Consolidated Financial Statements

Shionogi & Co., Ltd.

Year ended March 31, 2020 with
Independent Auditor's Report

Shionogi & Co., Ltd.

Consolidated Financial Statements

Year ended March 31, 2020

Contents

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Independent Auditor's Report

The Board of Directors
Shionogi & Co., Ltd.

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Corporate Auditor and the Board of Corporate Auditors 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 Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

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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 Corporate Auditor and the Board of Corporate Auditors 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 Corporate Auditor and the Board of Corporate Auditors 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.

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 March 31, 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
Osaka, Japan

June 23, 2020

林 由佳
Yuka Hayashi
Designated Engagement Partner
Certified Public Accountant

神前 泰洋
Yasuhiro Kozaki
Designated Engagement Partner
Certified Public Accountant

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Profit or Loss

	Notes	Millions of yen Year ended March 31, 2019	Millions of yen Year ended March 31, 2020	Thousands of U.S. dollars Year ended March 31, 2020
Revenue	5	367,960	333,371	3,063,794
Cost of sales		(55,591)	(56,782)	(521,847)
Gross profit		312,369	276,589	2,541,947
Selling, general and administrative expenses	6	(87,668)	(95,094)	(873,955)
Research and development expenses		(52,058)	(47,949)	(440,671)
Amortization of intangible assets associated with products	13	(4,273)	(3,255)	(29,923)
Other income	7	1,394	4,291	39,437
Other expenses	7	(24,680)	(3,951)	(36,314)
Operating profit		145,081	130,628	1,200,523
Finance income	8,16	32,371	30,504	280,344
Finance costs	8	(3,409)	(2,616)	(24,044)
Profit before tax		174,043	158,516	1,456,823
Income tax expense	9	(37,124)	(36,322)	(333,814)
Profit		136,918	122,194	1,123,009

Profit attributable to:				
Owners of parent		137,191	122,193	1,123,000
Non-controlling interests		(272)	1	9

		Yen		U.S. dollars
Earnings per share				
Basic earnings per share	10	438.47	395.71	3.64
Diluted earnings per share	10	434.71	395.28	3.63

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Notes	Millions of yen Year ended March 31, 2019	Millions of yen Year ended March 31, 2020	Thousands of U.S. dollars Year ended March 31, 2020
Profit		136,918	122,194	1,123,009
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	16,21	22,581	(62,544)	(574,804)
Remeasurements of defined benefit plans	21,24	(13,889)	503	4,630
Total of items that will not be reclassified to profit or loss		8,692	(62,040)	(570,175)
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	21	(7,721)	(26,247)	(241,221)
Effective portion of cash flow hedges	21,29	(510)	2,474	22,741
Total of items that may be reclassified to profit or loss		(8,232)	(23,772)	(218,480)
Total other comprehensive income (loss), net of tax		460	(85,813)	(788,655)
Comprehensive income		137,378	36,381	334,354

Comprehensive income attributable to:				
Owners of parent		137,926	36,594	336,318
Non-controlling interests		(547)	(213)	(1,963)

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Financial Position

		Millions of yen			Thousands of U.S. dollars
	Notes	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Assets					
Non-current assets					
Property, plant and equipment	11,14	72,165	70,986	71,350	655,738
Goodwill	12	10,767	3,358	10,854	99,760
Intangible assets	13,14	42,453	47,804	46,536	427,686
Right-of-use assets	15	5,320	5,915	4,657	42,808
Other financial assets	16,29	299,586	302,709	202,161	1,857,929
Retirement benefit asset	24	10,340	–	–	–
Deferred tax assets	9	378	534	3,048	28,017
Other non-current assets	14,20	6,895	13,586	16,890	155,232
Total non-current assets		447,908	444,895	355,500	3,267,168
Current assets					
Inventories	17	30,846	35,125	33,818	310,804
Trade receivables	18,29	82,140	100,951	79,804	733,431
Other financial assets	16,29	110,551	150,530	171,157	1,572,998
Income taxes receivable	9	59	395	192	1,772
Other current assets	20	10,083	10,840	22,191	203,944
Cash and cash equivalents	19	176,135	195,800	208,861	1,919,503
Total current assets		409,816	493,645	516,026	4,742,453
Total assets		857,725	938,540	871,526	8,009,621

Shionogi & Co., Ltd and Consolidated Subsidiaries

	Notes	Millions of yen As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020	Thousands of U.S. dollars As of March 31, 2020
Equity and liabilities					
Equity					
Share capital	21	21,279	21,279	21,279	195,568
Capital surplus	21,25	21,055	21,277	20,432	187,783
Treasury shares	21	(36,641)	(28,882)	(77,292)	(710,343)
Retained earnings	21	545,498	613,483	708,291	6,509,438
Other components of equity	21,24,29	179,365	181,616	91,848	844,115
Equity attributable to owners of parent		730,557	808,774	764,560	7,026,561
Non-controlling interests		4,257	4,313	51	471
Total equity		734,814	813,087	764,611	7,027,031
Liabilities					
Non-current liabilities					
Bonds and borrowings	22,29	18,393	–	–	–
Lease liabilities	15,29	5,731	6,006	4,791	44,039
Other financial liabilities	23,29	4,202	4,354	4,179	38,409
Retirement benefit liability	24	8,865	18,136	16,089	147,865
Deferred tax liabilities	9	6,291	444	373	3,431
Other non-current liabilities	27,28	393	360	362	3,328
Total non-current liabilities		43,876	29,303	25,795	237,071
Current liabilities					
Bonds and borrowings	22,29	10,000	918	–	–
Lease liabilities	15,29	2,636	3,306	3,361	30,892
Trade payables	26,29	7,698	9,442	10,763	98,922
Other financial liabilities	23,29	10,470	17,008	17,557	161,355
Income taxes payable	9	18,402	34,016	21,886	201,141
Other current liabilities	28	29,826	31,457	27,551	253,208
Total current liabilities		79,034	96,149	81,119	745,518
Total liabilities		122,910	125,452	106,915	982,590
Total equity and liabilities		857,725	938,540	871,526	8,009,621

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Millions of yen

	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of April 1, 2018		21,279	21,055	(36,641)	545,498	179,365	730,557	4,257	734,814
Profit					137,191		137,191	(272)	136,918
Total other comprehensive income, net of tax	21					734	734	(274)	460
Comprehensive income					137,191	734	137,926	(547)	137,378
Purchase of treasury shares	21			(50,020)			(50,020)		(50,020)
Disposal of treasury shares	21		(1,481)	19,174			17,693		17,693
Cancellation of treasury shares	21		(38,604)	38,604			–		–
Dividends	21				(27,669)		(27,669)		(27,669)
Increase by business combination							–		–
Changes in ownership interest in subsidiaries			288				288	604	892
Transfer from other components of equity to retained earnings	21				(1,516)	1,516	–		–
Other			40,019		(40,020)		(0)	(1)	(1)
Balance as of March 31, 2019		21,279	21,277	(28,882)	613,483	181,616	808,774	4,313	813,087
Profit					122,193		122,193	1	122,194
Total other comprehensive income, net of tax	21					(85,598)	(85,598)	(214)	(85,813)
Comprehensive income					122,193	(85,598)	36,594	(213)	36,381
Purchase of treasury shares	21			(50,012)			(50,012)		(50,012)
Disposal of treasury shares	21		(509)	1,602			1,092		1,092
Cancellation of treasury shares							–		–
Dividends	21				(31,134)		(31,134)		(31,134)
Increase by business combination	32						–	90	90
Changes in ownership interest in subsidiaries			(755)				(755)	(4,187)	(4,942)
Transfer from other components of equity to retained earnings	21				4,169	(4,169)	–		–
Other			420		(420)		0	49	49
Balance as of March 31, 2020		21,279	20,432	(77,292)	708,291	91,848	764,560	51	764,611

Shionogi & Co., Ltd and Consolidated Subsidiaries

Thousands of U.S. dollars

	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of March 31, 2019		195,568	195,545	(265,440)	5,638,118	1,669,115	7,432,906	39,640	7,472,546
Profit					1,123,000		1,123,000	9	1,123,009
Total other comprehensive income, net of tax	21					(786,682)	(786,682)	(1,973)	(788,655)
Comprehensive income					1,123,000	(786,682)	336,318	(1,963)	334,354
Purchase of treasury shares	21			(459,631)			(459,631)		(459,631)
Disposal of treasury shares	21		(4,685)	14,728			10,043		10,043
Cancellation of treasury shares							–		–
Dividends	21				(286,137)		(286,137)		(286,137)
Increase by business combination	32						–	829	829
Changes in ownership interest in subsidiaries			(6,942)				(6,942)	(38,484)	(45,426)
Transfer from other components of equity to retained earnings	21				38,318	(38,318)	–		–
Other			3,865		(3,861)		4	450	455
Balance as of March 31, 2020		195,568	187,783	(710,343)	6,509,438	844,115	7,026,561	471	7,027,031

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Notes	Year ended March 31, 2019 (Millions of yen)	Year ended March 31, 2020 (Millions of yen)	Year ended March 31, 2020 (Thousands of U.S. dollars)
Cash flows from operating activities				
Profit before tax		174,043	158,516	1,456,823
Depreciation and amortization		14,431	14,115	129,725
Impairment losses		17,168	100	919
Finance (income) costs		(32,963)	(29,233)	(268,668)
(Increase) decrease in trade and other receivables		(18,570)	21,371	196,408
(Increase) decrease in inventories		(3,637)	1,158	10,647
Increase (decrease) in trade and other payables		4,922	(5,747)	(52,819)
Other		3,711	(9,202)	(84,574)
Subtotal		159,106	151,078	1,388,462
Interest and dividends received		30,086	29,565	271,713
Interest paid		(693)	(348)	(3,207)
Income taxes paid		(23,499)	(48,354)	(444,395)
Net cash provided by operating activities		165,000	131,940	1,212,572
Cash flows from investing activities				
Payments into time deposits		(123,651)	(200,827)	(1,845,673)
Proceeds from withdrawal of time deposits		91,064	174,672	1,605,302
Purchase of property, plant and equipment		(6,547)	(8,945)	(82,210)
Proceeds from sale of property, plant and equipment		751	3,427	31,504
Purchase of intangible assets		(18,848)	(2,823)	(25,950)
Payments for acquisition of a subsidiary	32	–	(4,525)	(41,592)
Purchase of investments in associates		(5,742)	(4,252)	(39,077)
Purchase of investments		(11,964)	(99,630)	(915,641)
Proceeds from sale of investments		20,725	119,485	1,098,115
Payments for acquisition of businesses		(937)	–	–
Other		(1,104)	(5,725)	(52,621)
Net cash used in investing activities		(56,256)	(29,144)	(267,845)

	Notes	Millions of yen Year ended March 31, 2019	Year ended March 31, 2020	Thousands of U.S. dollars Year ended March 31, 2020
Cash flows from financing activities				
Repayments of long-term borrowings	22	(10,000)	–	–
Repayments of lease liabilities	22	(3,022)	(3,544)	(32,574)
Purchase of treasury shares	21	(50,270)	(50,159)	(460,981)
Dividends paid	21	(27,639)	(31,122)	(286,027)
Payments for acquisition of interests in subsidiaries from non-controlling interests		–	(3,367)	(30,944)
Proceeds from sale of interests in a subsidiary to non-controlling interests		1,020	–	–
Other		–	18	173
Net cash used in financing activities		(89,912)	(88,174)	(810,353)
Effect of exchange rate changes on cash and cash equivalents		832	(1,560)	(14,346)
Net increase in cash and cash equivalents		19,664	13,060	120,028
Cash and cash equivalents at beginning of period	19	176,135	195,800	1,799,474
Cash and cash equivalents at end of period	19	195,800	208,861	1,919,503

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

1. Reporting Entity

Shionogi & Co., Ltd. (hereinafter, the "Company") is a public company incorporated in Japan. Its registered head office is located in Osaka.

The Company and its subsidiaries (collectively, the "Group") engages in research, development, purchasing, manufacturing, distribution and other operations associated with the prescription drug business.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). As the Company meets the requirements of a "Specified Company applying Designated International Financial Reporting Standards" pursuant to Article 1-2 of the "Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance of Japan No. 28 of 1976), it has adopted the provision of Article 93 of said ordinance.

The Group first adopted IFRS for the fiscal year ended March 31, 2020, and accordingly, the consolidated financial statements for the year ended March 31, 2020 are the Group's first consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS was April 1, 2018 ("Transition date"), and the Group has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") at the transition to IFRS. Descriptions of how the transition to IFRS has affected the Group's financial position, operating results, and cash flows are included in Note "34. Transition to IFRS."

The consolidated financial statements of the Group were approved on June 23, 2020 by Isao Teshirogi, Representative Director and President and CEO.

(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, etc. as described in Note "3. Significant Accounting Policies."

(3) Functional Currency and Presentation Currency

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

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 ¥108.81 to U.S. $1, the approximate rate of exchange at the end of March 31, 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. Amounts less than one million U.S. dollars have been rounded to the nearest million U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(4) Significant Accounting Judgments, Estimates, and Assumptions

The preparation of the Group's consolidated financial statements requires management to make certain judgments, estimates, and assumptions that affect the reported amount of revenue, expenses, assets, and liabilities. Actual results could differ from these estimations due to uncertainties of these estimations and assumptions. In addition, these estimates and underlying assumptions are reviewed on a continuous basis. The effects of these revisions to accounting estimates and assumptions are recognized in the accounting period in which the estimates and assumptions are revised and in any future accounting periods affected by the revision.

Significant items on which management makes its estimates and judgments are as follows:

- Impairment of non-financial assets (See Note "3. Significant Accounting Policies (5) Property, Plant and Equipment, (6) Goodwill, (7) Intangible Assets, (10) Impairment of Non-Financial Assets," Note "11. Property, Plant and Equipment," Note "12. Goodwill," and Note "13. Intangible Assets")

  Calculating the recoverable amount of property, plant and equipment and intangible assets including goodwill involves assumptions about future cash flows, discount rates and long-term growth rates. These assumptions could be affected by changes in future economic conditions and could affect significantly to the consolidated financial statements.

- Fair value of financial instruments (See Note “3. Significant Accounting Policies (17) Financial Instruments,” Note “16. Other Financial Assets,” and Note “29. Financial Instruments”)
  Estimating the fair value of certain financial instruments involves valuation techniques using inputs that are not based on observable market data, such as future cash flows and discount rates. These estimates could be affected by changes in future economic conditions and could affect significantly to the consolidated financial statements.

- Measurements of defined benefit obligation (See Note “3. Significant Accounting Policies” (14) Employee Benefits, Note “24. Employee Benefits”)
  Calculating the present value of defined benefit obligation and related service costs, etc. involves actuarial assumptions. Actuarial assumptions require estimates and judgments of multiple variables including discount rates, retirement rates and mortality rates. Future changes in economic or social conditions etc. could affect these actuarial assumptions and have a material impact on the consolidated financial statements.

- Recoverability of deferred tax assets (See Note “3. Significant Accounting Policies (4) Income Taxes,” Note “9. Deferred Taxes and Income Taxes”)
  Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be used in the future. Determining probability and the amount of taxable profit involves reasonable estimates of the timing and amount of future taxable profit. These estimations could be affected by the Group’s operating conditions and could significantly affect the consolidated financial statements.

- Impact of COVID-19
  A prolonged COVID-19 pandemic could result in delays of business activities such as production, sales, and research and development. Due to the second wave of infections that occurred recently, it is difficult to predict when the pandemic is to be fully controlled and contained. At present, the impact on business activities is minor, and the Group assumes that COVID-19 pandemic will have a limited impact on accounting estimates such as impairment tests of goodwill and the recoverability of deferred tax assets, etc. Changes in these assumptions could significantly affect amounts in the consolidated financial statements.

(5) New or Amended Accounting Standards and Interpretations Not Yet Adopted
The following shows the main new or amended accounting standards that have been issued as of the date of approval of the Group’s consolidated financial statements but not yet adopted by the Group as of March 31, 2020.

IFRS		Mandatory effective date (fiscal year beginning on or after)	The Group’s application date (fiscal year ending)	Summary of new or amended IFRS standards and interpretations
IFRS 3	Business Combinations	January 1, 2020	March 31, 2021	Amendment to definition of “business” in relation to business combinations

3. Significant Accounting Policies
The Group has consistently applied the following accounting policies for all periods presented in the consolidated financial statements, including the consolidated statement of financial position at the date of transition to IFRS, unless otherwise stated.
(1) Basis of Consolidation
1) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group is considered to control an entity that is an investee when it is exposed, or has rights, to variable returns from involvement with the investee and has an ability to affect those returns through power over the investee.
The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control of a subsidiary until the date when it loses control of the subsidiary.
The financial statements of subsidiaries with different reporting dates are prepared provisionally as of the consolidated reporting date.
Changes in ownership interest in subsidiaries that do not result in loss of control are accounted for as equity transactions. Any difference between the adjustment to non-controlling interests and the fair value of consideration transferred or received, is recognized directly in equity as equity attributable to owners of parent.

All intragroup balances, transactions, and unrealized gains and losses resulting from intragroup transactions have been eliminated in consolidation.

2) Business Combinations

Business combinations are accounted for using the acquisition method.

The identifiable assets acquired and the liabilities assumed of the acquiree are measured in principle at the fair value at the acquisition date.

Goodwill is measured as the excess of the aggregate of the consideration transferred in a business combination, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously-held equity interest in the acquiree, over the acquisition-date fair value of the identifiable net assets acquired. The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer.

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

Acquisition-related costs incurred in connection with business combinations, such as finder's fees and advisory fees are recognized as expenses in the period they are incurred.

In addition, any additional acquisition of non-controlling interests after the Group obtains the control of a subsidiary is accounted for as an equity transaction, for which no goodwill is recognized.

(2) Foreign Currency Translations

1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or rates that approximate the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot rates of exchange at the end of each reporting period. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into the functional currency using the exchange rates in effect on the date when the fair value was determined.

Exchange differences arising from the translation or settlement are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Translation of Foreign Operations

Assets and liabilities of foreign operations are translated at the spot rates of exchange at the end of each reporting period, and income and expenses are translated at the exchange rates at the dates of the transactions or rates that approximate the exchange rates at the dates of the transactions. Exchange differences arising from translation are recognized in other comprehensive income.

On the disposal of the interest in a foreign operation, the cumulative amount of exchange differences on translation of foreign operations is reclassified to profit or loss.

(3) Revenue

The Group recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for a good or service to a customer using the five-step approach below, except for interest and dividend income, etc. as defined in IFRS 9.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

Step 5: Recognize revenue when, or as, the performance obligations are satisfied

In addition, in terms of a promise to grant a license as a separate performance obligation, the Group considers whether the nature of the promise in granting the license to a customer is to provide the customer with either of the following benefits in determining whether the transfer to the customer occurs at a point in time or over time:

1) A right to access the Group's intellectual property as it exists throughout the license period; or

2) A right to use the Group's intellectual property as it exists at the point in time at which the license is granted.

If the Group determines that the nature of its promise to transfer the license is to provide the customer with a right to access the Group's intellectual property as it exists throughout the license period, the Group accounts for the promise to grant the license as the performance obligation satisfied over time.
If the Group determines that the nature of its promise to transfer the license is to provide the customer with a right to use the Group's intellectual property as it exists at the point in time at which the license is granted, the Group accounts for the promise to grant the license as a performance obligation satisfied at a point in time.
Notwithstanding the above, revenue in the form of sales-based or usage-based royalties is recognized when (or as) the later of following events occurs:

1) the subsequent sale or usage occurs; and
2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

(4) Income Taxes

Income taxes consist of current taxes and deferred taxes.

1) Current Taxes

Current tax is measured at the expected amount to be paid to or received from the tax authorities, applying the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period. Current tax recognized in profit or loss does not include taxes arising from items directly recognized in other comprehensive income or equity and taxes arising from business combinations.

2) Deferred Taxes

Deferred taxes are calculated based on the temporary differences determined by comparing the carrying amounts of assets and liabilities for financial reporting purposes with the tax base at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax assets and liabilities arising from the following temporary differences are not recognized:

- Temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit (tax loss) at the time of the transaction;
- Deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, when it is probable that the temporary difference will not reverse in the foreseeable future or it is not probable that there will not be taxable profits against which the deductible temporary differences can be utilized; or
- Taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, when the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the periods in which the temporary differences are expected to reverse based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity.

(5) Property, Plant and Equipment

The Group uses the cost model to measure property, plant and equipment after recognition. Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.
Acquisition cost includes costs directly attributable to the acquisition and asset dismantlement, removal, and restoration costs.
Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over the estimated useful life of the respective asset.
The estimated useful lives of major items of property, plant and equipment are as follows:

- Buildings and structures 2 to 60 years
- Machinery and vehicles 2 to 17 years

Depreciation methods, useful lives and residual values are reviewed at the end of each fiscal year and revised if necessary.

(6) Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized and is tested for impairment at least annually regardless of any indication of impairment, and whenever there is an indication of impairment.

(7) Intangible Assets

The Group uses the cost model to measure intangible assets after recognition. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at acquisition cost. Acquisition cost of intangible assets acquired in a business combination are measured at fair value at the business combination date.

Internally generated development expenditures are recognized as intangible assets only when they satisfy all criteria for recognizing them as assets. However, internally generated development expenditures incurred before the acquisition of marketing and manufacturing approval, such as clinical trial costs, etc., are recognized as expenses when incurred as they do not satisfy capitalization criteria due to uncertainties related to length and other factors in development.

Product or technology in-license agreements, and products or research and development rights acquired through business combinations which are still in the research and development phase and have not yet received marketing approval from regulatory authorities (regulatory approval) are recognized as in-process research and development and are included in "Intangible assets associated with products."

Expenditures associated with acquired in-process R&D are capitalized only when they are expected to bring future economic benefits to the Group and are identifiable. These include upfront payments to third parties and milestone payments when the milestone is achieved.

Intangible assets with finite useful lives are amortized by the straight-line method over their estimated useful lives from the date when they are available for their intended use.

The estimated useful lives of major intangible assets are as follows:

- Intangible assets associated with products 8-15 years
- Software 5 years

Amortization methods, residual values and useful lives are reviewed annually and revised as necessary.

Intangible assets not yet available for use are not amortized, and are tested for impairment at least annually, and whenever there is an indication of impairment.

(8) Leases

1) Identifying leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

A contract is a lease, or contains a lease, if it conveys the right to use an identified asset for a period of time in exchange for consideration.

2) As lessee

The Group recognizes the right-of-use asset and lease liability at the commencement date of the lease. For short-term leases and leases for which the underlying asset is of low value, the Group has elected to recognize the lease payments as an expense over the lease term using the straight-line method or other systematic basis.

Right-of-use assets are measured using the cost model and are stated at cost less accumulated depreciation and accumulated impairment loss. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset is calculated based on the assumption that the lessee is reasonably certain to exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. In subsequent periods, the Group reduces the carrying amount of the lease liability to reflect the interest on the lease liability and lease payments made.

3) As lessor

The Group classifies leases as operating leases if they do not transfer substantially all the risks and rewards incidental to ownership of the underlying assets.

Lease payments from operating leases are recognized as revenue using the straight-line method or other systematic basis.

(9) Investment Property

Investment property is held to earn rentals or capital appreciation or both. Investment property is measured similarly to property, plant and equipment.

(10) Impairment of Non-Financial Assets

For non-financial assets other than inventories and deferred tax assets, the Group assesses whether there is any indication that an asset or cash-generating unit may be impaired. If any indication of impairment exists, the Group estimates the recoverable amount of the asset or cash-generating unit and tests for impairment.

Goodwill and intangible assets not yet available for use are tested for impairment at least annually regardless of any indication of impairment. In addition, the Group tests for impairment when any indication of impairment exists.

The recoverable amount is determined at the higher of its fair value less costs of disposal, or its value in use. In determining value in use, estimated future cash flows from the asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

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

An asset or a cash-generating unit other than goodwill, for which impairment losses were recognized in prior years, is assessed for any indication that the impairment loss may have reversed. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the carrying amount less depreciation that would have been determined if no impairment loss had been recognized in prior years, and is recognized in profit or loss. Impairment loss is not reversed for goodwill.

(11) Inventories

Inventories consist primarily of finished products and merchandise, work in progress, and raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. The acquisition cost of inventories is determined using the weighted-average cost formula and includes raw materials, direct labor and other direct costs, and related manufacturing overhead costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs required for sales.

(12) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(13) Equity

1) Ordinary Shares

Proceeds from the issuance of ordinary shares by the Company are recognized in share capital and capital surplus. Transaction costs (post-tax) directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

2) Treasury Shares

When the Company acquires treasury shares, direct acquisition cost (post-tax) is recognized as a deduction from equity.

When the Company sells treasury shares, the consideration received is recognized as an increase in equity.

(14) Employee Benefits

1) Post-employment Benefits

(i) Defined Benefit Plans

The present value of defined benefit plan obligations and related current service cost and past service cost are calculated for each individual plan using the projected unit credit method. The discount rate is determined with reference to the market yields on high-quality corporate bonds at the end of the reporting period corresponding to the expected future benefit payment date. The net defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. When a defined benefit plan has a surplus, the net defined benefit asset is limited to the asset ceiling, which is the present value of future economic benefits available in the form of refunds or reductions in future contributions to the plan. Remeasurements of defined benefit plans are recognized in full in other comprehensive income and immediately transferred to retained earnings in the period in which they are recognized.

(ii) Defined Contribution Plans

The costs for defined contribution plans are recognized as expenses when the employees render the related service.

2) Short-term Employee Benefits

Short-term employee benefits are recognized as expenses when the associated services are rendered by employees at undiscounted amounts. Bonuses and expenses for paid absences are recognized as liabilities for the expected benefit payment when the Group has a present legal or constructive obligation to pay for employee benefits and a reliable estimate is available for the obligation.

(15) Share-based Remuneration

The Group has implemented a share option plan and a restricted share-based remuneration plan as equity-settled share-based payment plans.

No share options have been granted through the share option plans since 2018, and all share options granted had already vested before the date of transition to IFRS. The Group does not retrospectively apply IFRS 2 “Share-based Payments” to equity instruments that vested before the date of transition to IFRS under the exemption of IFRS 1 “First-time Adoption of International Financial Reporting Standards.”

The restricted share-based remuneration plan is recognized as an expense over the period from the grant date to vesting, and the same amount is recognized as an increase in equity. The fair value of restricted share-based remuneration is measured with reference to the fair value of the Company’s ordinary shares on the grant date.

In addition, the Group has implemented a cash-settled share-based payment plan linked to share price.

The Group recognizes the fair value of cash-settled share-based payments in liabilities, and recognizes any changes in fair value in profit or loss until the date of settlement.

(16) Government Grants

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

Government grants related to assets are recognized as deferred income and are systematically recognized in profit or loss over the estimated useful lives of the assets.

Government grants related to revenue are systematically recognized in profit or loss over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

(17) Financial Instruments

1) Non-derivative Financial Assets

(i) Initial Recognition and Measurement

Trade receivables included in financial assets are recognized on the date when they are incurred. All other financial assets are initially recognized on the date the Group becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets are classified into financial assets measured at amortized cost or financial assets measured at fair value.

This classification is carried out as follows, depending on whether the financial asset is a debt instrument or an equity instrument.

(a) Financial Assets Classified into Debt Instruments

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

- the asset is held within a business model whose objective is to hold 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.

In addition, debt Instruments are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- the 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 the principal amount outstanding.

Debt Instruments not held in one of the two business models above are classified as financial assets measured at fair value through profit or loss.

(b) Financial Assets Classified into Equity Instruments

In principle, equity instruments are classified as financial assets measured at fair value through profit or loss.

However, on initial recognition, an equity instrument that is not held for trading is permitted to be classified individually as financial assets measured at fair value through other comprehensive income.

In principle, financial assets are measured at fair value plus directly attributable transaction costs.

However, trade receivables that do not include a significant financing component are measured at the transaction price.

In addition, transaction costs for financial assets measured at fair value through profit or loss are expensed as incurred and recorded in profit or loss.

(ii) Subsequent Measurement

(a) Financial Assets Measured at Amortized Cost

These assets are subsequently measured at amortized cost using the effective interest method. Interest is recognized in profit or loss as “Finance income.” The amortized cost is reduced if impairment loss is necessary to be recognized.

(b) Financial Assets Measured at Fair Value

These assets are subsequently measured at fair value.

For equity instruments the Group has elected to measure at fair value through other comprehensive income, subsequent changes in fair value are recognized in other comprehensive income, and cumulative gain or loss is transferred to retained earnings when the financial asset is derecognized. Dividends from these financial assets are recognized in profit or loss as “Finance income.”

In addition, for debt instruments classified as financial assets measured at fair value through other comprehensive income, change in fair value is recognized in other comprehensive income until derecognition or a change in classification, excluding impairment losses (or reversals) and foreign exchange gains or losses. Upon derecognition of the financial assets, cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

For assets other than the above, changes in fair value are recognized in profit or loss.

(iii) Impairment

Financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income included in debt instruments are assessed at the end of each reporting period to determine if the credit risk of the assets has increased significantly since initial recognition. The Group recognizes the following amounts as allowance for doubtful accounts, depending on whether there is a significant increase in credit risk since initial recognition.

(a) Credit risk has not increased significantly since initial recognition

--An amount equal to the 12-month expected credit losses

(b) Credit risk has increased significantly since initial recognition

--An amount equal to the lifetime expected credit losses

Notwithstanding the above, allowance for doubtful accounts for trade receivables and lease receivables is always recognized in an amount equal to lifetime expected credit losses since initial recognition.

Expected credit loss is calculated as the present value of the difference between the contractual cash flows the Group should receive and the cash flows the Group expects to receive.

Provision for allowance for doubtful accounts is recognized in profit or loss. If an event occurs that reduces the allowance for doubtful accounts, the reversal of allowance for doubtful accounts is recognized in profit or loss.

(iv) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the asset to another entity.

2) Non-derivative Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities measured at amortized cost and financial liabilities measured at fair value through profit or loss. Financial liabilities are initially recognized on the transaction date when the Group becomes party to contractual provisions of the financial liabilities.

Financial liabilities are initially measured at fair value. However, directly attributable transaction costs are deducted from the fair value of financial liabilities measured at amortized cost.

(ii) Subsequent Measurement

Financial liabilities are subsequently measured after initial recognition according to their classification, as follows:

(a) Financial Liabilities Measured at Amortized Cost

These liabilities are subsequently measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains and losses on derecognition are recognized in profit or loss as "Finance costs."

(b) Financial Liabilities Measured at Fair Value through Profit or Loss

These liabilities are subsequently measured at fair value. Changes in fair value are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes a financial liability when the obligation specified in the contract is discharged, cancelled, or expires.

3) Derivatives and Hedge Accounting

The Group hedges risks arising from exposure to fluctuations in foreign currency exchange rates using derivative financial instruments such as forward foreign exchange contracts.

Derivatives are initially recognized at fair value at the contract inception date, and are subsequently measured at fair value. In principle, changes in the fair value of derivatives are recognized in profit or loss.

However, the Group designates certain derivatives as cash flow hedges. The effective portion of changes in the fair value of derivatives designated is recognized in other comprehensive income if qualifying criteria for hedge accounting are met. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gain or loss related to hedging instruments previously recognized in other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss.

However, when the hedged forecasted transactions subsequently result in the recognition of a non-financial asset or a non-financial liability, the gain or loss previously recognized in other comprehensive income is recognized as an adjustment to the initial carrying amount of the asset or liability.

4. Segment Information

(1) Outline of Reportable Segments

The Group operates as a single business segment related to research, development, purchasing, manufacturing, distribution and other operations associated with the prescription drug business. While the Group analyzes sales by product and evaluates earnings by Group companies, it makes decisions about business strategy and allocates resources, especially research and development expenditures, on a Group-wide basis. Therefore, disclosure of segment information is omitted.

(2) Information by Product and Service

Revenue from external customers for each product and service is described in Note “5. Revenue.”

(3) Geographical Information

Revenue and non-current assets by region are as follows:

1) Revenue

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Japan	143,844	125,834
Europe	194,030	176,824
United Kingdom	161,437	154,943
North America	13,212	11,457
United States of America	13,204	11,452
Other	16,873	19,254
Total	367,960	333,371

Notes:

1. Revenue information is classified by country or region based on customer location.
2. The main countries and regions included in each geographic category other than Japan are as follows:
   (1) Europe: United Kingdom, Switzerland, and others
   (2) North America: United States of America and others
   (3) Other: Asia and others

2) Non-current Assets

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Japan	104,005	119,073	130,693
Europe	1,165	778	726
North America	21,725	12,191	10,052
Other	10,706	9,608	8,818
Total	137,602	141,650	150,290

Notes:

1. Non-current assets are classified by country or region based on asset location and exclude financial instruments, deferred tax assets and net defined benefit assets.
2. The main countries and regions included in each geographic category other than Japan are as follows:
   (1) Europe: United Kingdom and others
   (2) North America: United States of America and others
   (3) Other: Asia and others

(4) Information Related to Major Customers

The following customers accounted for 10% or more of Group revenue for the fiscal years ended March 31, 2019 and 2020.

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
ViiV Healthcare Limited	130,857	128,107

5. Revenue

(1) Breakdown of Revenue

The breakdown of revenue for the fiscal years ended March 31, 2019 and 2020 is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Prescription drugs in Japan	125,889	106,261
Exports and overseas subsidiaries	30,465	30,796
Contract manufacturing	14,775	17,585
Royalty income	186,745	166,867
Other revenue	10,084	11,860
Total	367,960	333,371

"Revenue" in the consolidated statement of profit or loss is revenue recognized from contracts with customers. Revenue recognized from other sources is included in "Other income," described in Note "7. Other Income and Other Expenses," and "Finance income," described in Note "8. Finance Income and Finance Costs."

In addition, the Group omits disclosure of segment information as described in Note "4. Segment Information."

Group revenue comprises the following. Revenue from prescription drugs in Japan includes prescription drug sales in Japan and compensation associated with co-promotion agreements. Revenue from exports and overseas subsidiaries includes income from export transactions, sales and royalty income recognized by overseas subsidiaries. Revenue from contract manufacturing includes income associated with contract manufacturing of active pharmaceutical ingredients (API). Royalty income includes royalty income recognized by the Company and domestic subsidiaries. Other revenue includes sales of over-the-counter medicines and diagnostics, and other revenue recognized by domestic subsidiaries.

In prescription drug sales in Japan and overseas, revenue from sales within the same country is recognized when the product is delivered to the customer, unless otherwise specified by contract, while revenue from export sales is recognized at the point in time when the performance obligation is satisfied, which is when risk is transferred to the customer based on the terms of trade specified in Incoterms or other trade terms. Consideration for the transaction is generally received within three months after the satisfaction of the performance obligation.

Some transactions involve variable consideration in the form of rebates to customers based on the sales volume of related products to promote sales of Group products. However, significant reversals of cumulative revenue recognized will generally not occur since the Group can reasonably estimate rebates payable to customers. Therefore, the Group has determined that its estimates of variable consideration are not constrained.

In addition, the Group sells products for which the customer has a right of return. The Group calculates expected returns for these products based on the estimated rate of return, deducts this amount from sales revenue, and recognizes a refund liability in the same amount. Furthermore, since the Group’s products are difficult to resell due to their nature, the Group does not recognize an asset for its right to recover products from customers on settling the refund liability.

For contract API manufacturing, the Group generally determines that its performance obligation is satisfied when the customer takes delivery of the API and recognizes revenue at that time. Consideration for the transaction is generally received within two months after the satisfaction of the performance obligation.

The Group out-licenses the use of intellectual property such as patents the Group owns to the counterparties of licensing contracts. The Group considers the performance obligation of these contracts to be satisfied at a point in time, as it does not plan to undertake any activities that significantly affect the intellectual property provided under the contract. The Group recognizes revenue at the point in time when the performance obligation is satisfied by granting the license to the licensee.

Consideration for out-licensing consists mainly of upfront payments when an agreement is concluded; milestone payments when the prescribed research and development, sales and other milestones are achieved; and royalties based on sales or sales volume. Receipt of consideration is generally within two months after the requisite conditions have been satisfied.

The Group receives the milestone payments, included in the consideration for out-licensing, if a pre-determined milestone is achieved. As the achievement of specified milestones is uncertain, however, the amount of consideration to which the Group will be entitled is variable. The Group estimates entitlement to consideration that includes a variable component, and only includes it in the transaction price and recognizes it as revenue when the uncertainty regarding the variable consideration is subsequently resolved to the extent that it is highly probable that a material reversal of cumulative revenue recognized will not occur. As the receipt of milestone payments is contingent on the decisions and actions of the licensee, and uncertainties may not have been resolved for a long term, there is a possibility that a significant reversal of revenue occurs. As a result, variable consideration estimates are constrained in licensing transactions that involve the receipt of milestone payments.

However, revenue in the form of sales-based or usage-based royalties is recognized at the later of when (1) the subsequent sale or usage occurs, or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (in whole or in part).

Significant financing components are not included in the consideration the Group receives. The Group has elected not to adjust significant financing components, at contract inception, if a period between when the Group provides its products or services to customers and when the customers pay for the products or services is expected to be one year or less.

In addition, the Group does not sell products with warranties or similar rights.

(2) Contract Balances

Contract balances at the date of transition to IFRS and at March 31, 2019 and 2020 are as follows:

Millions of yen

	Receivables arising from contracts with customers			Contract liabilities	
	Notes receivable	Accounts receivable	Total	Advances received	Total
As of April 1, 2018	561	81,616	82,178	287	287
As of March 31, 2019	502	100,493	100,996	545	545
As of March 31, 2020	459	79,417	79,877	452	452

The Group had no contract balances at the date of transition to IFRS and at March 31, 2019 and 2020.

Impairment losses recognized for receivables arising from contracts with customers are described in Note “29. Financial Instruments.”

Revenue recognized in the reporting period included in the contract liability balance at the beginning of the year was ¥287 million and ¥545 million for the years ended March 31, 2019 and 2020, respectively.

Revenue recognized in the reporting period from performance obligations satisfied in previous years was ¥192,689 million and ¥168,040 million for the years ended March 31, 2019 and 2020, respectively. These were arising from milestone payments and royalties fulfilled and receivable when the pre-determined milestones were achieved by the Group in the years ended March 31, 2019 and 2020 included as a component of consideration for the performance obligation at the time of granting a license.

(3) Transaction Price Allocated to Remaining Performance Obligations

The Group has no material transactions for which the original expected contract duration exceeds one year. In addition, there are no material amounts not included in transaction prices in a consideration arising from contracts with customers.

(4) Assets Recognized from the Costs to Obtain or Fulfill a Contract with a Customer

No assets were recognized from the costs to obtain or fulfill a contract with a customer at the date of transition to IFRS and at March 31, 2019 and 2020. The Group has elected to recognize these costs as expenses when incurred if the amortization period for the assets recognized from the costs to obtain or fulfill a contract with a customer is one year or less.

6. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Salaries and bonuses	29,442	32,169
Retirement benefit expenses	1,854	2,406
Sales promotion expenses	13,796	15,406
Royalties of intellectual property rights and others	6,728	9,352
Outsourcing expenses	8,377	7,657
Depreciation and amortization	2,383	3,292
Other	25,085	24,810
Total	87,668	95,094

7. Other Income and Other Expenses

(1) Other Income

The breakdown of other income is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Gain on sale of property, plant and equipment	530	2,470
Gain on step acquisition	–	1,331
Other	863	489
Total	1,394	4,291

Notes:

1. “Gain on sale of property, plant and equipment” for the year ended March 31, 2019 was mainly the result of the sale of the Omori Dormitory by the Company.
2. “Gain on sale of property, plant and equipment” for the year ended March 31, 2020 was mainly the result of the sale of a training center and investment properties by the Company.
3. “Gain on step acquisition” for the year ended March 31, 2020 is described in Note “32. Business Combinations.”

(2) Other Expenses

The breakdown of other expenses is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Donations	949	1,065
Compensation expense	–	684
Litigation expenses	790	453
Impairment losses	17,168	100
Special retirement expenses	2,848	–
Loss on disaster	823	–
Loss on disposal of fixed assets	265	–
Other	1,834	1,647
Total	24,680	3,951

Notes:

1. “Impairment losses” in the years ended March 31, 2019 and 2020 are presented in Notes “11. Property, Plant and Equipment,” “12. Goodwill,” and “13. Intangible Assets.”
2. “Special retirement expenses” in the year ended March 31, 2019 was related to the Company and its Dutch subsidiary Shionogi B.V.
3. “Loss on disaster” in the year ended March 31, 2019 resulted from an earthquake with its epicenter in northern Osaka Prefecture that occurred on June 18, 2018.
4. “Loss on disposal of fixed assets” in the year ended March 31, 2019 was related to Settsu Plant Building No.301.
5. “Compensation expense” in the year ended March 31, 2020 represents relocation compensation paid to a corporate tenant of an investment property that was redeveloped.

8. Finance Income and Finance Costs

(1) Finance Income

The breakdown of finance income is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Interest income		
Financial assets measured at amortized cost	2,383	2,783
Subtotal	2,383	2,783
Dividend income		
Financial assets measured at fair value through other comprehensive income	29,919	27,619
Financial assets measured at fair value through profit or loss	15	15
Subtotal	29,934	27,634
Other	54	86
Total	32,371	30,504

(2) Finance Costs

The breakdown of finance costs is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Interest expenses		
Financial liabilities measured at amortized cost	601	279
Lease liabilities	71	71
Subtotal	673	350
Loss on valuation		
Financial liabilities measured at fair value through profit or loss	756	136
Subtotal	756	136
Foreign exchange loss	707	564
Other	1,272	1,565
Total	3,409	2,616

9. Deferred Taxes and Income Taxes

(1) Deferred Taxes

1) Major items and changes in deferred tax assets and deferred tax liabilities are as follows:

(i) Year ended March 31, 2019

Millions of yen

	As of April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	As of March 31, 2019
Deferred tax assets					
Research and development expenses	7,393	(3,743)	–	–	3,650
Inventories	2,746	(450)	–	–	2,295
Accrued bonuses	2,157	16	–	–	2,173
Accrued enterprise taxes	947	838	–	–	1,786
Intangible assets associated with products	1,106	597	–	–	1,703
Accrued paid absences	826	(33)	–	–	793
Other payables and accrued expenses	369	42	–	–	412
Retirement benefit asset and liability	2,413	859	6,124	–	9,396
Other	4,905	(70)	–	–	4,834
Subtotal	22,866	(1,943)	6,124	–	27,047
Deferred tax liabilities					
Trade receivables	9,120	1,673	–	–	10,793
Reserve for advanced depreciation of property, plant and equipment	1,741	(56)	–	–	1,684
Gain on exchange for investments in securities	1,282	–	–	–	1,282
Financial assets measured at fair value through other comprehensive income	12,218	–	(2,699)	–	9,519
Cash flow hedges	494	–	(225)	–	269
Other	3,921	(806)	–	291	3,406
Subtotal	28,779	809	(2,924)	291	26,956
Net deferred tax (liabilities) assets	(5,913)	(2,753)	9,048	(291)	90

Note: Exchange differences on translation of foreign operations is included in Other.

(ii) Year ended March 31, 2020

Millions of yen

	As of April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	As of March 31, 2020
Deferred tax assets					
Research and development expenses	3,650	(609)	–	–	3,040
Inventories	2,295	2,918	–	–	5,214
Accrued bonuses	2,173	(181)	–	–	1,992
Temporary differences associated with investments in subsidiaries	–	1,915	(483)	–	1,432
Accrued enterprise taxes	1,786	(645)	–	–	1,140
Intangible assets associated with products	1,703	(1,703)	–	–	–
Accrued paid absences	793	(43)	–	–	749
Other payables and accrued expenses	412	32	–	–	444
Retirement benefit asset and liability	9,396	(2,623)	(222)	–	6,551
Other	4,834	(529)	–	–	4,305
Subtotal	27,047	(1,470)	(705)	–	24,871
Deferred tax liabilities					
Trade receivables	10,793	56	–	–	10,849
Intangible assets associated with products	–	476	–	–	476
Reserve for advanced depreciation of property, plant and equipment	1,684	(18)	–	–	1,665
Gain on exchange for investments in securities	1,282	(317)	–	–	965
Financial assets measured at fair value through other comprehensive income	9,519	–	(5,854)	–	3,665
Cash flow hedges	269	–	1,091	–	1,360
Other	3,406	(189)	–	(5)	3,212
Subtotal	26,956	7	(4,763)	(5)	22,196
Net deferred tax assets (liabilities)	90	(1,478)	4,057	5	2,675

Note: Exchange differences on translation of foreign operations is included in Other.

2) Unrecognized Deferred Tax Assets

Tax loss carryforwards, future deductible temporary differences, and unused tax credits for which deferred tax assets are not recognized are as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Tax loss carryforwards	100,142	104,365	134,960
Deductible temporary differences	84,721	77,130	66,473
Unused tax credits	1,658	2,248	1,985

3) Expiration of Unrecognized Deferred Tax Assets

(i) Expiration of Tax Loss Carryforwards for Which Deferred Tax Assets Were Not Recognized

Tax loss carryforwards for which deferred tax assets were not recognized will expire as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
1st year	–	–	471
2nd year	–	0	1,526
3rd year	0	1	2,048
4th year	0	1	1,403
5th year	182	1,566	1,236
After 5th year	149	202	13,156
Indefinite	99,809	102,593	115,117
Total	100,142	104,365	134,960

(ii) Expiration of Unused Tax Credits for Which Deferred Tax Assets Were Not Recognized

Unused tax credits for which deferred tax assets were not recognized will expire as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
1st year	–	0	17
2nd year	0	17	–
3rd year	16	–	–
4th year	–	–	–
5th year and thereafter	1,640	2,230	1,967
Total	1,658	2,248	1,985

4) Unrecognized Deferred Tax Liabilities

In principle, the Company does not recognize deferred tax liabilities for temporary differences related to investments in subsidiaries because the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. At the date of transition to IFRS and at March 31, 2019 and 2020, taxable temporary differences associated with investments in the subsidiaries that were not recognized as deferred tax liabilities were ¥210,285 million, ¥246,006 million, and ¥194,337 million, respectively.

(2) Income Taxes

1) Income Tax Expenses

The breakdown of income tax expenses is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Current income taxes		
Current fiscal year	34,371	34,844
Subtotal	34,371	34,844
Deferred income taxes		
Origination and reversal of temporary differences	2,753	1,478
Subtotal	2,753	1,478
Total	37,124	36,322

Current income taxes include the tax benefits arising from tax losses whose tax effect was previously unrecognized, tax credits, and temporary differences of prior periods. As a result, current income taxes decreased by ¥40 million and ¥85 million for the years ended March 31, 2019 and 2020, respectively.

Deferred income taxes include the tax benefit arising from previously unrecognized tax losses, tax credits and temporary differences of prior periods, and expense from write-downs or reversal of previous write-downs of deferred tax assets. As a result, deferred income taxes decreased by ¥287 million and ¥415 million for the years ended March 31, 2019 and 2020, respectively.

2) Reconciliation of Effective Tax Rate

The following is a reconciliation from the Company's statutory tax rate to the effective tax rate for the years ended March 31, 2019 and 2020.

The Company is mainly subject to income taxes, inhabitant tax and enterprise tax in Japan. The statutory tax rate calculated based on these taxes for the years ended March 31, 2019 and 2020 was 30.6%. Overseas subsidiaries are subject to the income taxes on their income in their respective countries of domicile.

(%)

	Year ended March 31, 2019	Year ended March 31, 2020
Statutory tax rate	30.6	30.6
Expenses not deductible for income tax purposes	0.1	0.1
Dividends not taxable for income tax purposes	(3.2)	(3.1)
Tax credits	(6.3)	(2.1)
Differences in applicable tax rates of subsidiaries	(1.6)	(1.3)
Changes in unrecognized deferred tax assets	3.2	(0.9)
Other	(1.5)	(0.4)
Effective tax rate	21.3	22.9

10. Earnings per Share

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

	Year ended March 31, 2019	Year ended March 31, 2020
Basis for calculating basic and diluted earnings per share:		
Profit attributable to owners of parent (Millions of yen)	137,191	122,193
Profit not attributable to ordinary shareholders of the parent (Millions of yen)	–	–
Profit used for calculating basic earnings per share (Millions of yen)	137,191	122,193
Weighted-average number of ordinary shares outstanding during the year (Thousands of shares)	312,883	308,798
Basis for calculating diluted earnings per share:		
Profit used for calculating basic earnings per share (Millions of yen)	137,191	122,193
Adjustments to profit (Millions of yen)	(7)	(0)
Profit for the year used for calculating diluted earnings per share (Millions of yen)	137,184	122,193
Weighted-average number of ordinary shares outstanding during the year (Thousands of shares)	312,883	308,798
Increase in number of ordinary shares from exercise of share options (Thousands of shares)	226	186
Increase in number of ordinary shares from conversion of convertible bonds with share subscription rights (Thousands of shares)	2,465	143
Weighted-average number of diluted ordinary shares outstanding during the period (Thousands of shares)	315,576	309,127
Earnings per share:		
Basic earnings per share (Yen)	438.47	395.71
Diluted earnings per share (Yen)	434.71	395.28

Note: No financial instruments are excluded from the calculation of diluted earnings per share because they are not dilutive.

11. Property, Plant and Equipment

(1) Movement of Acquisition Cost, Accumulated Depreciation and Accumulated Impairment Losses and Carrying Amount

The movement of the acquisition cost, accumulated depreciation, and accumulated impairment losses, and the carrying amount, of property, plant and equipment is as follows:

1) Acquisition Cost

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2018	112,441	85,118	7,056	1,696	37,780	244,092
Acquisitions	71	41	–	7,768	55	7,936
Acquisitions through business combinations	14	20	87	–	2	125
Reclassification from construction in progress	1,647	1,194	4	(4,816)	1,885	(84)
Sales and disposals	(2,597)	(1,393)	(6)	(46)	(1,039)	(5,083)
Foreign exchange differences on translations	(377)	(11)	–	0	47	(340)
Other	–	0	–	(55)	(0)	(56)
As of March 31, 2019	111,199	84,970	7,142	4,546	38,731	246,589
Acquisitions	56	0	–	8,897	107	9,061
Acquisitions through business combinations	–	–	80	–	–	80
Reclassification from construction in progress	6,258	1,738	–	(10,584)	2,263	(324)
Sales and disposals	(815)	(672)	(100)	(3)	(2,403)	(3,995)
Foreign exchange differences on translations	(183)	(4)	–	(1)	(41)	(231)
Other	(58)	(313)	(0)	(191)	(42)	(606)
As of March 31, 2020	116,455	85,718	7,121	2,663	38,614	250,574

Note: "Acquisitions through business combinations" included in "Land" in the year ended March 31, 2020 is described in Note "32. Business Combinations".

2) Accumulated Depreciation and Accumulated Impairment Losses

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2018	(66,048)	(72,526)	–	(638)	(32,713)	(171,926)
Depreciation expenses	(3,165)	(2,569)	–	–	(1,916)	(7,651)
Impairment losses	(683)	(61)	–	–	(0)	(746)
Sales and disposals	2,319	1,353	–	–	1,022	4,696
Foreign exchange differences on translations	62	10	–	–	(40)	32
Other	(6)	(0)	–	–	(2)	(8)
As of March 31, 2019	(67,521)	(73,793)	–	(638)	(33,649)	(175,603)
Depreciation expenses	(3,090)	(2,554)	–	–	(2,041)	(7,686)
Impairment losses	–	–	–	–	–	–
Sales and disposals	537	666	–	–	2,395	3,598
Foreign exchange differences on translations	69	3	–	–	30	103
Other	19	301	–	–	43	363
As of March 31, 2020	(69,986)	(75,376)	–	(638)	(33,222)	(179,223)

3) Carrying Amount

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2018	46,392	12,591	7,056	1,057	5,067	72,165
As of March 31, 2019	43,677	11,176	7,142	3,908	5,081	70,986
As of March 31, 2020	46,469	10,342	7,121	2,025	5,392	71,350

Notes:

1. Expenditures for property, plant and equipment under construction are stated as construction in progress above.
2. Depreciation of property, plant and equipment is included in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Impairment Losses

Property, plant and equipment are generally grouped by the smallest cash-generating unit that generates independent cash inflows. The Group tests idle assets for impairment individually.

For the year ended March 31, 2019, the Group recognized impairment loss on assets scheduled for retirement and idle assets for which no future use was anticipated. The carrying amounts of the impaired assets were reduced to the recoverable amounts, resulting in impairment loss totaling ¥746 million that is presented in “Other expenses” in the consolidated statement of profit or loss. The recoverable amount was measured at fair value less disposal costs, and was primarily based on expected proceeds from sale. Fair value was classified as Level 3 in the fair value hierarchy because it includes significant unobservable inputs.

The Group did not recognize impairment loss for the year ended March 31, 2020.

12. Goodwill

(1) Movement of Acquisition Cost and Accumulated Impairment Losses and Carrying Amount of Goodwill

The movement of the acquisition cost and accumulated impairment losses, and the carrying amount of goodwill is as follows:

1) Acquisition Cost

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of period	10,767	3,358
Acquisitions through business combinations	174	7,523
Foreign exchange differences on translations	268	(26)
Other	(7,851)	–
Balance at end of period	3,358	10,854

Notes:

1. "Other" during the year ended March 31, 2019 was decrease in the balance because of the derecognition of goodwill associated with a cash-generating unit related to the cardiovascular disease therapeutic area in the United States, which was fully impaired as initially expected profitability was unlikely to materialize due to a decrease in sales of products.
2. "Acquisitions through business combinations" for the year ended March 31, 2020 are described in Note "32. Business Combinations."

2) Accumulated Impairment Losses

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of period	–	–
Impairment losses	(7,851)	–
Other	7,851	–
Balance at end of period	–	–

Note: "Other" during the year ended March 31, 2019 was a decrease in the balance because of the derecognition of goodwill associated with a cash-generating unit related to the cardiovascular disease therapeutic area in the United States, which was fully impaired as initially expected profitability was unlikely to materialize due to a decrease in sales of products.

3) Carrying Amount

Millions of yen

As of April 1, 2018	10,767
As of March 31, 2019	3,358
As of March 31, 2020	10,854

(2) Impairment Test of Goodwill

The carrying amount of principal goodwill allocated to cash-generating units is as follows:

Millions of yen

Cash-generating Unit	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Shionogi Inc. (Cardiovascular disease therapeutic area business in the United States)	7,520	–	–
C&O Pharmaceutical Technology (Holdings) Ltd. (Pharmaceutical business in China)	3,246	3,184	3,157

Note: At March 31, 2020, goodwill of ¥7,523 million arising from the acquisition of shares of UMN Pharma Inc. is a provisional amount because the fair value calculation of identifiable assets and liabilities at the date of the business combination has not been completed. In addition, allocation of goodwill to the cash-generating units has not been completed.

1) Shionogi Inc. (Cardiovascular disease therapeutic area business in the United States)

The recoverable amount was calculated based on fair value less disposal costs.

Fair value less disposal costs was calculated as the present value of the estimated cash flow using the discount rate (which was 14.5% at the date of transition to IFRS) calculated based on the weighted average cost of capital. The basis of estimated cash flow was product business plan prepared based on the past experience and information from external sources, and approved by the Group management. Fair value was classified as Level 3 based on the significant inputs used for valuation.

2) C&O Pharmaceutical Technology (Holdings) Ltd. (Pharmaceutical business in China)

The recoverable amount was calculated based on value in use. Value in use was calculated as the present value of the estimated cash flow using the pre-tax discount rates (which was 14.4% at the date of transition to IFRS, 14.8% at March 31, 2019, and 14.3% at March 31, 2020) calculated based on the pre-tax weighted average cost of capital. The basis of estimated cash flow was a 5-year business plan prepared based on the past experience and information from external sources, and approved by management. Cash flows of the periods after the 5-year business plan were estimated based on the long-term average growth rate of the market to which the cash-generating unit belongs, which was 5.7% at the date of transition to IFRS, 5.5% at March 31, 2019 and 5.5% at March 31, 2020.

As a result of the impairment tests of goodwill based on IFRS at the date of transition to IFRS, the Group recognized impairment losses of ¥16,555 million for the pharmaceutical business in the United States and ¥5,530 million for the pharmaceutical business in China, which reduced goodwill and retained earnings by ¥22,085 million. The recoverable amount was ¥7,860 million for the pharmaceutical business in the United States and ¥15,697 million for the pharmaceutical business in China.

In the year ended March 31, 2019, Group recognized impairment loss of ¥7,851 million and included it in “Other expenses” in the consolidated statement of profit or loss. This impairment loss resulted when goodwill associated with a cash-generating unit related to the cardiovascular disease therapeutic area in the United States, which was fully impaired as initially expected profitability was unlikely to materialize due to a decrease in sales of products.

The recoverable amount of goodwill allocated to the pharmaceutical business in China exceeded carrying amount by ¥7,613 million. Recoverable amount would have approximated carrying amount if the pre-tax discount rate had been 4.6 % higher.

The Group did not recognize impairment losses on goodwill in the year ended March 31, 2020.

The recoverable amount of goodwill allocated to the pharmaceutical business in China exceeded carrying amount by ¥9,426 million. Recoverable amount would have approximated carrying amount if the pre-tax discount rate had been 4.3% higher.

13. Intangible Assets

(1) Movement of Acquisition Cost, Accumulated Amortization, and Accumulated Impairment Losses, and Carrying Amount

The movement of acquisition cost, accumulated amortization, and accumulated impairment losses, and the carrying amount for intangible assets is as follows:

1) Acquisition Cost

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2018	79,452	13,030	7,610	100,094
Individual acquisitions	16,267	1,301	1,075	18,645
Acquisitions through business combinations	–	112	0	112
Sales and disposal	–	(728)	(2,653)	(3,382)
Foreign exchange differences on translations	1,080	46	(28)	1,098
Other	–	(0)	–	(0)
As of March 31, 2019	96,800	13,760	6,005	116,567
Individual acquisitions	841	1,222	1,083	3,147
Acquisitions through business combinations	–	–	511	511
Sales and disposal	(1,032)	(898)	(570)	(2,501)
Foreign exchange differences on translations	(626)	(28)	(16)	(671)
Other	–	29	–	29
As of March 31, 2020	95,983	14,087	7,013	117,083

2) Accumulated Amortization and Accumulated Impairment Losses

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2018	(40,795)	(10,660)	(6,185)	(57,640)
Amortization	(4,273)	(669)	(182)	(5,125)
Impairment losses	(8,570)	–	–	(8,570)
Sales and disposal	–	714	2,650	3,365
Foreign exchange differences on translations	(575)	(46)	0	(620)
Other	–	(99)	(70)	(170)
As of March 31, 2019	(54,214)	(10,761)	(3,786)	(68,762)
Amortization	(3,255)	(881)	(233)	(4,370)
Impairment losses	(100)	–	–	(100)
Sales and disposal	1,032	716	570	2,319
Foreign exchange differences on translations	398	24	5	428
Other	(61)	–	–	(61)
As of March 31, 2020	(56,201)	(10,902)	(3,443)	(70,547)

3) Carrying Amount

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2018	38,657	2,370	1,425	42,453
As of March 31, 2019	42,585	2,999	2,218	47,804
As of March 31, 2020	39,781	3,184	3,570	46,536

Notes:

1. Amortization of intangible assets is included in “Cost of sales,” “Selling and general administrative expenses,” “Research and development expenses,” and “Amortization of intangible assets related to products” in the consolidated statement of profit or loss.
2. No significant internally generated intangible assets were recognized for the years ended March 31, 2019 and 2020.

(2) Significant Intangible Assets

The Group had capitalized costs associated with the in-licensing of products and technologies of ¥9,933 million at March 31, 2019 and 2020, respectively related to S-812217, which was acquired from Sage Therapeutics. In addition, at the date of transition to IFRS and at March 31, 2019 and 2020, the Group recognized marketing rights in the amounts of ¥9,390 million, ¥8,699 million, and ¥8,008 million, respectively, related to Cymbalta, which were acquired from NovaQuest. These intangible assets are included in intangible assets associated with products.

The remaining amortization periods for the Cymbalta marketing rights were 13 and 12 years at March 31, 2019 and 2020, respectively.

(3) Impairment Losses

Intangible assets are generally grouped by the smallest cash-generating unit that produces independent cash inflows. Capitalized development costs, an intangible asset recognized as in-process research and development, and separately recognized marketing rights are tested for impairment individually.

The Group recognized impairment losses in the amounts of ¥8,570 million and ¥100 million for the years ended March 31, 2019 and 2020, respectively, which were included in “Other expenses” in the consolidated statement of profit or loss.

The impairment loss recognized for the year ended March 31, 2019 was primarily the result of full impairment of the carrying amount of separately recognized marketing rights because initially expected profitability was unlikely to materialize.

14. Capital Expenditure Commitments

The breakdown of Commitments for acquisition of assets is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Property, plant and equipment	8,435	7,988	7,353
Intangible assets (Note)	67,695	102,070	96,111
Investment property	–	–	5,281
Total	76,130	110,058	108,747

Note: 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.

The amounts shown in the table above represent the maximum payments to be made when all milestones are achieved, but impact of discount and other risks are not considered. The possibility of occurrence for all payment obligations is low and actual payment could differ significantly because the achievement of milestones includes high uncertainty.

15. Leases

The Group has lease contracts for real estate including offices and employee housing, equipment including office automation and security equipment, commercial vehicles, and warehouse facilities in order to replace assets flexibly, reduce asset management administration, and manage capital efficiently. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is considered to be or contain a lease, and the Group recognizes a right-of-use asset and lease liability at the commencement date of the lease. However, for short-term leases and leases for which the underlying asset is of low value, the Group expenses lease payments over the lease term using the straight-line method.

Some lease contracts mainly related to real estate include the option to extend or cancel the lease to give the Group flexibility in managing floor space and personnel.

The Group makes decisions to exercise the contractual option to extend a lease after comprehensively considering the operational necessity of the leased asset, difficulties in obtaining an alternative asset, and the conditions for exercising the option, and determining that it is necessary to exercise the option. The extended lease term as a result of exercising the option, and the lease payments during that term, are generally the same as or closely approximate the original lease term and payments.

In addition, the Group makes decisions to exercise the contractual option to terminate a lease in a manner similar to its decisions concerning the contractual option to extend a lease.

The Group annually reassesses the possibility of exercise of both the option to extend a lease and the option to cancel a lease at the end of each reporting period. The financial impact of this reassessment was immaterial for the years ended March 31, 2019 and 2020.

The Group’s lease contracts with variable lease payments or residual value guarantees and the lease contracts that have not yet commenced notwithstanding the Group’s been contracted are immaterial.

The breakdown of right-of-use assets at the date of transition to IFRS and at March 31, 2019 and 2020 is as follows:

Millions of yen

	Underlying asset			Total
	Buildings and structures	Vehicles	Other	
As of April 1, 2018	5,133	41	144	5,320
As of March 31, 2019	4,955	111	848	5,915
As of March 31, 2020	3,973	91	593	4,657

The movement of right-of-use assets, expenses related to leases, and cash outflows for the years ended March 31, 2019 and 2020 are as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Increase in right-of-use assets	3,862	2,446
Depreciation of right-of-use assets		
Buildings and structures	1,417	1,669
Vehicles	39	56
Other	111	256
Total depreciation of right-of-use assets	1,568	1,982
Interest expenses on lease liabilities	71	71
Expenses relating to short-term leases	509	87
Expenses relating to leases of low-value assets	473	448
Total expenses relating to leases	2,623	2,589
Cash outflows for leases	4,077	4,151

A maturity analysis of lease liabilities at the date of transition to IFRS and at March 31, 2019 and 2020 is described in Note “29. Financial Instruments.”

16. Other Financial Assets

(1) Breakdown

The breakdown of other financial assets is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Financial assets measured at amortized cost			
Time deposits (over 3 months)	60,205	91,749	111,047
Bonds	46,125	46,866	40,556
Receivables	16,475	17,768	18,023
Other	5,055	7,519	7,296
Subtotal	127,861	163,903	176,923
Financial assets measured at fair value through profit or loss			
Derivative assets	1,617	1,476	6,670
Other	3,364	6,080	3,413
Subtotal	4,982	7,556	10,084
Financial assets measured at fair value through other comprehensive income			
Equities and investments	271,978	276,054	185,114
Other	5,315	5,726	1,196
Subtotal	277,293	281,780	186,311
Total	410,137	453,240	373,319
Non-current assets	299,586	302,709	202,161
Current assets	110,551	150,530	171,157

(2) Equity Instruments Designated as Measured at Fair Value through Other Comprehensive Income

The Group designates investments in equities and other instruments held primarily to maintain and strengthen business relationships or transactions with investees as equity instruments designated as measured at fair value through other comprehensive income.

1) Fair Value

Fair value by major issuer is as follows:

(i) As of April 1, 2018 (Transition date)

Issuer	Millions of yen
ViiV Healthcare Ltd.	197,462
Suzuken Co., Ltd.	15,983
Enanta Pharmaceuticals, Inc.	13,752
Toho Holdings Co., Ltd.	11,653
Sumitomo Mitsui Financial Group, Inc.	10,468
Sumitomo Mitsui Financial Group, Inc. (preferred equity securities)	5,315
Medipal Holdings Corporation	2,772
Kissei Pharmaceutical Co., Ltd.	2,627
Mizuho Financial Group, Inc.	1,757
OncoTherapy Science, Inc.	1,562
Kaneka Corporation	1,406
Shizuoka Bank, Ltd.	1,345
Ono Pharmaceutical Co., Ltd.	1,133
Other	10,052

(ii) Year ended March 31, 2019

Issuer	Millions of yen
ViiV Healthcare Ltd.	208,973
Suzuken Co., Ltd.	20,875
Toho Holdings Co., Ltd.	12,848
Sumitomo Mitsui Financial Group, Inc.	9,102
Sumitomo Mitsui Financial Group, Inc. (preferred equity securities)	5,066
Medipal Holdings Corporation	3,344
Kissei Pharmaceutical Co., Ltd.	2,648
Mizuho Financial Group, Inc.	1,572
AnGes, Inc.	1,240
Shizuoka Bank, Ltd.	1,127
Kaneka Corporation	1,105
OncoTherapy Science, Inc.	985
Ono Pharmaceutical Co., Ltd.	746
Other	12,144

(iii) Year ended March 31, 2020

Issuer	Millions of yen
ViiV Healthcare Ltd.	141,617
Suzuken Co., Ltd.	12,815
Toho Holdings Co., Ltd.	7,934
Sumitomo Mitsui Financial Group, Inc.	4,311
Medipal Holdings Corporation	2,566
Kissei Pharmaceutical Co., Ltd.	2,541
StemRim Inc.	1,585
Ono Pharmaceutical Co., Ltd.	855
AnGes, Inc.	820
Kaneka Corporation	690
Vital KSK Holdings Inc.	521
OncoTherapy Science, Inc.	452
Other	9,598

2) Derecognition of Equity Instruments Designated as Measured at Fair Value through Other Comprehensive Income

In the years ended March 31, 2019 and 2020, the Group derecognized certain equity instruments designated as measured at fair value through other comprehensive income due to following disposal for the main purpose of improving capital efficiency.

The fair value and cumulative gain or loss at disposal are as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Fair value at disposal date	18,725	14,195
Cumulative gain (loss)	17,946	5,281

On derecognition of equity instruments designated as measured at fair value through other comprehensive income, the accumulated gain or loss recognized in “Other components of equity” in the consolidated statement of financial position is transferred to “Retained earnings.”

3) Dividend Income

The breakdown of dividend income from equity instruments designated as measured at fair value through other comprehensive income is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Investments held at year-end	29,895	27,241
Investments derecognized during the fiscal year	24	377
Total	29,919	27,619

17. Inventories

The breakdown of inventories is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Merchandise and Finished goods	15,575	18,691	14,806
Work in process	7,377	7,296	9,994
Raw materials and Supplies	7,892	9,137	9,017
Total	30,846	35,125	33,818

The amounts of inventories recognized as expenses were ¥56,054 million and ¥56,286 million for the years ended March 31, 2019 and 2020, respectively.

Write-downs (reversal of write downs) of inventories were ¥(463) million and ¥495 million for the years ended March 31, 2019 and 2020, respectively. The reversal of write-downs of inventories in the year ended March 31, 2019 was due to an increase in net realizable value.

18. Trade Receivables

The breakdown of trade receivables is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Notes receivable – trade	561	502	459
Accounts receivable – trade	81,616	100,493	79,417
Allowance for doubtful accounts	(37)	(44)	(72)
Total	82,140	100,951	79,804

19. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Cash and cash equivalents	83,635	101,800	117,861
Short-term investments	92,500	94,000	91,000
Total	176,135	195,800	208,861

20. Other Assets

The breakdown of other assets is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Investment properties	2,857	2,786	2,496
Long-term prepaid expenses	1,626	2,004	2,340
Consumption tax receivable	1,234	26	3,298
Advance payments to supplier	2,089	3,361	5,228
Prepaid expenses	5,458	5,444	6,530
Other	3,712	10,802	19,187
Total	16,979	24,426	39,081
Non-current assets	6,895	13,586	16,890
Current assets	10,083	10,840	22,191

21. Equity and Other Equity Items

(1) Share Capital

The movement of authorized shares and issued shares is as follows:

(Shares)

	Year ended March 31, 2019	Year ended March 31, 2020
Authorized shares	1,000,000,000	1,000,000,000
Issued shares		
Number of shares at beginning of period	324,136,165	316,786,165
Changes during the year	(7,350,000)	–
Number of shares at end of period	316,786,165	316,786,165

Notes:

1. All shares issued by the Company are ordinary shares with no par value. They have no restrictions on any rights, and are fully paid up.
2. The change in issued shares during the year ended March 31, 2019 year was due to the cancellation of treasury shares.
3. The Company cancelled treasury shares on April 6, 2020, which reduced the number of issued shares by 5,200,000 shares.

(2) Treasury Shares

The movement of treasury shares is as follows:

(Shares)

	Year ended March 31, 2019	Year ended March 31, 2020
Number of shares at beginning of period	9,780,027	5,498,751
Changes during the year	(4,281,276)	7,503,331
Number of shares at end of period	5,498,751	13,002,082

Notes:

1. The changes in the number of treasury shares during the year ended March 31, 2019 consisted of the increases of 7,350,400 shares and 3,161 shares due to the purchase of treasury shares based on a resolution of the Board of Directors meeting and the purchase of fractional shares of less than one voting unit, respectively, and the decreases of 7,350,000 shares, 4,249,737 shares and 35,100 shares due to the cancellation of treasury shares, the conversion of convertible bonds with share subscription rights, and grants under the restricted share-based remuneration, respectively.
2. The changes in the number of treasury shares during the year ended March 31, 2020 consisted of the increases of 7,792,500 shares and 2,081 shares due to the purchase of treasury shares based on a resolution of the Board of Directors meeting and the purchase of fractional shares of less than one voting unit, respectively, and the decreases of 217,050 shares, 40,900 shares and 33,300 shares due to the conversion of convertible bonds with share subscription rights, the exercise of subscription rights to shares, and grants under the restricted share-based remuneration, respectively.
3. The number of treasury shares decreased by 5,200,000 shares due to the cancellation of treasury shares on April 6, 2020.
4. At the Board of Directors meeting on March 30, 2020, the Company approved resolutions to form a master agreement for a capital and business alliance with Ping An Insurance (Group) Company of China Ltd. (hereinafter “Ping An Insurance”). The plan for this alliance includes the disposal of treasury shares by way of third-party allotment to Ping An Life Insurance of China, Ltd. (hereinafter “Ping An Life”), which is a subsidiary of Ping An Insurance, as a planned allottee.

   1) Outline of Disposal
      a) Period of Share Disposal: July 1, 2020 to July 31, 2020 (Plan)
      b) Number of shares for Disposal: 6,356,000 ordinary shares of the Company
      c) Disposal Price: ¥5,276 per share
      d) Capital Raised: ¥33,534,256,000
      e) Planned allottee: Ping An Life
      f) Other: Each of five conditions above is to be effective provided that the Securities Registration Statement is to be filed in accordance with the Financial Instruments and Exchange Act.

      Note: Disposal is conditional upon the signed joint venture agreement concerning the establishment of joint venture companies between the Company and Ping An Insurance or its subsidiary and the obtainment of various permits and licenses by allottee that are necessary for accepting the third-party allotment, etc.

   2) Purposes and Reasons for the Disposal
      The third-party allotment of shares to Ping An Life will be implemented as part of the capital and business alliance with Ping An Insurance, which is the parent company of Ping An Life, and is intended to build a long-term and strong strategic partnership with Ping An Insurance to help the Company execute its global strategy.

(3) Surplus

1) Capital Surplus

Capital surplus is as follows:

(i) Capital Reserve

The Companies Act of Japan (hereinafter, the “Companies Act”) requires that one-half or more of the proceeds from the issuance of shares shall be credited to share capital, and the remaining proceeds shall be credited to capital reserve incorporated in capital surplus.

(ii) Other Capital Surplus

The surplus arising from certain equity transactions and reversals of share capital and capital reserve are recognized in other capital surplus.

2) Retained Earnings

Retained earnings are as follows:

(i) Legal Reserve

The Companies Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals to 25% of share capital. Some overseas subsidiaries are also subject to similar reserve regulations in their country of domicile.

(ii) Other Retained Earnings

Other retained earnings represent accumulated profit for the Group.

(4) Other Components of Equity

The breakdown and movement of other components of equity are as follows:

Millions of yen

	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of cash flow hedges	Total
As of April 1, 2018	178,243	–	–	1,122	179,365
Amounts arising during the year	25,646	(20,014)	(7,721)	4,611	2,522
Reclassification adjustments to profit or (loss)	–	–	–	(5,347)	(5,347)
Tax effects	(3,064)	6,124	–	225	3,285
Total other comprehensive income (loss), net of tax	22,581	(13,889)	(7,721)	(510)	460
Attributable to non-controlling interests	(0)	–	(274)	–	(274)
Total other comprehensive income (loss), net of tax attributable to owners of parent	22,582	(13,889)	(7,447)	(510)	734
Transfer to retained earnings	(12,373)	13,889	–	–	1,516
As of March 31, 2019	188,451	–	(7,447)	611	181,616
Amounts arising during the year	(66,781)	725	(25,764)	12,002	(79,817)
Reclassification adjustments to profit or (loss)	–	–	–	(8,436)	(8,436)
Tax effects	4,236	(222)	(483)	(1,091)	2,440
Total other comprehensive income (loss), net of tax	(62,544)	503	(26,247)	2,474	(85,813)
Attributable to non-controlling interests	(0)	–	(214)	–	(214)
Total other comprehensive income (loss), net of tax attributable to owners of parent	(62,544)	503	(26,032)	2,474	(85,598)
Transfer to retained earnings	(3,665)	(503)	–	–	(4,169)
As of March 31, 2020	122,241	–	(33,479)	3,086	91,848

(5) Dividends

1) Total Dividends and Dividends per Share

Total amount of dividends and dividends per share are as follows:

(i) Year ended March 31, 2019

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 20, 2018	Ordinary shares	13,831	44.00	March 31, 2018	June 21, 2018
Board of Directors meeting held on October 29, 2018	Ordinary shares	13,838	44.00	September 30, 2018	December 3, 2018

(ii) Year ended March 31, 2020

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 18, 2019	Ordinary shares	15,564	50.00	March 31, 2019	June 19, 2019
Board of Directors meeting held on October 30, 2019	Ordinary shares	15,570	50.00	September 30, 2019	December 2, 2019

2) Dividends Declared for Which the Effective Date was in the Following Fiscal Year

Dividends declared for which the effective date is in the following fiscal year are as follows:

(i) Year ended March 31, 2019

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 18, 2019	Ordinary shares	15,564	50.00	March 31, 2019	June 19, 2019

(ii) Year ended March 31, 2020

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 23, 2020	Ordinary shares	16,100	53.00	March 31, 2020	June 24, 2020

22. Bonds and Borrowings

(1) Breakdown

The breakdown of bonds and borrowings is as follows:

	As of April 1, 2018 (Transition date) (Millions of yen)	As of March 31, 2019 (Millions of yen)	As of March 31, 2020 (Millions of yen)	Average Interest Rate (%)	Maturity
Bonds	18,393	–	–	–	–
Current portion of bonds	–	918	–	–	–
Current portion of long-term borrowings	10,000	–	–	–	–
Total	28,393	918	–		
Non-current liabilities	18,393	–	–		
Current liabilities	10,000	918	–		

Notes 1: Conditions for issuance of the bonds are summarized as follows:

Name of bonds	Date of Issuance	As of April 1, 2018 (Transition date) (Millions of yen)	As of March 31, 2019 (Millions of yen)	As of March 31, 2020 (Millions of yen)
Euroyen-denominated convertible bonds with share acquisition rights due 2019	December 17, 2014	18,393	918	–
Total	–	18,393	918	–

Interest rate, collateral and redemption period are omitted because these bonds have already been redeemed.

2. Information about the convertible bonds with share acquisition rights at the date of transition to IFRS is as follows:

Name of bonds	Euroyen-denominated convertible bonds with share acquisition rights due 2019
Shares to be issued	Ordinary shares
Issue price of share acquisition rights (Yen)	Gratis
Share issue price (Yen)	4,150.9*
Total issue price (Millions of yen)	20,000
Total price of shares issued through exercise of share acquisition rights (Millions of yen)	1,540
Percentage of share acquisition rights granted (%)	100
Exercise period of share acquisition rights	From January 5, 2015 to December 3, 2019

* The 153rd Ordinary General Meeting of Shareholders held on June 20, 2018 approved the proposal for a year-end dividend of ¥44.00, for annual dividends for the year ended March 31, 2018 of ¥82.00 per share. As a result, the share issue price for the Euroyen-denominated convertible bonds with share acquisition rights due 2019 was adjusted to ¥4,127.3 from ¥4,150.9 retroactive to April 1, 2018 in accordance with conversion price adjustment clause of the covenants of that bond.

3. Information about the convertible bonds with share acquisition rights for the year ended March 31, 2019 is as follows:

Name of bonds	Euroyen-denominated convertible bonds with share acquisition rights due 2019
Shares to be issued	Ordinary shares
Issue price of share acquisition rights (Yen)	Gratis
Share issue price (Yen)	4,127.3*
Total issue price (Millions of yen)	20,000
Total price of shares issued through exercise of share acquisition rights (Millions of yen)	19,080
Percentage of share acquisition rights granted (%)	100
Exercise period of share acquisition rights	From January 5, 2015 to December 3, 2019

* The 154th Ordinary General Meeting of Shareholders held on June 18, 2019 approved the proposal for a year-end dividend from surplus of ¥50.00, for annual dividends for the year ended March 31, 2019 of ¥94.00 per share. As a result, the share issue price for the Euroyen-denominated convertible bonds with share acquisition rights due 2019 was adjusted to ¥4,100.3 from ¥4,127.3 retroactive to April 1, 2019 in accordance with conversion price adjustment clause of the covenants of that bond.

(2) Movement of Liabilities Arising from Financing Activities

The movement of liabilities arising from financing activities is as follows:

Millions of yen

	Bonds	Current portion of long-term borrowings	Lease liabilities	Total
As of April 1, 2018	18,393	10,000	8,367	36,760
Cash flows from financing activities:				
Repayments of long-term borrowings	–	(10,000)	–	(10,000)
Repayments of lease liabilities	–	–	(3,022)	(3,022)
Changes in non-cash items:				
New leases	–	–	3,923	3,923
Cancellation of leases	–	–	(1)	(1)
Conversion of bonds with share acquisition rights	(17,494)	–	–	(17,494)
Other	19	–	45	65
As of March 31, 2019	918	–	9,313	10,231
Cash flows from financing activities:				
Repayments of long-term borrowings	–	–	–	–
Repayments of lease liabilities	–	–	(3,544)	(3,544)
Other	(30)	–	–	(30)
Changes in non-cash items:				
New leases	–	–	2,506	2,506
Cancellation of leases	–	–	(23)	(23)
Conversion of bonds with share acquisition rights	(889)	–	–	(889)
Other	1	–	(99)	(97)
As of March 31, 2020	–	–	8,153	8,153

23. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Financial liabilities measured at amortized cost:			
Other payables	10,646	16,961	17,513
Other	3,823	4,002	3,770
Subtotal	14,469	20,963	21,283
Financial liabilities measured at fair value through profit or loss:			
Derivative liabilities	202	399	452
Subtotal	202	399	452
Total	14,672	21,363	21,736
Non-current liabilities	4,202	4,354	4,179
Current liabilities	10,470	17,008	17,557

24. Employee Benefits

(1) Retirement Benefits

The Company has a defined benefit pension plan known as a cash balance plan under which the pension benefits are determined in accordance with market interest rates, and the Company also has a lump-sum payment plan and a defined contribution pension plan (with optional prepaid retirement benefits). Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In addition, other certain consolidated subsidiaries have defined contribution pension plans.

Plan assets are measured under the assumption of sound management but are exposed to investment risks related to financial instruments. In addition, defined benefit obligations are measured based on various actuarial assumptions such as the discount rate etc. and are therefore exposed to the risk of changes in those assumptions.

The defined contribution pension plan is a retirement benefit plan in which the employer contributes specified amounts to independent entities and does not bear any legal or presumptive liability for payments in excess of the contributed amount.

1) Defined Benefit Plans

(i) Retirement Benefit Liability and Asset

The breakdown of retirement benefit liability and asset is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Funded plans:			
Present value of defined benefit plan obligations	71,880	70,800	63,369
Fair value of plan assets	(84,693)	(86,554)	(81,973)
Subtotal	(12,812)	(15,754)	(18,603)
Effect of the asset ceiling (Note)	9,117	31,785	32,746
Subtotal	(3,695)	16,030	14,142
Unfunded plans:			
Present value of defined benefit plan obligations	2,220	2,105	1,946
Subtotal	2,220	2,105	1,946
Net amount of retirement benefit (asset) liability	(1,475)	18,136	16,089
Amounts in the consolidated statement of financial position			
Retirement benefit liability	8,865	18,136	16,089
Retirement benefit asset	(10,340)	–	–

Note: Some of the Group’s defined benefit plans set an asset ceiling and calculate liabilities because future economic benefits will not be available in the form of refunds from or reductions in future contributions to the defined benefit plans.

(ii) Defined Benefit Plan Obligations

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

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of period	74,100	72,905
Current service cost	1,814	1,897
Interest cost	414	301
Remeasurements of defined benefit plans:		
Actuarial gains and losses arising from changes in financial assumptions	683	(659)
Experience adjustments	1,595	(1,489)
Benefits paid	(5,702)	(7,640)
Balance at end of period	72,905	65,315

Significant actuarial assumptions used to determine the present value of defined benefit plan obligations are as follows:

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Discount rate (%)	0.4 – 0.6%	0.3 – 0.4%	0.5 – 0.6%

The effect of changes in significant actuarial assumptions (discount rates) on the defined benefit plan obligations at the end of the reporting period are as follows. The sensitivity analysis assumes that all other assumptions are held constant.

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
0.5% increase in discount rate	(3,680)	(3,319)	(3,223)
0.5% decrease in discount rate	4,024	3,607	3,525

In addition, the weighted average durations of defined benefit plan obligations were 15.7 years at the date of transition to IFRS, and ware 15.6 years and 16.2 years at March 31, 2019 and 2020, respectively.

(iii) Plan Assets

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

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of period	84,693	86,554
Interest income	478	354
Benefits paid	(4,544)	(5,511)
Contributions to the plans by employer	993	1,037
Remeasurements of defined benefit plans:		
Return on plan assets	4,932	(460)
Balance at end of period	86,554	81,973

Note: The Group expects to contribute ¥932 million to the defined benefit plans for the fiscal year ending March 31, 2021.

The breakdown of fair value of plan assets by asset class is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)			As of March 31, 2019			As of March 31, 2020		
	Quoted Prices in Active Markets			Quoted Prices in Active Markets			Quoted Prices in Active Markets		
	Yes	No	Total	Yes	No	Total	Yes	No	Total
Equities	21,121	–	21,121	7,867	–	7,867	7,973	–	7,973
Bonds	21,931	–	21,931	25,100	–	25,100	30,959	–	30,959
General accounts	–	19,120	19,120	–	21,399	21,399	–	18,913	18,913
Other	–	22,520	22,520	–	32,186	32,186	–	24,126	24,126
Total	43,053	41,640	84,693	32,968	53,585	86,554	38,932	43,040	81,973

Notes:

1. A retirement benefit trust established for the defined benefit pension plan comprises 26% of plan assets at the date of transition to IFRS, and 14% and 6% of plan assets at March 31, 2019 and 2020, respectively.
2. General accounts are accounts with guaranteed expected interest rates and capital by life insurance companies.
3. The defined benefit pension plan stipulates regular contributions at least once annually. Contributions are calculated to enable the financial balance between expected future benefit expenses and expected returns on plan assets at a rate determined on the basis of expected interest rates, expected mortality rates, expected withdrawal rates, and the calculation of expected expenses for other required benefits. Also, contributions are recalculated every five years. In addition, an additional contribution is required if the reserve fund for benefits is less than the minimum reserve criteria.
   Plan assets are legally independent from the Group. The asset management trustee is responsible for the plan assets, has a fiduciary obligation to pension plan members, and has fund management obligations that include diversified investment. Conflicts of interest are prohibited.
   Plan assets are managed to secure the necessary total returns over the long-term within acceptable risk levels to ensure payments of pension benefits in the future. The acceptable risk level in the return rate on the plan assets is derived from a detailed study considering mid- to long-term trends and the changes in income such as contributions and payments. Based on policies and studies, after consideration of issues such as the expected rate of return and risks, the asset management trustee formulates a basic asset mix which aims at an optimal portfolio on a long-term basis with the selection of appropriate investment assets.

(iv) Effect of the Asset Ceiling

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of period	9,117	31,785
Interest income	51	129
Remeasurement of asset ceiling:		
Changes in the effect of asset ceiling on net defined benefit plans	22,616	832
Balance at end of period	31,785	32,746

2) Defined Contribution Plans

The Group recognized defined contribution costs in the amount of ¥5,092 million and ¥5,110 million for the years ended March 31, 2019 and 2020, respectively.

(2) Other Employee Benefit Expenses

Personnel expenses included in the consolidated statement of profit or loss totaled ¥65,698 million and ¥65,084 million for the years ended March 31, 2019 and 2020, respectively.

25. Share-based Remuneration

The Company has implemented a share option plan and a restricted share-based remuneration plan. The Company has also implemented a cash-settled share-based remuneration linked to the Company's share price for executive officers who reside overseas.

(1) Share Option Plan

The Company issued share acquisition rights in the form of share options to directors and corporate officers as incentives for them to enhance corporate value and improve medium- and long-term business performance because they share with shareholders of the Company both the benefits of share price appreciation and the risk of share price declines. The Company replaced the share options plan with a restricted share-based remuneration plan in 2018 and did not issue share options during the years ended March 31, 2019 and 2020.

(a) Outline of Share Option Plan

	Options Granted (Shares)	Exercise Price (Yen)	Recipients	Grant Date	Exercise Period
Share acquisition rights granted in 2011	52,200	1	3 directors 9 corporate officers	July 11, 2011	From July 12, 2011 to July 11, 2041
Share acquisition rights granted in 2012	79,100	1	2 directors 11 corporate officers	July 12, 2012	From July 13, 2012 to July 12, 2042
Share acquisition rights granted in 2013	43,900	1	2 directors 12 corporate officers	July 11, 2013	From July 12, 2013 to July 11, 2043
Share acquisition rights granted in 2014	42,400	1	2 directors 11 corporate officers	July 10, 2014	From July 11, 2014 to July 10, 2044
Share acquisition rights granted in 2015	21,100	1	3 directors 11 corporate officers	July 9, 2015	From July 10, 2015 to July 9, 2045
Share acquisition rights granted in 2016	17,300	1	3 directors 10 corporate officers	July 8, 2016	From July 9, 2016 to July 8, 2046
Share acquisition rights granted in 2017	19,300	1	3 directors 12 corporate officers	July 7, 2017	From July 8, 2017 to July 7, 2047

Note: Options granted are presented as converted into number of shares.

The plan has no vesting conditions.

During the exercise period, recipients can only exercise granted share acquisition rights all in one time within 10 days from the date directors lose their position, the date corporate officers retire or their employment contracts with the Company terminate.

The number of shares to be issued per share acquisition rights is 100 shares. However, when the Company conducts its ordinary shares split (including gratis allotment of ordinary shares of the Company) or a reverse stock split, the number of granted shares will be adjusted according to a specified formula.

(b) Movement of the number of share options and their weighted average exercise prices is as follows:

	Year ended March 31, 2019		Year ended March 31, 2020	
	Number of Options	Weighted Average Exercise Price (Yen)	Number of Options	Weighted Average Exercise Price (Yen)
Outstanding at the beginning of the year	2,270	1	2,270	1
Granted	–	–	–	–
Exercised	–	–	(409)	1
Forfeited or expired	–	–	–	–
Outstanding at the end of the year	2,270	1	1,861	1
Exercisable at the end of the year	2,270	1	1,861	1

Note: The weighted average share price on the exercise date of share options exercised during the reporting period was ¥6,852 for the year ended March 31, 2020. The weighted average remaining contractual terms at the date of transition to IFRS, March 31, 2019 and 2020 were 25.6 years, 24.6 years and 23.6 years, respectively.

(c) Measurement of Fair Value of Share Options Granted during the Reporting Period

No share options were granted during the years ended March 31, 2019 and 2020.

(2) Restricted Share-based Remuneration Plan

The Company has implemented a restricted share-based remuneration plan, granting incentives to directors other than outside directors and to corporate officers of the Company (collectively, eligible officers) with the aim of achieving medium- to long-term performance targets and participating in shareholder value.

(a) Outline of Restricted Share-based Remuneration Plans

This plan consists of “Long-term share-based remuneration,” which is conditional on eligible officers remaining in the Company for a specified period of time as a director or corporate officer not concurrently serving as a director, and “Medium-term performance-linked share-based remuneration,” which is conditional on the achievement of performance conditions aimed at improving the corporate value of the Company over the medium to long term in addition to the vesting condition described above.

Eligible officers make contributions in kind, with all the monetary compensation receivables awarded by the Company, and in turn receive ordinary shares in the Company that are newly issued or disposed of from treasury.

In addition, when issuing or disposing of the Company’s ordinary shares under this plan, it is conditional on the agreement on allotment of restricted share- between the Company and the eligible officers which includes the following items 1) to 4) and so on.

1) The transfer, pledge or other disposal of shares to a third-party is prohibited for a specified period of time.
2) Under certain circumstances, the Company will acquire all or part of the restricted shares without payment of consideration.
3) Eligible officer has held any of the positions of director or corporate officer who does not concurrently serve as director throughout the restriction period.
4) As for the ”Medium-term performance-linked share-based remuneration,” adding to the condition of 3) above, the Company shall lift the transfer restriction for vested shares of which the number is determined based on the level of achievement of the performance conditions, originally set by the Board of Directors meeting, such as Return on Equity (ROE) etc., at the end of the restriction period.

The transfer restriction period is 30 years for “Long-term share-based remuneration” for which the primary objective is to allow eligible officers to participate in shareholder value, and 3 years for “Medium-term performance-linked share-based remuneration” for which the primary objective is to incentivize eligible officers to achieve the performance targets of medium-term management plans.

The transfer restrictions are lifted immediately when a director, or corporate officer who does not concurrently serve as director, steps down or retires due to the expiration of their term of office, compulsory retirement or any other legitimate reasons.

(b) Shares Granted during the Reporting Period and Fair Value

	Year ended March 31, 2019	Year ended March 31, 2020
Grant date	July 20, 2018	July 18, 2019
Shares granted:		
Long-term share-based remuneration	21,100 shares	19,300 shares
Medium-term share-based remuneration	14,000 shares	14,000 shares
Fair value at grant date	¥5,673	¥6,110

(3) Share-based Remuneration Expenses

The breakdown of share-based remuneration expenses is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Equity-settled	138	164
Cash-settled	5	6
Total	143	170

Note: Cash-settled share-based remuneration pays the difference between exercise price and share price on the date of exercise in cash to corporate officers who reside overseas. During the exercise period, the corporate officer can only exercise at one time, up to 10 days subsequent to the day after the retirement of the corporate officer.

The carrying amount of liabilities arising from cash-settled remuneration plans were ¥22 million at the date of transition to IFRS, and ¥28 million and ¥34 million at March 31, 2019 and 2020, respectively.

26. Trade Payables

The breakdown of trade payables is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Trade payables	7,698	9,442	10,763

27. Government Grants

Government grants related to assets recognized as deferred income included in “Other non-current liabilities” in the consolidated statement of financial position are as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Other non-current liabilities	346	324	303

Government grants are mainly received for the purchase of property, plant and equipment.

No outstanding conditions or other contingencies are associated with these above government grants.

28. Other Liabilities

The breakdown of other liabilities is as follows:

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Accrued bonuses	8,800	9,114	8,478
Accrued paid absences	2,767	2,689	2,547
Refund liabilities	1,397	1,466	962
Accrued expenses	10,038	9,137	6,504
Taxes and dues payables	2,769	3,267	4,271
Deposits	2,403	2,597	2,159
Other	2,042	3,546	2,990
Total	30,219	31,818	27,913
Non-current liabilities	393	360	362
Current liabilities	29,826	31,457	27,551

29. Financial Instruments

(1) Capital Management

The fundamental principles of the Group's capital risk management are to build and retain a steady financial base for the purpose of maintaining soundness and efficiency of operations and achieving sustainable growth.

According to these principles, the Group conducts business investment, profit distribution such as dividends, and repayment of borrowings based on steady operating cash flows through the development and sales of competitive products.

The Group uses the following primary indicators for capital management:

	Year ended March 31, 2019	Year ended March 31, 2020
Return on equity attributable to owners of parent (ROE)	17.8%	15.5%
Ratio of equity attributable to owners of parent to total assets	86.2%	87.7%
Ratio of fair value of equity attributable to owners of parent to total assets	227.3%	185.3%

(2) Financial Risk Management

The Group is exposed to financial risks including credit risk, liquidity risk, foreign exchange risk, and market price fluctuation risk, etc. in the course of conducting its business activities, and manages risks based on its policy to avoid or mitigate these risks.

In addition, the Group obtains necessary funding primarily through bank borrowings and bond issuance based on its business plan for its main business, the production and sales of pharmaceuticals. Temporary surplus funds are managed through the investment in lower-risk financial assets. Derivatives are utilized for mitigating the risks described in latter part of this note, and not utilized for speculative purpose.

(3) Credit Risk

Notes and accounts receivable included in trade receivables are exposed to the credit risk of customers. In accordance with the internal procedures determined by the Company, the Finance & Accounting Department and related departments of the Company periodically monitor the conditions of major customers, manage the collection due dates and balances for each customer and try to identify credit risk of customers with worsening financial conditions at the early stage and mitigate the risk. Consolidated subsidiaries perform the similar credit risk management in accordance with the internal rules of the Company. The amount of trade receivable due from the largest customer comprises 53.6% of total trade receivables at the date of transition to IFRS, and 47.6% and 50.2% at March 31, 2019 and 2020, respectively.

Derivative transactions are also exposed to the credit risk of counterparty. The Company enters into derivative transactions with only financial institutions with high credit ratings to mitigate the counterparty risk.
The Group’s maximum exposure to credit risk at the date of transition to IFRS and at March 31, 2019 and 2020 is represented by the carrying amount after impairment of financial assets exposed to credit risk shown in the consolidated statement of financial position.

1) Recognition and Measurement of Allowance for Doubtful Accounts
The Group calculates the allowance for doubtful accounts for trade receivables, lease receivables and other financial assets. A financial asset is treated as credit-impaired if terms and conditions for repayment stipulated by contract cannot be fulfilled.
(i) Trade Receivables and Lease Receivables
Allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses, and is estimated based on past credit loss experience for similar assets.

(ii) Other Financial Assets
Allowance for doubtful accounts is generally recognized at an amount equal to the 12-month expected credit losses, and is estimated based on past credit loss experience for similar assets.
However, in principle, credit risk is considered to have increased significantly since initial recognition if repayment is overdue more than 30 days, and allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses. Allowance for doubtful accounts is estimated based on the recoverability of each individual asset.
All financial assets with particular collection risk due to extended default or insolvency or legal and formal bankruptcy proceedings on the part of the debtor are treated as credit-impaired financial assets. The allowance for doubtful accounts is recognized at an amount equal to lifetime expected credit losses for the entire period and is estimated based on the recoverability of each individual asset.
For any amount that is clearly unrecoverable in the future, the carrying amount of the financial asset is directly reduced, and the corresponding amount of allowance for doubtful accounts is also reversed.

2) Movement of Allowance for Doubtful Accounts
The movement of allowance for doubtful accounts during the years ended March 31, 2019 and 2020 is as follows:
(i) Allowance for Doubtful Accounts on Trade Receivables and Lease Receivables

Millions of yen

	Allowance for Doubtful Accounts on Trade Receivables and Lease Receivables		
	Credit Unimpaired	Credit Impaired	Total
As of April 1, 2018	(36)	(0)	(37)
Increases during the period	(43)	(0)	(43)
Decreases during the period (Utilized)	–	–	–
Decreases during the period (Reversed)	36	–	36
As of March 31, 2019	(43)	(0)	(44)
Increases during the period	(71)	–	(71)
Decreases during the period (Utilized)	–	–	–
Decreases during the period (Reversed)	43	0	43
As of March 31, 2020	(71)	(0)	(72)

(ii) Allowance for Doubtful Accounts for Other Financial Assets
Disclosure of allowance for doubtful accounts for other financial assets is omitted because it is not material.

In the years ended March 31, 2019 and 2020, no significant increases or decreases occurred in the gross carrying amount of any assets that could affect the changes in allowance for doubtful accounts.

(4) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to fulfill repayment obligations for financial liabilities due. The Company manages liquidity risk by having the Finance & Accounting Department prepare and update a timely cash flow plan based on reports from business units.

Major financial liabilities by contractual maturities are as follows:

(i) As of April 1, 2018 (Transition date)

Millions of yen

	Carrying Amount	Contractual Cash Flow	Within 1 Year	After 1 Year but Not More than 2 Years	After 2 Years but Not More than 3 Years	After 3 Years but Not More than 4 Years	After 4 Years but Not More than 5 Years	More than 5 Years
Non-derivative financial liabilities:								
Borrowings	10,000	10,000	10,000	–	–	–	–	–
Bonds	18,393	18,460	–	18,460	–	–	–	–
Other financial liabilities	14,469	14,469	10,267	–	–	–	–	4,202
Trade payables	7,698	7,698	7,698	–	–	–	–	–
Lease liabilities	8,367	8,367	2,636	2,696	953	692	623	764
Derivative liabilities	202	202	202	–	–	–	–	–
Total	59,132	59,198	30,805	21,156	953	692	623	4,967

(ii) As of March 31, 2019

Millions of yen

	Carrying Amount	Contractual Cash Flow	Within 1 Year	After 1 Year but Not More than 2 Years	After 2 Years but Not More than 3 Years	After 3 Years but Not More than 4 Years	After 4 Years but Not More than 5 Years	More than 5 Years
Non-derivative financial liabilities:								
Bonds	918	920	920	–	–	–	–	–
Other financial liabilities	20,963	20,963	16,608	–	–	–	–	4,354
Trade payables	9,442	9,442	9,442	–	–	–	–	–
Lease liabilities	9,313	9,313	3,306	3,074	1,097	961	291	582
Derivative liabilities	399	399	399	–	–	–	–	–
Total	41,037	41,039	30,677	3,074	1,097	961	291	4,937

(iii) As of March 31, 2020

Millions of yen

	Carrying Amount	Contractual Cash Flow	Within 1 Year	After 1 Year but Not More than 2 Years	After 2 Years but Not More than 3 Years	After 3 Years but Not More than 4 Years	After 4 Years but Not More than 5 Years	More than 5 Years
Non-derivative financial liabilities:								
Other financial liabilities	21,283	21,283	17,104	–	–	–	–	4,179
Trade payables	10,763	10,763	10,763	–	–	–	–	–
Lease liabilities	8,153	8,153	3,361	2,893	982	332	259	323
Derivative liabilities	452	452	452	–	–	–	–	–
Total	40,653	40,653	31,682	2,893	982	332	259	4,502

The cash flows included in the maturity analysis are not expected to occur significantly earlier or in significantly different amounts.

(5) Market Risk

1) Foreign Exchange Risk

The Group operates internationally, and therefore has trade receivables and payables, forecasted transactions, and loans receivable to Group companies denominated in foreign currencies that are exposed to the risks arising from changes in foreign exchange rates. The Company hedges trade receivables and payables denominated in foreign currencies by using forward foreign exchange contracts and currency option contracts to mitigate the risk of foreign exchange fluctuations identified by currency.

(i) Exposure to Currency Risk

Exposure to currency risk (net) is as follows. The amount of currency risk hedged with derivative transactions is excluded.

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
USD (thousands of USD)	286,183	370,675	276,204
EUR (thousands of EUR)	6,096	9,449	(90)
CNY (thousands of CNY)	110,031	110,074	110,173
GBP (thousands of GBP)	1,672	34,014	64,027
TWD (thousands of TWD)	118,900	92,960	191,804

(ii) Foreign Exchange Sensitivity Analysis

The following sensitivity analysis for financial instruments denominated in foreign currencies held as of the end of each fiscal year shows the impact from a ¥1.00 appreciation on profit before income taxes. This sensitivity analysis assumes that all other assumptions are held constant.

Millions of yen

	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
USD	(286)	(370)	(276)
EUR	(6)	(9)	0
CNY	(110)	(110)	(110)
GBP	(1)	(34)	(64)
TWD	(118)	(92)	(191)

2) Market Price Fluctuation Risk

The Group holds bonds and the equity instruments of business partners, and is therefore exposed to the risk of market price fluctuations. The Group manages the fair value and financial status of issuers (business partners) on a regular basis, and continuously reviews the status of equity holdings.

(6) Fair Values of Financial Instruments

1) Comparison between Fair Value and Carrying Amount

Millions of yen

	As of April 1, 2018 (Transition date)		As of March 31, 2019		As of March 31, 2020	
	Carrying Amount	Fair value	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial instruments measured at amortized cost:						
Debt securities (non-current)	17,325	18,469	16,568	17,407	12,555	13,125
Financial liabilities measured at amortized cost:						
Bonds	18,393	24,708	918	1,535	–	–
Borrowings	10,000	10,123	–	–	–	–

The fair value of debt securities (non-current) is mainly determined by quoted market price or price offered by financial institutions.
The fair value of bonds is determined by price offered by financial institutions, and the fair value hierarchy is classified as Level 2.
The fair value of borrowings is calculated based on the present value obtained by discounting the total amount of principal and interest by the incremental borrowing rate, and the fair value hierarchy is classified as Level 2.
The fair value of financial assets and financial liabilities other than the above approximates carrying amount.

2) Fair Value Hierarchy

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

Level 1: Fair value measured at quoted market prices in an active market without adjustment;

Level 2: Fair value measured at directly or indirectly observable prices other than the quoted prices included in Level 1;

Level 3: Fair value measured using valuation techniques that include unobservable inputs

Transfers between levels are recognized on the date when the event or change in circumstances that caused the transfer occurred.

(i)As of April 1, 2018 (Transition date)

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at amortized costs:				
Debt securities (non-current)	17,966	502	–	18,469
Financial assets measured at fair value through profit or loss:				
Derivative assets	–	1,617	–	1,617
Other	–	2,352	1,012	3,364
Subtotal	–	3,969	1,012	4,982
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	69,921	–	202,056	271,978
Other	–	5,315	0	5,315
Subtotal	69,921	5,315	202,056	277,293
Total	87,888	9,787	203,069	300,745
Financial Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	–	202	–	202
Total	–	202	–	202

(ii)As of March 31, 2019

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at amortized costs:				
Debt securities (non-current)	16,856	–	551	17,407
Financial assets measured at fair value through profit or loss:				
Derivative assets	–	1,476	–	1,476
Other	3,751	852	1,476	6,080
Subtotal	3,751	2,328	1,476	7,556
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	59,631	–	216,422	276,054
Other	–	5,066	660	5,726
Subtotal	59,631	5,066	217,082	281,780
Total	80,240	7,394	219,109	306,744
Financial Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	–	399	–	399
Total	–	399	–	399

(iii)As of March 31, 2020

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at amortized costs:				
Debt securities (non-current)	12,581	–	544	13,125
Financial assets measured at fair value through profit or loss:				
Derivative assets	–	6,670	–	6,670
Other	1,947	–	1,465	3,413
Subtotal	1,947	6,670	1,465	10,084
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	36,387	–	148,727	185,114
Other	–	–	1,196	1,196
Subtotal	36,387	–	149,924	186,311
Total	50,916	6,670	151,934	209,521
Financial Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	–	452	–	452
Total	–	452	–	452

Notes:

1. Level 2 financial assets and financial liabilities are derivative financial assets and derivative financial liabilities such as forward foreign exchange contracts. Fair values of these financial assets and liabilities are calculated based on the prices offered by financial institutions.
2. Level 3 financial assets are unlisted shares and investments. Fair values of these assets are calculated using valuation techniques based on net asset value, discounted future cash flows or other valuation techniques. Fair value is calculated after a responsible person(s) determines the valuation technique that can appropriately reflect the risk, characteristics, and nature of the asset in accordance with the relevant internal regulations or using an external valuation expert. Unobservable inputs such as future cash flows and discount rates are used to calculate fair value. The weighted-average cost of capital is utilized to calculate fair value based on discounted future cash flows; it was 9.7% to 13.5% at date of transition to IFRS, 8.6% to 13.0% for the year ended March 31, 2019, and 8.0% to 13.1% for the year ended March 31, 2020. Fair value decreases or increases when the weighted-average cost of capital increases or decreases.

   The effects on fair value at the date of transition to IFRS and at March 31, 2019 and 2020 when the weighted-average cost of capital is increased or decreased by 1% are as follows:

Millions of yen

	Weighted-average Cost of Capital	
	+1%	-1%
As of April 1, 2018	(8,336)	9,080
As of March 31, 2019	(8,701)	9,498
As of March 31, 2020	(4,667)	4,933

3) Reconciliation of Level 3 Financial Instruments at the Beginning and End of the Reporting Period

A reconciliation of fair value at the beginning and end of the reporting period of financial instruments classified as Level 3 in the fair value hierarchy is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Balance at beginning of period	203,069	218,558
Total gain or loss:		
Profit	1	20
Other comprehensive income (loss)	12,188	(68,085)
Purchases	3,337	1,780
Sales	–	(3)
Transfers from Level 3	–	(800)
Other	(38)	(81)
Balance at end of period	218,558	151,390

Changes in unrealized gains and losses recognized in profit or loss for assets held at end of reporting period	1	20

Notes:

1. Net gain or loss included in total gain or loss is included in “Finance income” and “Finance costs” in the consolidated statement of profit or loss.
2. Other comprehensive income included in total gain or loss is included in “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.
3. Transfers from Level 3 are due to the listing of the shares held.

(7) Derivatives and Hedge Accounting

The Company uses forward foreign exchange contracts and currency option contracts to hedge foreign exchange fluctuation risk associated with monetary claims and forecasted transactions denominated in foreign currencies. The maximum period for which cash flow fluctuations due to foreign exchange fluctuation risk are hedged is approximately 12 months.

Regarding derivative transactions, we use forward foreign exchange contracts and currency option contracts within the normal scope of transactions in accordance with internal procedures. The Finance & Accounting Department conducts the transactions, and regularly reports results to the Board of Directors meeting to manage transaction information. Consolidated subsidiaries do not engage in derivative transactions.

When applying hedge accounting, in principle, the Company confirms the existence of an economic relationship between the hedged item and the hedging instrument, through qualitative assessment of whether significant terms and conditions of the hedged item match or conform closely to those of the hedging instrument, in order to ensure that the hedged item and the hedging instrument have an economic relationship in which changes in the fair value or cash flows of the hedged item that is attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. The Company performs highly effective hedging, and therefore generally expects that no significant ineffective portion should arise.

In addition, the Company sets an appropriate hedging ratio in light of the economic relationship between the hedging instrument and the hedged item and the risk management strategy.

1) Effect of Hedge Accounting on the Consolidated Statement of Financial Position

Significant derivatives designated as hedging instruments at the date of transition to IFRS and at March 31, 2019 and 2020 are as follows:

(i)As of April 1, 2018 (Transition date)

Hedged Risk	Hedging Instrument	Contract Amount (Total)	Expected Rate (Average)	Carrying Amount (Millions of yen)	
				Derivative Assets	Derivative Liabilities
Foreign Exchange Rate Fluctuation Risk	Forward Foreign Exchange Contracts:				
	USD sell/JPY buy	USD 400,000 thousand	JPY 106.2/USD	–	32
	GBP sell/JPY buy	GBP 685,000 thousand	JPY 150.4/GBP	1,617	170
	Total			1,617	202

(ii)As of March 31, 2019

Hedged Risk	Hedging Instrument	Contract Amount (Total)	Expected Rate (Average)	Carrying Amount (Millions of yen)	
				Derivative Assets	Derivative Liabilities
Foreign Exchange Rate Fluctuation Risk	Forward Foreign Exchange Contracts:				
	USD sell/JPY buy	USD 100,000 thousand	JPY 110.0/USD	3	4
	USD buy/JPY sell	USD 76,000 thousand	JPY 111.4/USD	34	4
	GBP sell/JPY buy	GBP 680,000 thousand	JPY 145.7/GBP	1,433	384
	Currency Options:				
	USD sell/JPY buy	USD 24,000 thousand	JPY 110.8/USD	–	5
	USD buy/JPY sell	USD 24,000 thousand	JPY 111.2/USD	5	–
	Total			1,476	399

(iii)As of March 31, 2020

Hedged Risk	Hedging Instrument	Contract Amount (Total)	Expected Rate (Average)	Carrying Amount (Millions of yen)	
				Derivative Assets	Derivative Liabilities
Foreign Exchange Rate Fluctuation Risk	Forward Foreign Exchange Contracts:				
	USD sell/JPY buy	USD 134,000 thousand	JPY 110.1/USD	370	57
	GBP sell/JPY buy	GBP 450,000 thousand	JPY 145.8/GBP	6,300	394
	Total			6,670	452

Derivative assets and derivative liabilities are included in “Other financial assets” or “Other financial liabilities”, respectively, in the consolidated statement of financial position.

"Effective portion of cash flow hedges" related to ongoing hedging at the date of transition to IFRS and at March 31, 2019 and 2020 is as follows:

Millions of yen

Hedged Risk	As of April 1, 2018 (Transition date)	As of March 31, 2019	As of March 31, 2020
Foreign Exchange Rate Fluctuation Risk	1,122	611	3,086

Information on changes in fair value of hedged items and hedging instruments used as the basis for recognition of the ineffective portion of hedges has been omitted because the amounts of the ineffective portion of hedges recognized in profit or loss in the years ended March 31, 2019 and 2020 were not material.

2) Effect of Hedge Accounting on the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income

The effects of applying hedge accounting on profit or loss and other comprehensive income for the years ended March 31, 2019 and 2020 are as follows. The amounts of the ineffective portion of hedges recognized in profit or loss in the years ended March 31, 2019 and 2020 were not material.

(i) Year ended March 31, 2019

Millions of yen

Hedged Risk	Gain (Loss) Recognized in Other Comprehensive Income	Reclassification Adjustments from Other Components of Equity into Profit or Loss	Line Item of the Consolidated Statements of Profit or Loss for Reclassification Adjustments
Foreign Exchange Rate Fluctuation Risk	4,611	(5,347)	Revenue and foreign exchange gain (loss)

(ii) Year ended March 31, 2020

Millions of yen

Hedged Risk	Gain (Loss) Recognized in Other Comprehensive Income	Reclassification Adjustments from Other Components of Equity into Profit or Loss	Line Item of the Consolidated Statements of Profit or Loss for Reclassification Adjustments
Foreign Exchange Rate Fluctuation Risk	12,002	(8,436)	Revenue and Foreign exchange gain (loss)

30. Principal Subsidiaries

Principal subsidiaries of the Company at March 31, 2020 are as follows:

No non-controlling interests in a company are material to the Company.

Company name	Location	Main business status	Ownership (%)
Shionogi Pharma Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Healthcare Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Techno Advance Research Co., Ltd	Osaka, Japan	Pharmaceuticals	100
Shionogi Administration Service Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Career Development Center Co., Ltd.	Hyogo, Japan	Pharmaceuticals	100
Shionogi Digital Science Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Business Partner Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Pharmacovigilance Center Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Marketing Solutions Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
UMN Pharma Inc.	Akita, Japan	Pharmaceuticals	100
Shionogi Inc.	New Jersey, U.S.A.	Pharmaceuticals	100
Shionogi B.V.	Amsterdam, Netherlands	Pharmaceuticals	100
C&O Pharmaceutical Technology (Holdings) Limited	Shenzhen, China	Pharmaceuticals	100
Taiwan Shionogi & Co., Ltd.	Taipei, Taiwan, R.O.C.	Pharmaceuticals	100
Beijing Shionogi Pharmaceutical Technology Limited	Beijing, China	Pharmaceuticals	100
Shionogi Singapore Pte. Ltd.	Singapore	Pharmaceuticals	100

31. Related Parties

(1) Transactions with Related Parties

Transactions, payables and receivables with related parties have been omitted because they were not material in the years ended March 31, 2019 and 2020.

(2) Remuneration for Key Management Personnel

Remuneration for key management personnel is as follows:

Millions of yen

	Year ended March 31, 2019	Year ended March 31, 2020
Basic remuneration	350	374
Bonuses	153	51
Share-based remuneration	72	104
Total	575	529

32. Business Combinations

Year ended March 31, 2020

(Acquisition through business combination)

UMN Pharma Inc. (Acquisition as a subsidiary)

(1) Outline of Business Combination

1) Name and Business Description of Acquiree

Name of acquiree: UMN Pharma Inc. (hereinafter "UMN Pharma")

Business description: Research, development, manufacturing and marketing of biopharmaceuticals

2) Primary Reasons for Business Combination

The Company believes that it is essential to further develop infectious diseases as the Company's focus area in order to deal with the rapid changes in the market environment, to win in the global new drug development race, and to achieve medium- and long-term growth. The Company and UMN Pharma entered into a capital and business alliance agreement on October 31, 2017 (hereinafter the "Capital and Business Alliance Agreement") and have aimed to improve their corporate value by jointly conducting R&D, the filing of applications for approval, and marketing of drugs for human use, including human infectious disease vaccines, using the UMN Pharma's knowledge, know-how, and technologies on vaccines against infectious disease. As basic technology improvement and basic research on development candidates related to the Capital and Business Alliance had been positive, the Company and UMN Pharma had started discussions on selecting products for development out of the development candidates for human infectious disease vaccines and began further development and business activities after non-clinical study since July 2019. In such circumstances, the Company concluded that it is essential for it and UMN Pharma to revitalize the project and improve efficiencies by consolidating both companies' R&D, manufacturing and marketing systems instead of forming a business alliance for each development candidate in order to ensure prompt decision-making and flexible and active investment of management resources.

3) Acquisition Date

December 19, 2019

4) Method of Obtaining Control of Acquiree

The Company acquired shares in exchange for cash consideration.

5) Percentage of Voting Equity Interest Acquired

Voting equity interests prior to the acquisition:	31.08%
Additional voting equity interests acquired at the acquisition date:	52.43%
Percentage of equity voting interests after the acquisition:	83.51%

(2) Fair Value of Purchase Consideration for the Acquisition

Fair value of equity interests in acquiree held by the Company immediately prior to the acquisition date:	¥2,970 million
Fair value of additional equity interests in acquiree acquired on the acquisition date:	¥5,010 million
Consideration for the acquisition:	¥7,980 million

Acquisition-related costs of ¥243 million are included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

(3) Gain from Remeasurement Due to Business Combination

Gain on step acquisition of ¥1,331 million was recognized in "Other income" in the consolidated statement of profit or loss as a result of remeasurement of equity interests in the acquiree held by the Company immediately prior to the acquisition date.

(4) Fair Value of Purchase Consideration, Assets Acquired and Liabilities Assumed at Acquisition Date

	Millions of yen
Fair value of purchase consideration	7,980
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	484
Inventories	42
Property, plant and equipment	80
Other assets	52
Other liabilities	(113)
Fair value of assets acquired and liabilities assumed, net	546
Non-controlling interests	(90)
Goodwill	7,523
Total	7,980

Notes:

1. Provisional accounting treatment for the acquisition has been applied based on reasonable information available at the acquisition date. As of March 31, 2020, the fair value of goodwill and other identifiable assets and liabilities at the acquisition date had not been finalized, and the acquisition cost allocation had not been completed.
2. Goodwill mainly has arisen in connection with expected future profitability. None of the recognized goodwill is expected to be deductible for tax purposes.
3. Non-controlling interests are measured as the share of non-controlling interests in the fair value of the identifiable net assets of the acquiree.

(5) Cash Flow Resulting from Acquisition

Cash consideration:	¥5,010 million
Cash and cash equivalents received at acquisition date:	¥484 million
Purchase of shares of subsidiaries resulting in change in scope of consolidation:	¥4,525 million

(6) Impact on Financial Results

Profit or loss information related to the business combination after the acquisition date and profit or loss information assuming that the business combination took place at the beginning of the reporting period are omitted because the impact on the consolidated statement of profit or loss is not material. Profit or loss information assuming the business combination took place at the beginning of the reporting period has not been audited by the Company's independent auditor.

The extraordinary meeting of shareholders held on February 14, 2020 approved a share consolidation and the acquiree became a wholly owned subsidiary on March 18, 2020. On June 15, 2020, the Company acquired total fractional shares of less than one voting unit arising from the share consolidation.

33. Subsequent Events

(Cancellation of Treasury Shares)

As resolved at the Board of Directors meetings held on September 30, 2019 and March 30, 2020, the Company completed the cancellation of treasury shares pursuant to the provisions of Article 178 of the Companies Act on April 6, 2020.

1. Reasons for cancellation of treasury shares: Increase shareholder returns by reducing the number of issued shares
2. Class of shares canceled: Ordinary shares of the Company
3. Total number of shares canceled: 5,200,000 shares
4. Date of cancellation: April 6, 2020

(Acquisition of shares of subsidiary)

On May 26, 2020, the Company acquired all shares of Tetra Therapeutics Inc. (hereinafter "Tetra") and made it a wholly owned subsidiary.

1. Primary Reasons for Business Combination

The Company and Tetra entered into a collaboration agreement, granting Shionogi rights to BPN14770, a drug candidate for the treatment of brain disorders associated with cognitive and memory deficits and an investment agreement in December 2018, and have been collaborating in research and development of this compound. Tetra has completed a Phase II study in Alzheimer's disease patients in the United States. Although the results of the Phase II study did not achieve the primary goal, the Company decided that continued development is warranted, and therefore acquired all the shares of Tetra and made it a wholly owned subsidiary.

2. Outline of Business Combination

Name of acquiree:	Tetra Therapeutics Inc. (former name：Tetra Discovery Partners Inc.)
Business description of acquiree	Research and development of pharmaceutical products
Acquisition date	May 26, 2020

3. Percentage of Voting Equity Interests Acquired

Voting equity interests immediately prior to the acquisition:	50.00%
Additional voting equity interests acquired at the acquisition date:	50.00%
Percentage of equity voting interests after the acquisition:	100.00%

4. Consideration for the Acquisition

Additional upfront payment to acquiree	US$96 million

The Company completed the acquisition with cash consideration.

In addition to the above, the Company expects to make payments up to US$380 million depending on the achievement of future research and development milestones.

The initial accounting treatment for the business combination was incomplete at the date of approval of the consolidated financial statements. Therefore, details of assets acquired, liabilities assumed, goodwill, etc. are not disclosed.

34. Transition to IFRS

The Group has adopted IFRS in preparing its consolidated financial statements for the first time for the year ended March 31, 2020. The latest consolidated financial statements prepared in accordance with generally accepted accounting principles in Japan (JGAAP) were for the year ended March 31, 2019. The date of transition from JGAAP to IFRS was April 1, 2018. Accounting policies as described in Note “3. Significant Accounting Policies” are applied to the consolidated statement of financial position as of April 1, 2018 (transition date) and the consolidated financial statements for the years ended March 31, 2019 and 2020.

(1) Exemptions to retrospective application under IFRS 1

IFRS 1 requires an entity that adopts IFRS for the first time (hereinafter “first-time adopter”) to apply IFRS retrospectively. However, IFRS 1 provides voluntary exemptions that allow first-time adopters to choose not to apply certain standards retrospectively and mandatory exceptions prohibiting retrospective application.

Major exemptions adopted by the Group are as follows:

- Business combinations

  A first-time adopter is permitted to elect not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred before the date of transition to IFRS. The Group has applied this exemption and has elected not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS.

- Exchange differences on translation of foreign operations

  A first-time adopter is permitted to elect to deem the cumulative amount of exchange differences on translation of foreign operations to be zero as of the date of transition to IFRS. The Group has applied this exemption and has elected to deem the cumulative amount of exchange differences on translation of foreign operations to be zero as of the date of transition to IFRS.

- Designation of financial instruments recognized prior to the date of transition to IFRS

  A first-time adopter is permitted to designate investments in equity instruments as financial assets measured at fair value through other comprehensive income, based on the facts and circumstances as of the date of transition to IFRS. The Group has applied this exemption and has designated all investments in equity instruments as financial assets measured at fair value through other comprehensive income as of the date of transition to IFRS.

- Share-based remuneration transactions

  A first-time adopter is encouraged, but not required, to retrospectively apply IFRS 2 “Share-based Payment” for share-based remuneration vested before the date of transition to IFRS. The Group has not applied IFRS 2 retrospectively to equity instruments that vested before the date of transition to IFRS.

- Revenue from contracts with customers

  A first-time adopter is required to apply IFRS 15 “Revenue from Contracts with Customers,” retrospectively but is not required to restate contracts completed before the beginning of the earliest period presented (contracts for which all of goods or services identified in accordance with previous accounting principles has been transferred). A first-time adopter is permitted to apply one or more of the following practical expedients for retrospective application.

(i) An entity need not restate contracts that begin and end within the same annual reporting period.

(ii) For completed contracts that involve variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.

(iii) For all reporting periods presented prior to the beginning of the first IFRS reporting period, an entity need not disclose explanation of the amount of the transaction price allocated to the remaining performance obligation and when that amount is expected to be recognized as revenue.

The Group has decided to apply all of the aforementioned practical expedients. As a result, the timing, accounting method and amount of revenue recorded may differ from the result of retroactive application of IFRS 15.

- Leases

1) Assessment whether a contract includes a lease

A first-time adopter is permitted to assess whether a contract existing at the date of transition to IFRS contains a lease based on facts and circumstances existing at that date. The Group has applied this exemption and has assessed whether a contract includes a lease based on facts and circumstances at the date of transition to IFRS.

2) Approach for recognition and measurement of right-of-use assets and lease liabilities

A first-time adopter that is a lessee is permitted to apply the following approaches to all of its leases in recognizing lease liabilities and right-of-use assets.

(i) Measure the lease liabilities at the date of transition to IFRS. The first-time adopter following this approach measures lease liabilities at the present value of the remaining lease payments discounted by the lessee's incremental borrowing rate at the date of transition to IFRS.

(ii) Measure right-of-use assets at the date of transition to IFRS. The first-time adopter chooses, on a lease-by-lease basis, to measure at either:

- its carrying amount as if IFRS 16 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of transition to IFRS; or
- an amount equal to the lease liabilities (adjusted by the amount of any prepaid or accrued lease payments related to that lease recognized in the statement of financial position immediately before the date of transition to IFRS)

(iii) Apply IAS 36 "Impairment of Assets" to right-of-use assets at the date of transition to IFRS.

The Group applies these approaches to measure lease liabilities at the date of transition to IFRS and right-of-use assets at the amount equal to the lease liabilities, and applies IAS 36 to right-of-use assets at the date of transition to IFRS.

3) Practical expedients for recognition and measurement of right-of-use assets and lease liabilities

A first-time adopter that is a lessee is permitted to apply one or more of the following practical expedients on a lease-by-lease basis:

(i) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

(ii) Do not apply the requirements in 2) above to leases for which the lease term ends within 12 months from the date of transition to IFRS.

(iii) Do not apply the requirements in 2) above to leases for which the underlying asset is of low value.

(iv) Exclude initial direct costs from the measurement of the right-of-use asset at the date of transition to IFRS.

(v) Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has elected to apply the practical expedients (i) to (v) above to each applicable lease.

(2) Reconciliation from JGAAP to IFRS

The effects of the transition from JGAAP to IFRS on the financial position and operating results of the Group are as follows. "Reclassification" in the reconciliation table below includes items that do not affect retained earnings and comprehensive income, while "Recognition and measurement differences" includes items that affect retained earnings and comprehensive income.

1) Reconciliation of profit or loss and comprehensive income for the fiscal year ended March 31, 2019

Consolidated statement of profit or loss

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Net sales	363,721	–	4,238	367,960	H	Revenue
Cost of sales	(54,880)	–	(710)	(55,591)	F,H	Cost of sales
Gross profit	308,841	–	3,528	312,369		Gross profit
Selling, general and administrative expenses	(170,303)	76,033	6,601	(87,668)	A,C,E,F,G,H	Selling, general and administrative expenses
	–	(68,325)	16,266	(52,058)	B,E,F,G	Research and development expenses
	–	(7,799)	3,525	(4,273)	B	Amortization of intangible assets associated with products
	–	1,372	21	1,394		Other income
	–	(20,685)	(3,995)	(24,680)	A,B	Other expenses
Operating income	138,537	(19,403)	25,947	145,081		Operating profit
Non-operating income	33,256	(33,256)	–	–		
Non-operating expenses	(5,218)	5,218	–	–		
Extraordinary income	20,854	(20,854)	–	–		
Extraordinary losses	(17,086)	17,086	–	–		
	–	32,381	(10)	32,371		Finance income
	–	(1,637)	(1,771)	(3,409)	C,H	Finance costs
Profit before income taxes	170,343	(20,465)	24,165	174,043		Profit before tax
Total income taxes	(37,037)	124	(211)	(37,124)	I	Income tax expense
Profit	133,306	(20,341)	23,953	136,918		Profit
						Profit attributable to
Profit attributable to Owners of parent	132,759	(20,341)	24,773	137,191		Owners of parent
Profit attributable to Non-controlling interests	547	–	(820)	(272)		Non-controlling interests

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated statement of comprehensive income

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Profit	133,306	–	3,612	136,918		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Net unrealized holding (loss) gain on securities	(6,929)	–	29,511	22,581	D	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
Retirement benefit liability adjustments	3,937	–	(17,827)	(13,889)	F	Remeasurements of defined benefit plans
	–	–	11,684	8,692		Total of items that will not be reclassified to profit or loss
						Items that may be reclassified to profit or loss
Translation adjustments	(3,260)	–	(4,460)	(7,721)		Exchange differences on translation of foreign operations
Deferred (loss) gain on hedges	(427)	–	(83)	(510)		Effective portion of cash flow hedges
	–	–	(4,544)	(8,232)		Total of items that may be reclassified to profit or loss
Total other comprehensive (loss) income	(6,679)	–	7,139	460		Total other comprehensive income, net of tax
Comprehensive income	126,626	–	10,752	137,378		Comprehensive income
Comprehensive income attributable to						Comprehensive income attributable to
Comprehensive income attributable to owners of parent	126,300	–	11,625	137,926		Owners of parent
Comprehensive income attributable to non-controlling interests	326	–	(873)	(547)		Non-controlling interests

2) Reconciliation of equity at the date of transition to IFRS (April 1, 2018)

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Assets						Assets
Fixed assets:						Non-current assets
Property, plant and equipment	75,956	(3,002)	(788)	72,165		Property, plant and equipment
Intangible assets						
Goodwill	32,852	–	(22,085)	10,767	A	Goodwill
Marketing rights	38,073	(38,073)	–	–		
Other	4,134	(4,134)	–	–		
	–	42,207	245	42,453	B	Intangible assets
	–	146	5,174	5,320	C	Right-of-use assets
Investments and other assets:						
Investments in securities	155,675	(155,675)	–	–		
	–	155,485	144,101	299,586	D	Other financial assets
Asset for retirement benefits	21,735	–	(11,394)	10,340	F	Retirement benefit asset
Deferred tax assets	738	–	(359)	378	I	Deferred tax assets
Other	2,835	(2,835)	–	–		
Allowance for doubtful accounts	(42)	42	–	–		
	–	5,839	1,055	6,895		Other non-current assets
Total fixed assets	331,959	–	115,949	447,908		Total non-current assets

Shionogi & Co., Ltd and Consolidated Subsidiaries

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Current assets:						Current assets
Merchandise and finished goods	14,716	(14,716)	–	–		
Work in process	6,993	(6,993)	–	–		
Raw materials and supplies	12,926	(12,926)	–	–		
	–	34,636	(3,790)	30,846	E	Inventories
Notes and accounts receivable	53,240	(53,240)	–	–		
Allowance for doubtful accounts	(36)	36	–	–		
	–	53,203	28,937	82,140	H	Trade receivables
Short-term investments	124,300	(124,300)	–	–		
	–	110,173	377	110,551		Other financial assets
	–	59	–	59		Income taxes receivable
Other	27,257	(18,227)	1,053	10,083		Other current assets
Cash and deposits	140,106	32,294	3,735	176,135		Cash and cash equivalents
Total current assets	379,504	–	30,312	409,816		Total current assets
Total assets	711,463	–	146,261	857,725		Total assets

Shionogi & Co., Ltd and Consolidated Subsidiaries

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
						Equity and liabilities
Net assets:						Equity
Common stock	21,279	–	–	21,279		Share capital
Capital surplus	20,227	527	300	21,055		Capital surplus
Less treasury stock, at cost	(36,641)	–	–	(36,641)		Treasury shares
Retained earnings	574,392	–	(28,893)	545,498	K	Retained earnings
	–	21,589	157,775	179,365	D,F,J	Other components of equity
Total shareholders' equity	579,257	22,117	129,182	730,557		Equity attributable to owners of parent
Accumulated other comprehensive income:						
Net unrealized holding gain on securities	35,856	(35,856)	–	–		
Deferred gain on hedges	1,174	(1,174)	–	–		
Translation adjustments	(15,330)	15,330	–	–		
Retirement benefit liability adjustments	(111)	111	–	–		
Share subscription rights	527	(527)	–	–		
Non-controlling interests	3,466	–	790	4,257		Non-controlling interests
Total net assets	604,840	–	129,973	734,814		Total equity

Shionogi & Co., Ltd and Consolidated Subsidiaries

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Long-term liabilities:						Non-current liabilities
Long-term debts - Bonds	18,491	(18,491)	–	–		
	–	18,491	(98)	18,393		Bonds and borrowings
	–	94	5,636	5,731	C	Lease liabilities
	–	4,202	–	4,202		Other financial liabilities
Liability for retirement benefits	8,096	–	768	8,865	F	Retirement benefit liability
Deferred tax liabilities	3,123	–	3,167	6,291	I	Deferred tax liabilities
Other	4,344	(4,296)	345	393		Other non-current liabilities
Total long-term liabilities	34,056	–	9,819	43,876		Total non-current liabilities
Current liabilities:						Current liabilities
Current portion of long-term debts – Loans	10,000	–	–	10,000		Bonds and borrowings
	–	83	2,553	2,636	C	Lease liabilities
Notes and accounts payable	8,016	(317)	–	7,698		Trade payables
	–	10,299	170	10,470		Other financial liabilities
Accrued income taxes	19,513	(1,110)	–	18,402		Income taxes payable
Provision	10,207	(10,207)	–	–		
Other	24,829	1,252	3,744	29,826	G	Other current liabilities
Total current liabilities	72,565	–	6,468	79,034		Total current liabilities
Total liabilities	106,622	–	16,288	122,910		Total liabilities
Total liabilities and net assets	711,463	–	146,261	857,725		Total Equity and liabilities

3) Reconciliation of equity at March 31, 2019

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Assets						Assets
Fixed assets:						Non-current assets
Property, plant and equipment	74,653	(3,667)	–	70,986		Property, plant and equipment
Intangible assets						
Goodwill	19,258	–	(15,899)	3,358	A	Goodwill
Marketing rights	30,319	(30,319)	–	–		
Other	5,191	(5,191)	–	–		
	–	35,511	12,293	47,804	B	Intangible assets
	–	884	5,031	5,915	C	Right-of-use assets
Investments and other assets:						
Investments in securities	151,851	(151,851)	–	–		
	–	145,391	157,318	302,709	D	Other financial assets
Asset for retirement benefits	30,721	–	(30,721)	–	F	Retirement benefit asset
Deferred tax assets	1,792	–	(1,258)	534	I	Deferred tax assets
Other	3,250	(3,250)	–	–		
Allowance for doubtful accounts	(42)	42	–	–		
	–	12,451	1,134	13,586		Other non-current assets
Total fixed assets	316,997	–	127,897	444,895		Total non-current assets

Shionogi & Co., Ltd and Consolidated Subsidiaries

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Current assets:						Current assets
Merchandise and finished goods	18,741	(18,741)	–	–		
Work in process	7,272	(7,272)	–	–		
Raw materials and supplies	14,097	(14,097)	–	–		
	–	40,111	(4,985)	35,125	E	Inventories
Notes and accounts receivable	65,918	(65,918)	–	–		
Allowance for doubtful accounts	(43)	43	–	–		
	–	65,874	35,076	100,951	H	Trade receivables
Short-term investments	133,264	(133,264)	–	–		
	–	149,874	656	150,530		Other financial assets
	–	395	–	395		Income taxes receivable
Other	28,942	(19,256)	1,153	10,840		Other current assets
Cash and deposits	193,549	2,250	–	195,800		Cash and cash equivalents
Total current assets	461,743	–	31,901	493,645		Total current assets
Total assets	778,741	–	159,799	938,540		Total assets

Shionogi & Co., Ltd and Consolidated Subsidiaries

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
						Equity and liabilities
Net assets:						Equity
Common stock	21,279	–	–	21,279		Share capital
Capital surplus	20,512	527	237	21,277		Capital surplus
Less treasury stock, at cost	(28,882)	–	–	(28,882)		Treasury shares
Retained earnings	639,461	–	(25,977)	613,483	K	Retained earnings
	–	15,130	166,485	181,616	D,F,J	Other components of equity
Total shareholders' equity	652,371	15,658	140,744	808,774		Equity attributable to owners of parent
Accumulated other comprehensive income:						
Net unrealized holding gain on securities	28,927	(28,927)	–	–		
Deferred gain on hedges	747	(747)	–	–		
Translation adjustments	(18,370)	18,370	–	–		
Retirement benefit liability adjustments	3,826	(3,826)	–	–		
Share subscription rights	527	(527)	–	–		
Non-controlling interests	4,400	–	(86)	4,313		Non-controlling interests
Total net assets	672,429	–	140,657	813,087		Total equity

Shionogi & Co., Ltd and Consolidated Subsidiaries

Millions of yen

Accounts under JGAAP	JGAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Long-term liabilities:						Non-current liabilities
	–	614	5,391	6,006	C	Lease liabilities
	–	4,354	–	4,354		Other financial liabilities
Liability for retirement benefits	11,930	–	6,205	18,136	F	Retirement benefit liability
Deferred tax liabilities	124	–	319	444	I	Deferred tax liabilities
Other	5,147	(4,969)	182	360		Other non-current liabilities
Total long-term liabilities	17,203	–	12,099	29,303		Total non-current liabilities
Current liabilities:						Current liabilities
Current portion of long-term debts – Bonds	920	–	(2)	918		Bonds and borrowings
	–	264	3,042	3,306	C	Lease liabilities
Notes and accounts payable	9,442	–	–	9,442		Trade payables
	–	16,623	384	17,008		Other financial liabilities
Accrued income taxes	35,870	(1,854)	–	34,016		Income taxes payable
Provision	10,654	(10,654)	–	–		
Other	32,219	(4,379)	3,617	31,457	G	Other current liabilities
Total current liabilities	89,107	–	7,042	96,149		Total current liabilities
Total liabilities	106,311	–	19,141	125,452		Total liabilities
Total liabilities and net assets	778,741	–	159,799	938,540		Total equity and liabilities

4) Notes to the reconciliation of equity and comprehensive income

The following are the main items reclassified in accordance with the presentation provisions of IFRS in the consolidated statement of financial position at the date of transition to IFRS (April 1, 2018) and in the consolidated financial statements for the fiscal year ended March 31, 2019.

- Research and development expenses and amortization of intangible assets such as marketing rights etc. are included in “Selling, general and administrative expenses” under JGAAP, but are presented separately as “Research and development expenses” and “Amortization of intangible assets associated with products” under IFRS.
- Inhabitants’ taxes on a per capita basis in Japan are included in “Total income taxes” under JGAAP, but are included in “Selling, general and administrative expenses” under IFRS.
- Finance lease assets are included in “Property, plant and equipment” under JGAAP, but are included in “Right-of-use assets” under IFRS.
- Time deposits with deposit terms exceeding three months are included in “Cash and deposits” under JGAAP, but are included in “Other financial assets” under IFRS. In addition, short-term investments redeemable within 3 months from the date of acquisition that can easily be converted into cash and bear little or no risk of fluctuation in value are included in “Short-term investments” under JGAAP, but are included in “Cash and cash equivalents” under IFRS.
- Share acquisition rights are presented separately under JGAAP, but are included in “Capital surplus” under IFRS.

Main recognition and measurement differences are as follows.

(A) Goodwill
The Group has elected not to apply IFRS 3 retrospectively to business combinations that occurred prior to the date of transition to IFRS.
JGAAP requires the assessment whether the impairment loss is necessary to be recognized only when indications of impairment exist, whereas IFRS requires the impairment tests at least once every fiscal year.
The Group tested for impairment at the date of transition and in the fiscal year ended March 31, 2019, with the result that the recoverable amount of goodwill was lower than its carrying amount. The Group therefore reduced the carrying amount of goodwill to recoverable amount. Please refer to Note “12. Goodwill” for details.
In addition, goodwill is amortized over its estimated useful life under JGAAP, whereas goodwill is no longer amortized from the date of transition to IFRS.
The above differences between JGAAP and IFRS resulted in decrease in both “Goodwill” and “Retained earnings” at the date of transition to IFRS and at March 31, 2019 by ¥22,085 million and ¥15,899 million, respectively. The above differences also resulted in decrease in “Selling, general and administrative expenses” by ¥2,719 million and increase in “Profit before tax” by ¥6,810 million for the fiscal year ended March 31, 2019.

(B) Separately acquired in-process R&D assets
Under JGAAP, lump-sum payments in connection with product and technology in-license agreements are mainly expensed as research and development expenses prior to regulatory approval. Under IFRS, such payments that satisfy the capitalization criteria of IAS 38 “Intangible Assets” are recognized as intangible assets and amortized on a straight-line basis over their estimated useful lives from the time they become available for use. Also under IFRS, intangible assets that are not yet available for use are tested for impairment at least once every fiscal year.
The above differences between JGAAP and IFRS resulted in increase in both “Intangible assets” and “Retained earnings” at the date of transition to IFRS and at March 31, 2019 by ¥2,596 million and ¥18,623 million, respectively. The above differences also resulted in decrease in “Research and development expenses” by ¥16,267 million, increased “Amortization of intangible assets associated with products,” and “Profit before tax” by ¥40 million and ¥16,027 million, respectively, for the fiscal year ended March 31, 2019.

(C) Right-of-use assets and lease liabilities
JGAAP categorizes lease contracts as either finance leases or operating leases according to their legal form. Finance leases are accounted for as ordinary sale and purchase transactions, with recognition of lease assets and lease obligations. Operating lease transactions are accounted for as ordinary lease transactions. In addition, contracts with a legal form that is not a lease are accounted for according to the substance of the contract or transaction, e.g., a rental transaction, with rent and other expenses incurred is included in “Selling, general and administrative expenses.”
IFRS defines a lease as a contract that conveys the right to use an asset for a period of time in exchange for consideration, even if it does not take the legal form of a lease. A lessee recognizes a right-of-use asset and a lease liability, except when the recognition exemptions are applied to short-term leases and leases for which the underlying assets are of low value. In addition, an amount equivalent to the financing element of lease payments is included in “Finance costs.”

At the date of transition to IFRS and at March 31, 2019, respectively, the above differences between JGAAP and IFRS resulted in the increase in “Right-of-use assets” by ¥5,174 million and ¥5,031 million, “Other financial assets” (included in non-current assets) by ¥452 million and ¥486 million, “Other non-current assets” by ¥1,055 million and ¥1,134 million, “Other financial assets” (included in current assets) by ¥452 million and ¥486 million, “Other current assets” by ¥1,055 million and ¥1,134 million, “Lease liabilities” (included in non-current liabilities) by ¥5,636 million and ¥5,391 million, and “Lease liabilities” (included in current liabilities) by ¥2,553 million and ¥3,042 million.

(D) Designation of unlisted equities and equity instruments as financial assets for which fair value is measured through other comprehensive income

Unlisted equities are recognized in principle at acquisition cost under JGAAP, but are always measured at fair value under IFRS.
Furthermore, under JGAAP, gain or loss on sale of equity instruments or impairment loss on equity instruments are recognized in profit or loss. Under IFRS, however, investments in equity instruments are designated as financial assets measured at fair value through other comprehensive income, changes in fair value or gain or loss on sale are recognized in other comprehensive income, and the cumulative gain or loss is transferred from “Other components of equity” to “Retained earnings” when the instruments are derecognized.
At the date of transition to IFRS and at March 31, 2019, respectively, the above differences between JGAAP and IFRS resulted in increase in “Other financial assets” (included in non-current assets) by ¥143,901 million and ¥157,534 million and “Other components of equity” by ¥143,180 million and ¥156,605 million. In addition, “Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income” and “Comprehensive income” for the fiscal year ended March 31, 2019 increased by ¥29,511 million, respectively.

(E) Inventories

Under JGAAP, inventories used in sales promotion and research activities are included in “Raw materials and supplies.” Under IFRS, they are recognized as expenses at the time of purchase because they do not meet the IFRS definition of assets.

(F) Retirement benefit liability

Under JGAAP, actuarial differences that arise each fiscal year are amortized over a certain period within the average remaining service period. Under IFRS, however, remeasurements of net defined benefit liabilities are recognized in full in other comprehensive income and immediately transferred to retained earnings in the period in which they are recognized.
When a defined benefit plan has surplus, the net defined benefit asset is limited to the asset ceiling, which is the present value of the future economic benefits available in the form of refunds or reductions in future contributions to the plan.
At the date of transition to IFRS and at March 31, 2019, respectively, the above differences between JGAAP and IFRS resulted in decrease in “Retirement benefit asset” by ¥11,394 million and ¥30,721 million and “Retained earnings” by ¥12,273 million and ¥32,212 million, and increase in “Retirement benefit liability” by ¥768 million and ¥6,205 million. “Other components of equity” at the date of transition to IFRS increased by ¥111 million and that at March 31, 2019 decreased by ¥3,826 million. In addition, for the fiscal year ended March 31, 2019, these differences also resulted in decrease in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” by ¥95 million, ¥511 million and ¥281 million, respectively, and increase in “Profit before tax” by ¥887 million.

(G) Accrued Paid Absences

For unused paid leave, particular accounting treatment is not required under JGAAP, while IFRS requires recognition as a liability.

(H) Revenue

Under IFRS, revenue is recognized based on the five-step approach, which are described in Note “3. Significant Accounting Policies (3) Revenue,” and the timing of revenue recognition depends on nature of transaction.
Revenue in the form of sales-based or usage-based royalties is recognized at the later of when (1) the subsequent sale or usage occurs, or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (in whole or in part). In addition, some rebates are recognized as “Selling, general and administrative expenses” under JGAAP, whereas rebates are deducted from “Revenue” as a component of consideration paid to customers under IFRS.
At the date of transition to IFRS and at March 31, 2019, respectively, the above differences between JGAAP and IFRS resulted in increase in “Trade receivables” by ¥28,937 million and ¥35,076 million and “Retained earnings” by ¥29,927 million and ¥35,405 million. In addition, for the fiscal year ended March 31, 2019, these differences also resulted in increases in “Revenue,” “Cost of sales,” “Finance costs” and “Profit before tax” by ¥4,238 million, ¥1,016 million, ¥1,019 million and ¥5,477 million, respectively, and a decrease in “Selling, general and administrative expenses” by ¥3,274 million.

(I) Income taxes
Deferred tax assets related to unrealized gains and losses on inventory and other intragroup transactions are calculated using the effective tax rate of the seller under JGAAP, but are calculated using the effective tax rate of the buyer under IFRS.
Additionally, deferred tax assets and deferred tax liabilities are recognized for temporary differences resulting from the adjustment of differences between JGAAP and IFRS.
At the date of transition to IFRS and at March 31, 2019, respectively, the above differences between JGAAP and IFRS resulted in decreases in “Deferred tax assets” by ¥359 million and ¥1,258 million and “Retained earnings” by ¥6,628 million and ¥12,333 million, and increases in “Deferred tax liabilities” by ¥3,167 million and ¥319 million. In addition, for the fiscal year ended March 31, 2019, these differences also resulted in an increase in “Income tax expense” by ¥5,704 million.

(J) Exchange differences on translation of foreign operations
The Group has elected to deem the cumulative amount of exchange differences on translation of foreign operations to be zero at the date of transition to IFRS.
At the date of transition to IFRS and at March 31, 2019, respectively, the above differences between JGAAP and IFRS resulted in decrease in “Other components of equity” by ¥15,330 million and increase in “Retained earnings” by ¥15,330 million.

(K) Adjustments to retained earnings
The effect of items (A) to (J) above and other differences in recognition and measurement on retained earnings at the date of transition to IFRS and at March 31, 2019 are as follows:

Millions of yen

Items	As of April 1, 2018 (Transition date)	As of March 31, 2019
(A) Goodwill	(22,085)	(15,899)
(B) Separately acquired in-process R&D assets	2,596	18,623
(E) Inventories	(4,696)	(4,988)
(F) Retirement benefit liability	(12,273)	(32,212)
(G) Accrued paid absences	(2,767)	(2,689)
(H) Revenue	29,927	35,405
(I) Income taxes	(6,628)	(12,333)
(J) Exchange differences on translation of foreign operations	(15,330)	(15,330)
Other	2,364	3,447
Total adjustments to retained earnings	(28,893)	(25,977)

5) Adjustments to cash flow for the fiscal year ended March 31, 2019

Under JGAAP, expenses including lump-sum payments in connection with product and technology in-license agreements are mainly expensed as research and development expenses prior to regulatory approval and the expenditures are classified as “Cash flows from operating activities.” Under IFRS, however, the Group classified expenditures that satisfy the capitalization criteria of IAS 38 in the amount of ¥16,272 million as “Cash flows from investing activities.”