows:

As of 31 March 2019

(Millions of yen)

	Carrying amount	Contractual cash flows	Within one year	Between one year and two years	Between two years and five years	Over five years
Financial liabilities at FVTPL						
Forward foreign exchange contracts	353	353	353	-	-	-
Subtotal	353	353	353	-	-	-
Financial liabilities measured at amortised cost						
Trade and other payables	186,852	186,852	185,280	452	1,120	-
Other	2,580	2,580	1,103	351	405	722
Subtotal	189,432	189,432	186,382	803	1,525	722
Total	189,785	189,785	186,735	803	1,525	722

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

As of 31 March 2020

(Millions of yen)

	Carrying amount	Contractual cash flows	Within one year	Between one year and two years	Between two years and five years	Over five years
Financial liabilities at FVTPL						
Forward foreign exchange contracts	264	264	264	-	-	-
Subtotal	264	264	264	-	-	-
Financial liabilities measured at amortised cost						
Trade and other payables	175,096	175,096	171,954	668	1,468	1,007
Lease liabilities	87,332	127,094	18,423	13,585	32,075	63,010
Bonds and borrowings	326,000	326,000	326,000	-	-	-
Other	1,458	1,458	1,339	104	8	7
Subtotal	589,886	629,648	517,716	14,357	33,551	64,024
Total	590,149	629,911	517,980	14,357	33,551	64,024

	Carrying amount	Maximum payment amount	Within one year	Between one year and five years	Over five years
Contingent consideration	59,926	227,801	-	53,093	9,718

(iii) Foreign exchange risk

Foreign exchange risk management

The Group operates its business in many countries and regions, and the Group's business results and financial position are exposed to foreign exchange risks.

The Group considers necessity of using derivatives to mitigate foreign exchange risk on each transaction. In regard to the intercompany loan in foreign currencies, the Group has used forward foreign exchange contracts to mitigate the impact of exchange rate fluctuations on business results in the fiscal years ended 31 March 2019 and 2020. The status of the hedge against foreign exchange risk by currency and the balance of derivative transactions are reported monthly to Representative Director, Corporate Executive Vice President, Chief Strategy Officer and Chief Financial Officer.

Foreign exchange sensitivity analysis

The impact on profit before tax of the Group's consolidated statement of income for the fiscal years ended 31 March 2019 and 2020 in the case of a 10% appreciation of Japanese yen, which is the Company's functional currency, against the U.S. dollar and euro at the end of each fiscal year is as follows.

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

(Millions of yen)

Item	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Profit before tax		
U.S. dollar	(3,480)	(2,869)
Euro	2,269	1,456

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

(iv) Interest rate risk

Interest rate risk management

The Group's interest-bearing liabilities are exposed to interest rate fluctuation risk. However, in order to mitigate such risk the Group strives to optimise the fund procurement by combining fixed and floating interest rates and determines the amount, term, method, etc. of fund procurement considering the details of demand for funds, financial position and financing environment.

If interest rates rise, increase in interest burden may affect the Group's business results and financial position. However, the Group is not excessively exposed to interest rate risks.

(4) Fair values of financial instruments

(i) Fair value calculation of financial instruments

Financial assets measured at amortised cost

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

Financial assets at FVTOCI (debt instruments)

Financial assets at FVTOCI (debt instruments) are mainly corporate bonds. The fair value is measured based on the market approach.

Financial assets at FVTOCI (equity instruments)

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

Financial assets at FVTPL

Financial assets at FVTPL mainly comprise forward foreign exchange contracts and investments in funds. The fair value of forward foreign exchange contracts is measured based on prices provided by counterparty financial institutions. The fair value of investments in funds is measured based on the Group's interest in a fund after estimating the fair value of the fund based on the latest available information.

Financial liabilities at FVTPL

Financial liabilities at FVTPL comprise contingent consideration for business combinations and forward foreign exchange contracts. The fair value of contingent consideration for business combinations is measured based on the estimated success probability of development activities and the time value of money. The fair value of forward foreign exchange contracts is measured based on prices provided by counterparty financial institutions.

Financial liabilities measured at amortised cost

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

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

Fair value hierarchy

The levels of the fair value hierarchy are as follows:

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

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

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

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

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

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

As of 31 March 2019

(Millions of yen)

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

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

As of 31 March 2020

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL	-	10,611	10,029	20,639
Financial assets at FVTOCI (debt instruments)	-	6,552	-	6,552
Financial assets at FVTOCI (equity instruments)				
Quoted equity shares	23,974	-	-	23,974
Unquoted equity shares	-	-	17,094	17,094
Subtotal	23,974	-	17,094	41,068
Total financial assets	23,974	17,162	27,122	68,259
Financial liabilities				
Financial liabilities at FVTPL				
Forward foreign exchange contracts	-	264	-	264
Contingent consideration	-	-	59,926	59,926
Subtotal	-	264	59,926	60,190
Total financial liabilities	-	264	59,926	60,190

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

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

For the fiscal year ended 31 March 2019

(1) Financial assets

(Millions of yen)

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

(Notes) 1. This is included in "Finance income" and "Finance expenses" in the consolidated statement of income.
2. This is because a significant input used to measure fair value has become observable.

(2) Financial liabilities

(Millions of yen)

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

(Note) This is included in "Other income" and "Other expenses" in the consolidated statement of income.

For the fiscal year ended 31 March 2020

(1) Financial assets

(Millions of yen)

	Financial assets at FVTPL	Financial assets at FVTOCI (equity instruments)	Total
Balance at 1 April 2019	8,658	15,896	24,554
Realised or unrealised gains (losses)			
Recognised in profit or loss (Note 1)	1,586	-	1,586
Recognised in other comprehensive income	-	746	746
Purchases, issues, sales, and settlements			
Purchases	1,839	1,055	2,894
Sales or settlements	(2,015)	(63)	(2,078)
Transfers out of Level 3 (Note 2)	-	(438)	(438)
Other	(39)	(101)	(141)
Balance at 31 March 2020	10,029	17,094	27,122
Gains or losses recognised in profit or loss attributable to the change in unrealised gains or losses relating to those assets held at the end of the reporting period (Note 1)	1,586	-	1,586

(Notes) 1. This is included in “Finance income” and “Finance expenses” in the consolidated statement of income.
2. This is because a significant input used to measure fair value has become observable.

(2) Financial liabilities

(Millions of yen)

	Financial liabilities at FVTPL
Balance at 1 April 2019	64,085
Realised or unrealised gains (losses)	
Recognised in profit or loss (Note)	8,870
Business combinations	6,263
Settlements	(18,905)
Other	(388)
Balance at 31 March 2020	59,926
Gains or losses recognised in profit or loss attributable to the change in unrealised gains or losses relating to those liabilities held at the end of the reporting period (Note)	8,870

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

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

The fair value of significant unquoted equity shares is measured using discounted cash flows. The fair value of unquoted equity shares is categorised within Level 3 because unobservable inputs such as estimates of future net operating profit after tax and WACC are used for the measurement. The WACC used for the measurement of fair value depends on region or industry. In the fiscal years ended 31 March 2019 and 2020, the WACC used for measurement was 8.0%. Generally, the fair value would decrease if the WACC capital were higher.

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

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

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

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

34. Leases

For the fiscal year ended 31 March 2019

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

(Millions of yen)

	As of 31 March 2019
Not later than one year	11,988
Later than one year but not later than five years	27,569
Later than five years	21,347
Total	60,904

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

(Millions of yen)

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

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

(Millions of yen)

	Fiscal year ended 31 March 2019
Aggregated minimum lease payments	16,986
Sublease payments received	(315)
Total	16,672

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

The significant leasing arrangements have terms of renewal and escalation clauses, but there are no variable lease payments, terms of purchase options and material restrictions imposed by the lease arrangements.

For the fiscal year ended 31 March 2020

The Group mainly leases buildings and structures and machinery and vehicles.

There are no variable lease payments, residual value guarantees, leases not yet commenced to which the lessee is committed, restrictions or covenants imposed by leases or sale and leaseback transactions.

The breakdown of expenses or income related to leases is as follows:

(Millions of yen)

	Fiscal year ended 31 March 2020
Depreciation of right-of-use assets	
Buildings and structures	14,145
Machinery and vehicles	2,790
Equipment, furniture and fixtures	635
Land	13
Total depreciation	17,582
Interest expense on lease liabilities	1,831
Expense relating to short-term leases	924
Expense relating to leases of low-value assets	47
Income from subleasing right-of-use assets (Note)	262

(Note) Finance income on the net investment in the lease for finance leases and lease income for operating leases

The breakdown of right-of-use assets is as follows:

(Millions of yen)

	As of 31 March 2020
Buildings and structures	71,820
Machinery and vehicles	7,055
Equipment, furniture and fixtures	1,434
Land	515
Total right-of-use assets	80,823

The total cash outflow for leases for the fiscal year ended 31 March 2020 amounted to ¥20,461 million.

For details on the increase in right-of-use assets and maturity analysis on lease liabilities, please refer to Note “15. Property, Plant and Equipment” and “(ii) Liquidity risk” under Note “33. Financial Instruments (3)”, respectively.

35. Commitments

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

(Millions of yen)

	As of 31 March 2019	As of 31 March 2020
Intangible assets		
Research and development milestone payments	220,950	295,634
Sales milestone payments	236,750	281,701
Total	457,700	577,335
Property, plant and equipment	20,191	16,863

Commitments for the acquisition of intangible assets

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

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

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

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

36. Related Party Transactions

(1) Major companies the Group controls

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

(2) Compensation of key management personnel

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

(Millions of yen)

	Fiscal year ended 31 March 2019	Fiscal year ended 31 March 2020
Rewards and salaries	1,573	2,506
Share-based payments	223	252
Other	495	1,342
Total compensation	2,291	4,100

Key management personnel consist of the Group’s Directors and members of the Executive Committee, and the numbers of such personnel in the fiscal years ended 31 March 2019 and 2020 were 22 and 24, respectively.

37. Business Combinations

For the fiscal year ended 31 March 2019

Acquisition of Potenza Therapeutics, Inc.

(1) Outline of business combination

(i) Name and business description of the acquiree

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

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

(ii) Acquisition date

13 December 2018, U.S. Eastern Standard Time

(iii) Percentage of voting equity interests acquired

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

(iv) Acquisition method

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

(v) Primary reasons for the business combination

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

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

(Millions of yen)

Property, plant and equipment	36
Intangible assets	31,609
Cash and cash equivalents	802
Other assets	191
Deferred tax liabilities	(5,232)
Other liabilities	(1,580)
Fair value of assets acquired and liabilities assumed (net)	25,827
Goodwill	5,518
Total	31,345
Cash	18,668
Contingent consideration	6,865
Fair value of previously held equity interests in Potenza	5,812
Total fair value of purchase consideration transferred	31,345

Certain items had reflected provisional amounts as of 31 March 2019; however, the Group completed the purchase price allocation during the fiscal year ended 31 March 2020.

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

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

(3) Contingent consideration

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

(4) Cash flow information

(Millions of yen)

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

(5) Acquisition-related costs

Immaterial

(6) Effect on the consolidated statement of income

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

Immaterial

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

Immaterial

For the fiscal year ended 31 March 2020

Acquisition of Xyphos Biosciences, Inc.

(1) Outline of business combination

(i) Name and business description of the acquiree

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

Business description: Research and development of pharmaceuticals utilizing immuno-oncology therapeutic technology

(ii) Acquisition date

26 December 2019, U.S. Pacific Time

(iii) Percentage of voting equity interests acquired

100%

(iv) Acquisition method

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

(v) Primary reasons for the business combination

Xyphos is a biotechnology company founded in 2017 and has novel and proprietary ACCEL (Advanced Cellular Control through Engineered Ligands) cell therapy technology platform, as well as industry-leading immune-oncology talent.

The Group will combine the technology platform obtained through the acquisition with its capabilities in regenerative and cell therapy that it has been working on so far, so that it can create next-generation high-function cells in the field of immuno-oncology and maximise the value of its technology.

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

(Millions of yen)

Intangible assets	17,670
Cash and cash equivalents	27
Other assets	368
Deferred tax liabilities	(3,445)
Other liabilities	(2,580)
Fair value of assets acquired and liabilities assumed (net)	12,040
Goodwill	3,800
Total	15,841
Cash	9,577
Contingent consideration	6,263
Total fair value of purchase consideration transferred	15,841

Certain items above reflect provisional fair values based on reasonable information obtained at 31 March 2020 as the purchase price allocation is incomplete.

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

(3) Contingent consideration

The contingent consideration relates to certain milestones depending on the progress of development. Maximum potential future cash outflows associated with the contingent consideration total 545 million U.S. dollars (¥59,312 million).

(4) Cash flow information

(Millions of yen)

Total fair value of purchase consideration transferred	15,841
Fair value of contingent consideration included in purchase consideration transferred	(6,263)
Cash and cash equivalents held by the acquiree	(27)
Acquisition of subsidiaries, net of cash acquired	9,550

(5) Acquisition-related costs

Immaterial

(6) Effect on the consolidated statement of income

(i) Profit (loss) before tax of the acquiree since the acquisition date included in the consolidated statement of income for the fiscal year ended 31 March 2020:

Immaterial

(ii) Profit (loss) before tax of the combined entity for the fiscal year ended 31 March 2020 assuming the acquisition date had been at the beginning of the fiscal year (unaudited):

Immaterial

Acquisition of Audentes Therapeutics, Inc.

(1) Outline of business combination

(i) Name and business description of the acquiree

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

Business description: Research and development of pharmaceuticals based on gene therapy technology

(ii) Acquisition date

15 January 2020, U.S. Eastern Standard Time

(iii) Percentage of voting equity interests acquired

100%

(iv) Acquisition method

Cash tender offer followed by a merger

(v) Primary reasons for the business combination

Audentes is a leading Adeno-associated virus (AAV)-based genetic medicines company, founded in 2012, focused on developing and commercialising gene therapy products for serious and rare neuromuscular diseases with its proprietary AAV-based technology platform and in-house capability for manufacturing gene therapy product candidates. Also, Audentes has established a robust pipeline consisting of promising gene therapy programs, including, its lead program, AT132 for the treatment of X-linked myotubular myopathy, or XLMTM, which is in Phase I/II study.

Through the acquisition, the Group is establishing a leading position in the field of gene therapy with the goal of addressing the unmet medical needs of patients living with serious, rare diseases.

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

(Millions of yen)

Property, plant and equipment	8,964
Intangible assets	284,944
Financial assets at FVTOCI (debt instruments)	22,248
Cash and cash equivalents	9,320
Other assets	1,708
Trade and other payables	(6,092)
Deferred tax liabilities	(41,517)
Other liabilities	(6,488)
Fair value of assets acquired and liabilities assumed (net)	273,085
Goodwill	42,497
Total	315,582
Total fair value of purchase consideration transferred	315,582

Certain items above reflect provisional fair values based on reasonable information obtained at 31 March 2020 as the purchase price allocation is incomplete.

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

Financial assets at FVTOCI (debt instruments) are included in “Other financial assets” in the consolidated statement of financial position.

(3) Cash flow information

(Millions of yen)

Total fair value of purchase consideration transferred	315,582
Cash and cash equivalents held by the acquiree	(9,320)
Acquisition of subsidiaries, net of cash acquired	306,262

In addition, the Group separated Audentes’ payment for unvested share-based payments, such as share options from the business combination and recognised ¥7,744 million as “Other expenses” in the consolidated statement of income.

(4) Acquisition-related costs

¥1,687 million

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

(5) Effect on the consolidated statement of income

(i) Profit (loss) before tax of the acquiree since the acquisition date included in the consolidated statement of income for the fiscal year ended 31 March 2020:

¥(5,895) million

(ii) Profit (loss) before tax of the combined entity for the fiscal year ended 31 March 2020 assuming the acquisition date had been at the beginning of the fiscal year (unaudited):

¥(25,723) million

(Note) This effect is calculated based on Audentes’ financial results for the period from 1 April 2019 to the acquisition date.

38. Contingent Liabilities

Legal Proceedings

The Group is involved in various claims and legal proceedings of a nature considered common to the pharmaceutical industry. These proceedings are generally related to product liability claims, competition and antitrust law, intellectual property matters, employment claims, and government investigations. In general, since litigation and other legal proceedings contain many uncertainties and complex factors, it is often not possible to make reliable judgment regarding the possibility of losses nor to estimate expected financial effect if these matters are decided in a manner that is adverse to the Group. In these cases, disclosures would be made as appropriate, but no provision would be made by the Group.

In addition, there were no material contingent liabilities required to be disclosed as at the date of submission.

39. Events After the Reporting Period

Not applicable.

Ernst & Young ShinNihon LLC
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Independent Auditor's Report

The Board of Directors
Astellas Pharma Inc.

Opinion

We have audited the accompanying consolidated financial statements of Astellas Pharma Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statements of income, 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 31 March 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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, the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, 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 and disclosing, as required by IFRSs, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing 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. 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 an 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.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing 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 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 in accordance with IFRSs.
- 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 Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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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 Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

18 June 2020

/s/ Hiroaki Kosugi
Hiroaki Kosugi
Designated Engagement Partner
Certified Public Accountant

/s/ Masayuki Nakamura
Masayuki Nakamura
Designated Engagement Partner
Certified Public Accountant

/s/ Koichiro Kitaike
Koichiro Kitaike
Designated Engagement Partner
Certified Public Accountant