

**Consolidated Financial Statements**  
**ONO PHARMACEUTICAL CO., LTD.**  
**and Subsidiaries**

*Year Ended March 31, 2020*

*with Independent Auditor's Report*

# Consolidated Financial Statements

*Year Ended March 31, 2020*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ONO PHARMACEUTICAL CO., LTD.:

### Opinion

We have audited the consolidated financial statements of ONO PHARMACEUTICAL CO., LTD. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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").

### Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2019, the consolidated financial statements have been prepared in accordance with the new accounting standard for leases, IFRS 16. Our opinion is not modified in respect of this matter.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

### 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the 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, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

As part of 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. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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 whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

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

*Deloitte Touche Tohmatsu LLC*

June 18, 2020

# Consolidated Statement of Financial Position

Year Ended March 31, 2020

		<div> <div>Millions of Yen</div> <div> <div>March 31,</div> <div>2019</div> </div> <div> <div>March 31,</div> <div>2020</div> </div> </div>		<div>Thousands of</div> <div>U.S. Dollars</div> <div>(Note 2 (5))</div>
	Notes			March 31, 2020
Assets				
Current assets:				
Cash and cash equivalents	7, 34	¥ 59,981	¥ 69,005	\$ 633,071
Trade and other receivables	8, 34	76,285	76,834	704,903
Marketable securities	9, 34	687	614	5,632
Other financial assets	10, 34	10,800	30,800	282,569
Inventories	12	32,821	32,906	301,888
Other current assets	11, 20	14,042	15,063	138,195
Total current assets		194,617	225,222	2,066,258
Non-current assets:				
Property, plant, and equipment	2, 13, 21	108,870	114,628	1,051,631
Intangible assets	14	63,059	66,436	609,502
Investment securities	9, 34	171,476	137,670	1,263,028
Investments in associates		113	108	987
Other financial assets	10, 34	91,672	91,694	841,225
Deferred tax assets	16	21,079	34,817	319,419
Other non-current assets	11	4,171	2,871	26,340
Total non-current assets		460,439	448,222	4,112,131
Total assets		¥655,056	¥673,444	\$6,178,389

		Millions of Yen		Thousands of U.S. Dollars (Note 2 (5))
	Notes	March 31, 2019	March 31, 2020	March 31, 2020
Liabilities and Equity				
Current liabilities:				
Trade and other payables	17, 34	¥ 36,833	¥ 34,439	\$ 315,951
Borrowings	18, 34	435	-	-
Lease liabilities	2, 21	-	2,188	20,077
Other financial liabilities	19, 34	515	450	4,127
Income taxes payable		15,980	20,346	186,661
Provisions	24	17,206	20,721	190,103
Other current liabilities	22	12,181	13,185	120,961
Total current liabilities		83,150	91,329	837,879
Non-current liabilities:				
Borrowings	18, 34	1,765	-	-
Lease liabilities	2, 21	-	6,173	56,635
Other financial liabilities	19, 34	5	0	3
Retirement benefit liabilities	23	5,515	6,048	55,485
Deferred tax liabilities	16	1,053	1,059	9,717
Other non-current liabilities	22	832	813	7,456
Total non-current liabilities		9,171	14,093	129,296
Total liabilities		92,321	105,422	967,175
Equity:				
Share capital	25	17,358	17,358	159,250
Capital reserves	25	17,202	17,229	158,062
Treasury shares	25	(38,151)	(44,737)	(410,435)
Other components of equity	25	61,852	48,030	440,643
Retained earnings	25	499,088	524,605	4,812,888
Equity attributable to owners of the parent company		557,350	562,484	5,160,407
Non-controlling interests		5,386	5,538	50,806
Total equity		562,736	568,022	5,211,214
Total liabilities and equity		¥655,056	¥673,444	\$6,178,389

# Consolidated Statement of Income

Year Ended March 31, 2020

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
	<b>Notes</b>	<b>For the year ended March 31, 2019</b>	<b>For the year ended March 31, 2020</b>	<b>For the year ended March 31, 2020</b>
<b>Revenue</b>	6, 27	¥288,634	¥292,420	\$ 2,682,749
Cost of sales		(83,829)	(79,063)	(725,351)
<b>Gross profit</b>		204,805	213,356	1,957,398
Selling, general, and administrative expenses	28	(70,033)	(67,679)	(620,906)
Research and development costs		(70,008)	(66,497)	(610,067)
Other income	30	646	822	7,543
Other expenses	30	(3,400)	(2,512)	(23,042)
<b>Operating profit</b>		62,010	77,491	710,927
Finance income	31	3,282	3,053	28,012
Finance costs	31	(150)	(845)	(7,749)
Share of loss from investments in associates and others	15	(1)	(4)	(35)
<b>Profit before tax</b>		65,141	79,696	731,154
Income tax expense	16	(13,462)	(19,808)	(181,724)
<b>Profit for the year</b>		51,679	59,888	549,431
<b>Profit for the year attributable to:</b>				
Owners of the parent company		51,539	59,704	547,740
Non-controlling interests		140	184	1,691
<b>Profit for the year</b>		¥ 51,679	¥ 59,888	\$ 549,431
		<i>Yen</i>		<i>U.S. Dollars (Note 2 (5))</i>
<b>Earnings per share:</b>				
Basic earnings per share	33	¥ 100.25	¥ 118.47	\$ 1.09
Diluted earnings per share	33	100.24	118.45	1.09



# Consolidated Statement of Comprehensive Income

Year Ended March 31, 2020

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
	<b>Notes</b>	<b>For the year ended March 31, 2019</b>	<b>For the year ended March 31, 2020</b>	<b>For the year ended March 31, 2020</b>
<b>Profit for the year</b>		¥ 51,679	¥ 59,888	\$ 549,431
<b>Other comprehensive income:</b>				
Items that will not be reclassified to profit or loss:				
Net (loss) gain on financial assets measured at fair value through other comprehensive income	32, 34	(43)	(1,909)	(17,517)
Remeasurement of defined benefit plans	32	(890)	(109)	(1,001)
Share of net (loss) gain on financial assets measured at fair value through other comprehensive income of investments in associates	15, 32	(1)	(4)	(33)
Total of items that will not be reclassified to profit or loss		(935)	(2,022)	(18,552)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	32	78	(219)	(2,008)
Total of items that may be reclassified subsequently to profit or loss		78	(219)	(2,008)
<b>Total other comprehensive (loss) income</b>		(857)	(2,241)	(20,559)
<b>Total comprehensive income for the year</b>		50,821	57,647	528,871
<b>Comprehensive income for the year attributable to:</b>				
Owners of the parent company		50,658	57,492	527,445
Non-controlling interests		163	155	1,426
<b>Total comprehensive income for the year</b>		¥ 50,821	¥ 57,647	\$ 528,871

# Consolidated Statement of Changes in Equity

Year Ended March 31, 2020

<i>Millions of Yen</i>								
Equity attributable to owners of the parent company								
Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity
<b>Balance at April 1, 2018</b>	¥17,358	¥17,175	¥ (38,148)	¥68,021	¥459,985	¥524,390	¥5,228	¥529,619
Changes in accounting policies					4,127	4,127		4,127
<b>Restated Balance</b>	17,358	17,175	(38,148)	68,021	464,112	528,517	5,228	533,746
Profit for the year					51,539	51,539	140	51,679
Other comprehensive income	32			(881)		(881)	24	(857)
Total comprehensive income for the year				(881)	51,539	50,658	163	50,821
Purchase of treasury shares	25		(3)			(3)		(3)
Cash dividends	26				(21,850)	(21,850)	(5)	(21,856)
Share-based payments	35	27				27		27
Transfer from other components of equity to retained earnings	25			(5,288)	5,288			
Total transactions with the owners		27	(3)	(5,288)	(16,562)	(21,826)	(5)	(21,831)
<b>Balance at March 31, 2019</b>	17,358	17,202	(38,151)	61,852	499,088	557,350	5,386	562,736
Profit for the year					59,704	59,704	184	59,888
Other comprehensive income	32			(2,212)		(2,212)	(29)	(2,241)
Total comprehensive income for the year				(2,212)	59,704	57,492	155	57,647
Purchase of treasury shares	25		(29,586)			(29,586)		(29,586)
Retirement of treasury shares	25		22,999		(22,999)			
Cash dividends	26				(22,798)	(22,798)	(3)	(22,801)
Share-based payments	35	27				27		27
Transfer from other components of equity to retained earnings	25			(11,610)	11,610			
Total transactions with the owners		27	(6,587)	(11,610)	(34,187)	(52,357)	(3)	(52,360)
<b>Balance at March 31, 2020</b>	¥ 17,358	¥ 17,229	¥ (44,737)	¥ 48,030	¥ 524,605	¥ 562,484	¥ 5,538	¥ 568,022

<i>Thousands of U.S. Dollars (Note 2 (5))</i>								
Equity attributable to owners of the parent company								
Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the parent company	Non-controlling interests	Total equity
<b>Balance at March 31, 2019</b>	\$ 159,250	\$ 157,814	\$(350,006)	\$ 567,450	\$ 4,578,793	\$ 5,113,301	\$ 49,412	\$ 5,162,712
Profit for the year					547,740	547,740	1,691	549,431
Other comprehensive income	32			(20,295)		(20,295)	(265)	(20,559)
Total comprehensive income for the year				(20,295)	547,740	527,445	1,426	528,871
Purchase of treasury shares	25		(271,431)			(271,431)		(271,431)
Retirement of treasury shares	25		211,001		(211,001)			
Cash dividends	26				(209,155)	(209,155)	(31)	(209,187)
Share-based payments	35	248				248		248
Transfer from other components of equity to retained earnings	25			(106,512)	106,512			
Total transactions with the owners		248	(60,430)	(106,512)	(313,645)	(480,339)	(31)	(480,370)
<b>Balance at March 31, 2020</b>	\$ 159,250	\$ 158,062	\$(410,435)	\$ 440,643	\$ 4,812,888	\$ 5,160,407	\$ 50,806	\$ 5,211,214

# Consolidated Statement of Cash Flows

Year Ended March 31, 2020

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
	<b>Notes</b>	<b>For the year ended March 31, 2019</b>	<b>For the year ended March 31, 2020</b>	<b>For the year ended March 31, 2020</b>
<b>Cash flows from operating activities</b>				
Profit before tax		¥ 65,141	¥ 79,696	\$ 731,154
Depreciation and amortization		10,621	14,214	130,407
Impairment losses		209	2,816	25,833
Interest and dividend income		(3,164)	(2,968)	(27,232)
Interest expense		27	76	700
(Increase) decrease in inventories		(1,567)	(173)	(1,588)
(Increase) decrease in trade and other receivables		1,251	(793)	(7,276)
Increase (decrease) in trade and other payables		998	1,992	18,276
Increase (decrease) in provisions		6,333	3,515	32,248
Increase (decrease) in retirement benefit liabilities		378	381	3,498
Other		1,854	865	7,934
Subtotal		82,081	99,621	913,954
Interest received		77	92	844
Dividends received		3,092	2,878	26,399
Interest paid		(27)	(76)	(700)
Income taxes paid		(18,449)	(28,357)	(260,160)
Net cash provided by (used in) operating activities	2	66,774	74,157	680,337
<b>Cash flows from investing activities</b>				
Purchases of property, plant, and equipment		(22,303)	(7,475)	(68,577)
Proceeds from sales of property, plant, and equipment		11	424	3,891
Purchases of intangible assets		(7,299)	(14,970)	(137,339)
Purchases of investments		(873)	-	-
Proceeds from sales and redemption of investments		27,123	31,439	288,430
Payments into time deposits		(55,800)	(45,800)	(420,183)
Proceeds from withdrawal of time deposits		10,800	25,800	236,697
Other		(1,423)	348	3,188
Net cash provided by (used in) investing activities		(49,763)	(10,234)	(93,892)
<b>Cash flows from financing activities</b>				
Dividends paid		(21,828)	(22,775)	(208,941)
Dividends paid to non-controlling interests		(5)	(3)	(31)
Repayments of long-term borrowings		(361)	-	-
Repayments of lease liabilities		-	(2,358)	(21,637)
Net increase (decrease) in short-term borrowings		(84)	-	-
Purchases of treasury shares		(1)	(29,584)	(271,414)
Net cash provided by (used in) financing activities	2	(22,279)	(54,721)	(502,024)
<b>Net increase (decrease) in cash and cash equivalents</b>		(5,268)	9,202	84,422
<b>Cash and cash equivalents at the beginning of the year</b>		65,273	59,981	550,288
<b>Effects of exchange rate changes on cash and cash equivalents</b>		(24)	(179)	(1,639)
<b>Cash and cash equivalents at the end of the year</b>	7	¥ 59,981	¥ 69,005	\$ 633,071

# Notes to Consolidated Financial Statements

## Year Ended March 31, 2020

### **1. Reporting Entity**

ONO PHARMACEUTICAL CO., LTD. (the “Company”) is a company incorporated in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company’s website

(URL [https://www.ono.co.jp/eng/about/business\\_locations.html](https://www.ono.co.jp/eng/about/business_locations.html)).

The consolidated financial statements of the Company were closed at its year-end of March 31, 2020, and comprise the Company and its subsidiaries (collectively, the “Group”) and equity interests in associates of the Group. The Group manufactures and sells medical and general pharmaceutical products. The business descriptions and principal activities of the Group are described in “6. Segment Information.”

### **2. Basis of Preparation**

#### **(1) Statements of Compliance with International Financial Reporting Standards**

Pursuant to the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the Company qualifies as a “Specified Company of the Designated International Financial Reporting Standards” prescribed in Article 1-2 of the Ordinance, and the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

#### **(2) Basis of Measurement**

Except for the financial instruments and others described in “3. Significant Accounting Policies,” the consolidated financial statements are prepared on a historical cost basis.

#### **(3) Functional Currency and Presentation Currency**

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

## Notes to Consolidated Financial Statements

### Year Ended March 31, 2020

#### (4) Changes in Accounting Policies

The Group has applied IFRS 16 “Leases” (issued in January 2016) from the fiscal year ended March 31, 2020.

On application of IFRS 16, right-of-use assets and lease liabilities were recognized on the date of initial application of IFRS 16 (April 1, 2019) for leases previously classified as operating leases under IAS 17 “Leases.”

In addition, operating lease payments that had been expensed as incurred under the previous accounting standard were recorded as depreciation for right-of-use assets and interest expense on lease liabilities in the consolidated statement of income for the fiscal year ended March 31, 2020, and reclassified from a reduction in cash flows from operating activities to a reduction in cash flows from financing activities in the consolidated statement of cash flows for the same period.

For leases as a lessee, the Group measures right-of-use assets at cost and lease liabilities at the present value of the lease payments that are not paid at the commencement date of the leases in accordance with IFRS 16.

Right-of-use assets are depreciated by using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease payments are allocated to finance costs and repayments of lease liabilities based on the effective interest method. The finance costs are recognized in the consolidated statement of income.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for leases of intangible assets, leases for which the underlying asset is of low value (“low-value leases”), and short-term leases within 12 months. Lease payments associated with low-value leases and short-term leases are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

In accordance with the transition under IFRS 16, the Group has retrospectively adopted IFRS 16 and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings for the fiscal year ended March 31, 2020. In transitioning to IFRS 16, the Group has elected the practical expedient provided in paragraph of IFRS 16. C3 and carried forward the assessment of whether contracts contain leases in accordance with IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease.”

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

The Group measures lease liabilities at the present value of the lease payments that are not paid at the date of initial application by discounting them at the lessee's incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 0.9%. The Group initially measures the right-of-use assets at the initial measurement amount of the lease liabilities adjusted by the amount of any prepaid or accrued lease payments.

For leases that were classified as finance leases applying IAS 17, the right-of-use assets and the lease liabilities are measured at the carrying amount of the leased assets and lease liabilities at the end of the previous fiscal year.

As a result, as of the beginning of the fiscal year ended March 31, 2020, property, plant, and equipment and lease liabilities each increased by ¥6,245 million (\$57,294 thousand), compared with the amounts under the previous accounting standard. There is no impact on the opening balance of retained earnings at the date of initial application, because the Group measures right-of-use assets at the date of initial application at the amount of lease liabilities measured after adjusting the amount of any prepaid and accrued lease payments.

The following is the reconciliation of operating lease contracts disclosed applying IAS 17 as of March 31, 2019 and lease liabilities recognised in the consolidated statement of financial position at the date of initial application.

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Operating lease contracts disclosed as of March 31, 2019	¥ 499	\$ 4,579
Operating lease contracts discounted using the incremental borrowing rate as of April 1, 2019	499	4,579
Finance lease contracts disclosed as of March 31, 2019	2,200	20,182
Cancelable operating lease contracts	5,757	52,819
Other	(11)	(104)
Total lease liabilities as of April 1, 2019	<u>¥ 8,445</u>	<u>\$ 77,476</u>

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

When applying IFRS 16, the Group used the following practical expedients provided in paragraph IFRS 16. C10:

- A single discount rate is applied to a portfolio of leases with reasonably similar characteristics.
- Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same manner as short-term leases.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- Hindsight is used, such as in determining the lease term, if the contract contains options to extend or terminate the lease.

(5) U.S. Dollar Amounts

The accompanying consolidated financial statements are stated in Japanese yen. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan using the rate of ¥109 to \$1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate. Amounts of less than one thousand U.S. dollars have been rounded to the nearest one thousand U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in U.S. dollars do not necessarily agree with the sum of the individual amounts.



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**3. Significant Accounting Policies**

The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise stated.

**(1) Basis of Consolidation**

**① Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

Even if the Group does not have a majority of voting rights, it concludes that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Consolidation of a subsidiary begins on the date the Group obtains control over the subsidiary and continues through the date the Group loses control of the subsidiary. Changes in ownership interest in a subsidiary without a loss of control are accounted for as equity transactions, and a difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the parent company.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intercompany receivables, payables, and transactions of the Group and unrealized profit and loss from intercompany transactions are eliminated in preparing the consolidated financial statements.

The closing date of all subsidiaries is the same as that of the Company.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

② Associates

An associate refers to an entity over which the Group does not have control but has significant influence over the financial and operating policies of the entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have control over those policies.

Investments in associates are initially recognized at cost and accounted for by the equity method of accounting in the consolidated statement of financial position from the date when the Group obtains significant influence until the date the Group loses significant influence. In cases where the accounting policies applied by an associate are different from those applied by the Group, adjustments are made to the associate's financial statements, if necessary.

The closing date of all associates is the same as that of the Company.

③ Business Combinations

Business combinations are accounted for by applying the acquisition method.

The Group measures the consideration for an acquisition as the sum of the consideration transferred in a business combination, the amount of any non-controlling interest and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquisition. The consideration transferred is measured at fair value at the acquisition date. The non-controlling interest is measured at fair value or based on the appropriate share of the acquiree's identifiable net assets.

The Group recognizes goodwill as any excess of the consideration for acquisition over the net amount of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the net amount of the identifiable assets and liabilities of the acquiree exceeds the consideration for acquisition, the acquirer recognizes the excess amount as profit or loss on the acquisition date.

Acquisition-related costs are recognized in profit or loss as incurred.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(2) Foreign Currencies

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency. Each entity of the Group applies its own functional currency and measures its transactions using its functional currency.

Foreign currency transactions are translated into the functional currency using spot exchange rates or approximate rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using spot exchange rates as of the closing date. Exchange differences arising from such translations and settlements are recognized in profit or loss. However, exchange differences arising from financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations are translated into the presentation currency using spot exchange rates as of the closing date, while income and expenses are translated into the presentation currency at the average exchange rate for the period. The resulting exchange differences are recognized in other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

(3) Financial Instruments

① Financial Assets

(i) Initial Recognition and Measurement

Trade receivables, etc., are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments. Financial assets are classified as either financial assets measured at fair value or financial assets measured at amortized cost.

## Notes to Consolidated Financial Statements

### Year Ended March 31, 2020

All regular-way purchases or sales of financial assets are recognized or derecognized on a settlement date basis. Regular-way purchases or sales refer to purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace. At initial recognition, all financial assets, except for those measured at fair value through profit or loss (FVPL), are measured at fair value plus transaction costs that are directly attributable to the financial assets. Transaction costs of financial assets measured through profit or loss are recognized in profit or loss.

#### (ii) Classification and Subsequent Measurement

##### (a) Financial Assets Measured at Amortized Cost

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

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

After initial recognition, the carrying amounts of the financial assets measured at amortized cost are calculated using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

##### (b) Debt instruments measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified as debt instruments measured at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

- 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.

(c) Equity instruments measured at FVOCI

After initial recognition, equity instruments designated to be measured at FVOCI are measured at fair value, and any changes in fair value are included in net gain (loss) on financial assets measured at FVOCI in other components of equity.

When such financial assets are derecognized, the accumulated other comprehensive income is immediately transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized as profit when the shareholder's right to receive payment is established.

(d) Financial assets measured at FVPL

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at FVOCI, and equity instruments measured at FVOCI stated above, are classified as financial assets measured at FVPL.

After initial recognition, financial assets measured at FVPL are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition of Financial Assets

The Group derecognizes a financial asset when the contractual right to receive cash flows from the asset expires or is transferred, or when it transfers substantially all the risks and rewards of ownership of the asset.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(iv) Impairment of Financial Assets

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since initial recognition. With respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets. If credit risk on a financial instrument has not increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses. Whether credit risk is significantly increased or not is determined based on the changes in default risk. The assessment of whether or not there is a change in default risk takes into account information that is reasonably available to the Group and supportable as well as past due information. When the credit risk on a financial asset is considered low at the end of the fiscal year, the Group determines that the credit risk on the financial asset has not increased significantly since initial recognition. Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. However, with regard to trade receivables, etc., the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition. The amount of expected credit losses or reversal is recognized in profit or loss.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

② Financial Liabilities

(i) Initial Recognition and Subsequent Measurement

The Group holds financial liabilities that are measured at amortized cost. Financial liabilities measured at amortized cost are initially measured at fair value minus directly attributable transaction costs. After initial recognition, the carrying amounts of financial liabilities measured at amortized cost are calculated using the effective interest method. Gains or losses arising from amortization using the effective interest method and derecognition are recognized as profit or loss in the consolidated statement of income.

(ii) Derecognition of Financial Liabilities

Financial liabilities are derecognized when the Group's contractual obligations are discharged, canceled, or expired.

③ Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amounts are presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

④ Derivatives

The Group enters into forward foreign exchange contracts as derivatives to address the risk of foreign exchange rate fluctuations. Forward foreign exchange contracts are initially measured at fair value when the contract is entered into and are subsequently remeasured at their fair value. Changes in fair value of foreign exchange contracts are recognized as profit or loss in the consolidated statement of income. However, gains and losses on hedging instruments relating to the effective portion of cash flow hedges are recognized as other comprehensive income in the consolidated statement of comprehensive income.



## Notes to Consolidated Financial Statements

### Year Ended March 31, 2020

#### ⑤ Hedge Accounting

The Group designates forward foreign exchange contracts that are derivatives in respect of addressing the risk of foreign exchange rate fluctuation as hedging instruments for cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between hedging instruments and hedged items in accordance with the strategy for undertaking hedge transactions. In addition, at the inception of the hedge and during the life of the hedge, the Group documents whether the hedging instruments are highly effective in offsetting changes in cash flows of the underlying hedged items attributable to the hedged risk.

Cash flow hedge accounting is as follows:

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in other components of equity. The ineffective portion of gains or losses on the hedging instruments is recognized immediately in profit or loss.

Amounts recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss in the same line as the recognized hedged item. However, in cases where the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity remains in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

⑥ Fair Value of Financial Instruments

The fair values of financial instruments traded on active financial markets as of each reporting date are based on quoted prices in the markets or dealer prices. The fair values of financial instruments for which no active markets exist are calculated by using appropriate valuation techniques.

(4) Cash and Cash Equivalents

Cash and cash equivalents are composed of cash on hand, bank deposits drawable at any time, and short-term investments with maturities of three months or less from the acquisition date, which are readily convertible to cash and are subject to insignificant risk of changes in value.

(5) The Standard for Measurement and the Value of Inventories

Inventory costs include raw materials, direct labor, and other direct costs, as well as relevant overhead expenses.

Inventories are measured at the lower of cost or net realizable value. Cost is mainly determined using the weighted-average method. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

(6) Property, Plant, and Equipment (Except for Right-of-Use Assets)

The Group applies the cost model for subsequent measurement of property, plant, and equipment and records them at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant, and equipment comprises costs directly attributable to the acquisition of the assets and initial estimations of asset retirement obligations. Depreciation of an item of property, plant, and equipment commences when the assets are available for use.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Property, plant, and equipment are depreciated by the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

Buildings and structures:	15—50 years
Machinery and vehicles:	4—15 years
Tools, furniture, and fixtures:	2—20 years

The estimated useful lives and depreciation method, etc., are reviewed at the end of each fiscal year, and any changes are treated as changes in accounting estimates and applied prospectively.

(7) Impairment of Property, Plant, and Equipment

During each fiscal year, the Group determines whether there is any indication of impairment on each asset. If any indication of impairment exists, the recoverable amount of an asset or a cash-generating unit to which the asset belongs is estimated.

The recoverable amount is computed at the higher of the fair value less costs to sell or value in use of the asset or cash-generating unit. If the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and impairment loss is recognized.

The value in use is computed by discounting the estimated future cash flows to their present value using a pretax discount rate that reflects the time value of money and the risks inherent to the asset, etc. For the calculation of an asset's fair value less costs to sell, an appropriate valuation model is used based on available fair value indices.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

An impairment loss recognized in prior years is assessed as to whether there is any indication that the impairment loss for an asset or a cash-generating unit may have decreased or may no longer exist. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases where the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount, net of accumulated depreciation that would have been determined if no impairment losses had been recognized in prior years.

(8) Intangible Assets

① Intangible Assets Acquired Separately

The Group applies the cost model for measurement of intangible assets and states them at cost less any accumulated amortization and accumulated impairment losses. However, intangible assets with indefinite useful lives acquired separately are stated at cost less any accumulated impairment losses.

Amortization for intangible assets commences when the related assets are available for use. Except for intangible assets with indefinite useful lives or which are not yet available for use, each intangible asset is amortized by the straight-line method over its estimated useful life. The estimated useful lives of major intangible asset items are as follows:

Sales licenses:	8—17 years
Software:	3—8 years

The estimated useful lives used in calculating the amortization of sales licenses are determined by considering the effective period of the patents and others.

The estimated useful lives and amortization method are reviewed at the end of each fiscal year, and any changes are treated as changes in accounting estimates and applied prospectively.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

② Internally Generated Intangible Assets (Research and Development Costs Internally Generated)

Costs arising from development (or from the development phase of an internal project) shall be recognized as an asset if, and only if, all of the following have been demonstrated:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale
- (ii) the intention to complete the intangible asset and use or sell it
- (iii) the ability to use or sell the intangible asset
- (iv) how the intangible asset will generate probable future economic benefits
- (v) the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset
- (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development

Due to the risks and uncertainties relating to the approval and development activity of pharmaceutical drugs, the Group determines that the recognition criteria for capitalization as intangible assets are considered not to have been met unless it obtains marketing approval from the relevant regulatory authorities.

Internally generated development expenses arising before marketing approval has been obtained are expensed under “Research and development costs” as incurred.

③ Impairment of Intangible Assets

Intangible assets with indefinite useful lives or intangible assets not yet available for use are not subject to amortization and are tested for impairment individually or on a cash-generating unit basis at the end of each fiscal year or whenever any indication of impairment exists.

## Notes to Consolidated Financial Statements

### Year Ended March 31, 2020

Impairment tests are performed by calculating the recoverable amount of each intangible asset and comparing the recoverable amount with its carrying amount. In cases where a recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair value less costs to sell or its value in use. The value in use is computed by discounting the estimated future cash flows to the present value.

The discount rate used is a pretax rate that reflects the time value of money and the risks inherent to the asset using unadjusted estimates of future cash flows.

#### (9) Leases

For the fiscal year ended March 31, 2019

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

In finance lease transactions, leased assets and lease obligations are carried at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Leased assets and lease obligations are presented as property, plant, and equipment and borrowings, respectively, in the consolidated statement of financial position. Leased assets are depreciated using the straight-line method over the shorter of their estimated useful lives or the lease terms. Lease payments are apportioned between the finance costs and the repayments of the lease obligations based on the interest method, and finance costs are recognized as an expense in the consolidated statement of income.

In operating lease transactions, lease payments are recognized as an expense by the straight-line method over the lease terms in the consolidated statement of income. Variable lease payments are recognized as an expense in the period when incurred.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Determining whether an arrangement is, or contains, a lease is identified based on the substance of the arrangement in accordance with IFRIC 4, *“Determining Whether an Arrangement Contains a Lease.”*

For the fiscal year ended March 31, 2020

For leases as a lessee, the Group measures right-of-use assets at cost and lease liabilities at the present value of the lease payments that are not paid at the commencement date of the lease in accordance with IFRS 16.

Right-of-use assets are depreciated by using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease payments are allocated to finance costs and repayments of lease liabilities based on the effective interest method. The finance costs are recognized in the consolidated statement of income.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for leases of intangible assets, leases for which the underlying asset is of low value (“low-value leases”), and short-term leases within 12 months. Lease payments associated with low-value leases and short-term leases are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(10) Employee Benefits

The Group participates in both defined benefit and defined contribution plans as employee retirement benefit plans.

① Defined Benefit Plans

For the Group's defined benefit plans, the cost of providing retirement benefits is measured by the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements, comprising actuarial gains and losses, the effect of any changes in the asset ceiling, and the return on plan assets (excluding net interest), are recognized through other comprehensive income in the period in which they are incurred and immediately reflected in the consolidated statement of financial position. Remeasurements recognized in other comprehensive income are immediately reclassified to retained earnings and will not be reclassified to profit or loss. Past service costs are recognized in profit or loss in the period in which revisions to the plans occurred. Net interest is calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset and presented as "finance income" or "finance costs." Defined benefit expenses are classified into the following components:

- Service costs (current service costs, past service costs, and others)
- Net interest expense or income
- Remeasurements

The retirement benefit assets or liabilities recognized in the consolidated statement of financial position represent the actual surplus or deficit in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of available future economic benefits in the form of refunds from the plan or reductions in future contributions to the plan.

② Defined Contribution Plans

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

## Notes to Consolidated Financial Statements

### Year Ended March 31, 2020

#### (11) Provisions

The Group recognizes provisions when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and a reliable estimate can be made.

Where the time value of money is material, a provision is measured at the present value of estimated expenditures required to settle the obligation. The present value is computed using a pretax discount rate that reflects the time value of money and the risks inherent to the liabilities.

#### (12) Revenue

Revenue, excluding interest and dividend income, etc., is recognized by applying the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

## Notes to Consolidated Financial Statements

### Year Ended March 31, 2020

#### ① Sale of Merchandise

For the sale of merchandise, revenue is recognized at the point when it is delivered, since material risks and economic value associated with ownership of the merchandise are transferred to customers at the time of its delivery, and customers acquire control over it, and thereby the Group's performance obligations are considered to be satisfied.

The revenue arising from sale of merchandise is calculated by deducting the amount of rebates and discounts based on the number and amount of sales from the consideration in the sales contract, and the consideration to be refunded to customers and the amounts to be collected on behalf of third parties are recognized as a refund liability. The most likely amount method based on contractual conditions and past results is used to estimate rebates, etc. Revenue is recognized only to the extent that it is highly probable that there will not be a significant reversal of revenue previously recognized.

Consideration related to sale of merchandise is mainly received within one year from the delivery of merchandise to customers. This does not include significant financing components.

#### ② Royalty Revenue, etc.

Royalty revenue is consideration for license contracts, etc., calculated on the basis of revenue, etc., of the other party in the contract, and it is recognized as revenue taking the time of occurrence into consideration.

License revenue is up-front payment and milestone revenue received under license contracts, etc., related to development or rights to develop or sell products, etc., executed between the Group and third parties. For license contracts, etc., when performance obligations are satisfied at a specific point in time, performance obligations under the contract are considered to be satisfied at the time of granting development or selling rights, etc., for up-front payment and milestone revenue, and at this point, the up-front payment and milestone revenue are recognized as revenue. When performance obligations are satisfied over a certain period of time, the consideration is recognized as contract liabilities, and up-front payment and milestone revenue are recognized as revenue over a certain period of time, such as the estimated development period according to the method of measuring the degree of progress regarding satisfaction of the performance obligations determined for each individual contract.

Milestone revenue is recognized as revenue, considering the probability that there will be a significant reversal of revenue previously recognized, from the time that milestones specified in the contract are achieved.

Royalty revenue, etc., are mainly received within one year from the vesting under the contract. This does not include significant financing components.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(13) Income Taxes

Income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is measured at the expected amount of a refund or payment of taxes from/to the taxation authorities. The Group's income taxes are calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current tax expense is recognized as an expense, except for the taxes attributable to items recognized directly either in other comprehensive income or equity.

Deferred tax expense is calculated based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax basis as of the closing date. Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and the carryforward of unused tax credits and tax losses can be utilized. Deferred tax liabilities are principally recognized for all taxable temporary differences.

Deferred tax assets or deferred tax liabilities are not recognized for the following temporary differences:

- Deductible temporary differences associated with investments in subsidiaries and associates where it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that taxable profits will be available against which the temporary differences can be used.
- Taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- There are temporary differences arising from the initial recognition of assets and liabilities which occur through transactions that affect neither accounting profit nor taxable profit for tax purposes, except for business combinations.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Deferred tax assets and deferred tax liabilities are calculated using tax rates that are estimated for the year in which these assets are realized or these liabilities are settled, based on tax rates that have been enacted or substantively enacted by the closing date.

(14) Treasury Shares

Treasury shares are recognized at cost and deducted from equity. Neither gain nor loss is recognized on the purchase, sale, or retirement of the treasury shares. Any difference between the carrying amount and proceeds on sales is treated as capital reserve.

(15) Earnings per Share

Basic earnings per share are calculated by dividing profit and loss for the year attributable to owners of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares for the period. Diluted earnings per share are calculated by adjusting the effects of all dilutive potential ordinary shares.

(16) Share-based Payments

The Company has a share option plan as an incentive plan for the Board of Directors (excluding outside directors). Share options are recognized as expenses over the vesting period and the corresponding amount is recognized as an increase in equity. In addition, the fair value of share options is calculated using the Black-Scholes model at the grant date.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**4. Significant Accounting Estimates and Critical Judgment Involving Estimations**

The Group's consolidated financial statements include management estimates and assumptions for measurements of income and expense, and assets and liabilities. These estimates and assumptions are based on management's best judgment along with historical experience and other various factors that are believed to be reasonable under the circumstances as of the closing date. However, there is a possibility that these estimates and assumptions may differ from actual results in the future due to their nature.

The estimates and underlying assumptions are continually reevaluated by management. The effects of revisions to the accounting estimates and assumptions are recognized in the period of the revision and future periods.

The information related to the judgments and estimates made in the process of applying accounting policies and accounting estimates and assumptions that have a significant effect on the amounts recognized in the Group's consolidated financial statements is as follows:

- Impairment of property, plant, and equipment and intangible assets (Note 13, 14)
- Recoverability of deferred tax assets (Note 3(13), 16)
- Measurement of defined benefit obligations (Note 23)
- Provision for patent royalties (Note 24)
- Potential outflow of future economic benefits of contingent liabilities (Note 39)

**5. Standards and Interpretations Issued but Not Yet Applied**

The Group has not elected early application of new or revised standards and interpretations that have been issued before the approval date disclosed in "40. Approval of Financial Statements" on March 31, 2020. The effects of the application are not disclosed for matters of little significance.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

## 6. Segment Information

### (1) Reportable Segments

Based on the Group's corporate philosophy, "Dedicated to Man's Fight against Disease and Pain," in order to fulfill medical needs that have not yet been met, the Group is dedicated to developing innovative new pharmaceutical drugs for patients and focuses its operating resources on a single segment of the pharmaceutical business (research and development, purchasing, manufacturing, and sales). Accordingly, segment information is omitted herein.

### (2) Details of Revenue

Details of revenue are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Revenue of goods and products	¥ 208,947	¥ 205,614	\$ 1,886,369
Royalty and others	79,687	86,805	796,380
Total	¥ 288,634	¥ 292,420	\$ 2,682,749

### (3) Revenue by Geographic Area

Details of revenue by geographic area are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Revenue of goods and products			
Japan	¥ 207,371	¥ 202,866	\$ 1,861,157
Americas	72,298	81,545	748,116
Asia	7,354	7,481	68,630
Europe	1,610	528	4,846
Total	¥ 288,634	¥ 292,420	\$ 2,682,749

Note: Revenue by geographic area is presented on the basis of the place of customers.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(4) Major Customers

Details of revenue from major customers are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Bristol-Myers Squibb Company and the group	¥ 63,442	¥ 66,826	\$ 613,079
MEDIPAL HOLDINGS CORPORATION and the group	45,744	46,295	424,725
SUZUKEN CO., LTD. and the group	45,832	45,828	420,439
Alfresa Holdings Corporation and the group	32,213	31,894	292,601
TOHO HOLDINGS CO., LTD. and the group	31,242	30,637	281,077

**7. Cash and Cash Equivalents**

Details of cash and cash equivalents are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
(Cash and cash equivalents)			
Cash and deposits	¥ 59,981	¥ 69,005	\$ 633,071
Cash and cash equivalents in the consolidated statement of financial position	¥ 59,981	¥ 69,005	\$ 633,071
Cash and cash equivalents in the consolidated statement of cash flows	¥ 59,981	¥ 69,005	\$ 633,071



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

## 8. Trade and Other Receivables

Details of trade and other receivables are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Notes receivable	¥ 2,885	¥ 1,832	\$ 16,811
Trade accounts receivable	67,868	68,962	632,682
Other accounts receivable	5,539	6,045	55,460
Allowance for doubtful accounts	(6)	(5)	(50)
Net	¥ 76,285	¥ 76,834	\$ 704,903

Note: Credit risk management is described in “34. Financial Instruments.”

## 9. Marketable Securities and Investment Securities

### (1) Details

Details of marketable securities and investment securities are as follows:

			<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
			March 31, 2019	March 31, 2020	March 31, 2020
Marketable securities	Classification				
	Financial assets measured at amortized cost	Bonds	¥ 687	¥ 614	\$ 5,632
	Total		¥ 687	¥ 614	\$ 5,632
Investment securities	Financial assets measured at FVOCI	Stock	¥ 166,464	¥ 133,322	\$ 1,223,139
	Financial assets measured at FVPL	Other	464	454	4,169
	Financial assets measured at amortized cost	Bonds	4,547	3,893	35,719
	Total		¥ 171,476	¥ 137,670	\$ 1,263,028

Note: Stocks are designated as financial assets measured at FVOCI because they are held mainly to strengthen business relationships and for the purpose of improving long-term corporate value.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(2) Major Holdings of Issues and Fair Value

Major holdings of issues and the fair value of the financial assets measured at FVOCI include the following:

For the fiscal year ended March 31, 2019

Description	<i>Millions of Yen</i>
DAIKIN INDUSTRIES, LTD.	¥ 15,759
SANTEN PHARMACEUTICAL CO., LTD.	15,346
DAIICHI SANKYO COMPANY, LIMITED	14,693
Nissan Chemical Corporation	10,054
NISSIN FOODS HOLDINGS CO., LTD.	9,348
T&D Holdings, Inc.	6,641
YAKULT HONSHA CO., LTD.	6,249
Sumitomo Dainippon Pharma Co., Ltd.	5,879
Astellas Pharma Inc.	5,492
MEIJI Holdings Co., Ltd.	5,443
Nippon Shinyaku Co., Ltd.	4,997
Kurita Water Industries Ltd.	4,100
KIKKOMAN CORPORATION	3,893
Alfresa Holdings Corporation	2,988
SHIMADZU CORPORATION	2,941
SUZUKEN CO., LTD.	2,769
MIURA CO., LTD.	2,670
KISSEI PHARMACEUTICAL CO., LTD.	2,453
KOKUYO CO., LTD.	2,414
HISAMITSU PHARMACEUTICAL CO., INC.	2,282
OBAYASHI CORPORATION	2,166
KYORIN Holdings, Inc.	2,085
Otsuka Holdings Co., Ltd.	2,040
FUJIFILM Holdings Corporation	2,007
MEDIPAL HOLDINGS CORPORATION	1,908
MAEDA CORPORATION	1,743
FUJIMOTO CHEMICALS CO., LTD.	1,718
OKAMURA CORPORATION	1,479
Osaka Gas Co., Ltd.	1,261
Mitsubishi Logistics Corporation	1,253

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

For the fiscal year ended March 31, 2020

Description	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
SANTEN PHARMACEUTICAL CO., LTD.	¥ 17,292	\$ 158,638
DAIKIN INDUSTRIES, LTD.	16,002	146,803
NISSIN FOODS HOLDINGS CO., LTD.	11,070	101,560
Nissan Chemical Corporation	7,813	71,679
Astellas Pharma Inc.	5,533	50,765
Nippon Shinyaku Co., Ltd.	5,258	48,235
YAKULT HONSHA CO., LTD.	5,159	47,333
MEIJI Holdings Co., Ltd.	4,649	42,656
MIURA CO., LTD.	4,035	37,019
KIKKOMAN CORPORATION	3,302	30,292
Sumitomo Dainippon Pharma Co., Ltd.	3,014	27,649
T&D Holdings, Inc.	2,993	27,461
Kurita Water Industries Ltd.	2,717	24,927
SHIMADZU CORPORATION	2,615	23,987
KISSEI PHARMACEUTICAL CO., LTD.	2,354	21,592
HISAMITSU PHARMACEUTICAL CO., INC.	2,259	20,729
KOKUYO CO., LTD.	2,247	20,617
FUJIFILM Holdings Corporation	2,168	19,890
KYORIN Holdings, Inc.	2,121	19,459
Otsuka Holdings Co., Ltd.	1,985	18,209
Alfresa Holdings Corporation	1,911	17,528
SUZUKEN CO., LTD.	1,700	15,598
FUJIMOTO CHEMICALS CO., LTD.	1,636	15,011
MEDIPAL HOLDINGS CORPORATION	1,464	13,429
CKD Corporation	1,369	12,560
MAEDA CORPORATION	1,265	11,604
Osaka Gas Co., Ltd.	1,176	10,789
OKAMURA CORPORATION	1,104	10,126
TOPPAN PRINTING CO., LTD.	1,086	9,959
NIPPON DENSETSU KOGYO CO., LTD.	1,054	9,665

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(3) Dividends Received

Dividends received from the financial assets measured at FVOCI are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Stock held at year-end	¥ 2,691	¥ 2,382	\$ 21,849
Stock disposed of during the year	382	494	4,536
Total	¥ 3,073	¥ 2,876	\$ 26,385

(4) Financial Assets Measured at FVOCI Disposed of During the Year

Fair value at the date of sale of financial assets measured at FVOCI that were disposed of during the year and cumulative (pretax) gains or losses are as follows:

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	For the year ended March 31, 2019		For the year ended March 31, 2020		For the year ended March 31, 2020	
	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses
Stock	¥17,444	¥8,799	¥30,741	¥16,871	\$282,028	\$154,784

Notes: 1. The Group sold the investments as a result of a reconsideration of its business relationships.

2. The Group transferred cumulative gains or losses (net of tax) from other components of equity to retained earnings of ¥6,178 million and ¥11,719 million (\$107,513 thousand) for the years ended March 31, 2019 and 2020, respectively.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

## 10. Other Financial Assets

Details of other financial assets are as follows:

Classification		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
		March 31, 2019	March 31, 2020	March 31, 2020
(Current assets)				
Time deposits	Financial assets measured at amortized cost	¥ 10,800	¥ 30,800	\$ 282,569
	Total	¥ 10,800	¥ 30,800	\$ 282,569
(Non-current assets)				
Long-term time deposits	Financial assets measured at amortized cost	¥ 85,000	¥ 85,000	\$ 779,817
Insurance reserve fund	Financial assets measured at FVPL	6,672	6,694	61,408
	Total	¥ 91,672	¥ 91,694	\$ 841,225

## 11. Other Assets

Details of other current assets and other non-current assets are as follows:

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
		March 31, 2019	March 31, 2020	March 31, 2020
(Other current assets)				
Prepaid expenses		¥ 7,871	¥ 8,094	\$ 74,257
Consumption taxes receivable		0	-	-
Advance payments		1,914	2,735	25,094
Other		4,257	4,234	38,845
	Total	¥ 14,042	¥ 15,063	\$ 138,195
(Other non-current assets)				
Lease deposits		¥ 872	¥ 844	\$ 7,740
Long-term prepaid expenses		1,134	563	5,164
Other		2,165	1,465	13,437
	Total	¥ 4,171	¥ 2,871	\$ 26,340

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**12. Inventories**

Details of inventories are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Merchandise and finished goods	¥ 19,320	¥ 17,248	\$ 158,239
Work in process	4,433	4,536	41,611
Raw materials and supplies	9,069	11,122	102,038
Total	¥ 32,821	¥ 32,906	\$ 301,888

Note: Inventories recognized as an expense for the years ended March 31, 2019 and 2020, amounted to ¥43,579 million and ¥44,721 million (\$410,280 thousand), respectively. In addition, the write-downs of inventories recognized as an expense for the years ended March 31, 2019 and 2020, were ¥131 million and ¥681 million (\$6,249 thousand), respectively.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

### 13. Property, Plant, and Equipment

#### (1) Schedule of Movements

The movements in the cost, accumulated depreciation and accumulated impairment losses, and carrying amount of property, plant, and equipment are as follows:

#### Cost

	<i>Millions of Yen</i>					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 2018	¥ 25,003	¥ 93,511	¥ 23,241	¥ 28,266	¥ 6,838	¥ 176,859
Acquisition	3,984	1,919	1,039	1,522	13,928	22,393
Transfer	—	12,879	379	268	(13,525)	—
Sale or disposal	—	(1,395)	(1,087)	(1,805)	(24)	(4,311)
Exchange differences on translation of foreign operations	—	(5)	—	(3)	(0)	(7)
Other	—	—	—	—	(1,115)	(1,115)
Balance at March 31, 2019	¥ 28,987	¥106,908	¥ 23,572	¥ 28,249	¥ 6,101	¥ 193,818
Changes in accounting policies	1,869	4,376	—	—	—	6,245
Balance at April 1, 2019	¥ 30,856	¥111,284	¥ 23,572	¥ 28,249	¥ 6,101	¥ 200,063
Acquisition	754	1,766	1,191	1,370	4,738	9,819
Transfer	—	1,433	4,499	621	(6,554)	—
Sale or disposal	(599)	(1,841)	(1,418)	(2,114)	(1)	(5,973)
Exchange differences on translation of foreign operations	—	(53)	—	(12)	(0)	(66)
Other	—	—	—	—	(450)	(450)
Balance at March 31, 2020	¥ 31,010	¥112,589	¥ 27,845	¥ 28,113	¥ 3,835	¥ 203,393

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

<i>Thousands of U.S. Dollars</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2019	\$ 265,936	\$ 980,810	\$ 216,259	\$ 259,168	\$ 55,976	\$ 1,778,149
Changes in accounting policies	17,150	40,145	-	-	-	57,294
Balance at April 1, 2019	\$ 283,085	\$ 1,020,955	\$ 216,259	\$ 259,168	\$ 55,976	\$1,835,444
Acquisition	6,913	16,202	10,924	12,568	43,472	90,080
Transfer	-	13,151	41,280	5,696	(60,127)	-
Sale or disposal	(5,499)	(16,890)	(13,006)	(19,398)	(5)	(54,799)
Exchange differences on translation of foreign operations	-	(489)	-	(113)	(2)	(604)
Other	-	-	-	-	(4,127)	(4,127)
Balance at March 31, 2020	<u>\$ 284,499</u>	<u>\$1,032,929</u>	<u>\$ 255,457</u>	<u>\$ 257,920</u>	<u>\$ 35,188</u>	<u>\$ 1,865,993</u>



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Accumulated depreciation and accumulated impairment losses

<i>Millions of Yen</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at						
April 1, 2018	¥ (1)	¥ (48,203)	¥ (15,601)	¥ (18,734)	¥ –	¥ (82,538)
Depreciation	(8)	(3,497)	(1,139)	(1,942)	–	(6,587)
Impairment losses	–	(56)	(12)	(2)	(24)	(94)
Sale or disposal	–	1,393	1,059	1,790	24	4,267
Exchange differences on translation of foreign operations	–	2	–	2	–	4
Balance at						
March 31, 2019	¥ (9)	¥ (50,361)	¥ (15,693)	¥ (18,885)	¥ –	¥ (84,948)
Depreciation	(279)	(5,477)	(1,142)	(2,021)	–	(8,920)
Impairment losses	–	(4)	(4)	–	(1)	(9)
Sale or disposal	20	1,567	1,401	2,101	1	5,089
Exchange differences on translation of foreign operations	–	12	–	11	–	22
Balance at						
March 31, 2020	¥ (268)	¥ (54,264)	¥ (15,439)	¥ (18,795)	¥ –	¥ (88,766)

<i>Thousands of U.S. Dollars</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at						
March 31, 2019	\$ (83)	\$ (462,025)	\$ (143,972)	\$ (173,258)	\$ –	\$ (779,339)
Depreciation	(2,560)	(50,252)	(10,477)	(18,543)	–	(81,832)
Impairment losses	–	(39)	(40)	–	(5)	(85)
Sale or disposal	187	14,373	12,849	19,275	5	46,688
Exchange differences on translation of foreign operations	–	108	–	97	–	204
Balance at						
March 31, 2020	\$(2,457)	\$ (497,836)	\$ (141,641)	\$ (172,430)	\$ –	\$ (814,363)

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Carrying amount

<i>Millions of Yen</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	¥	¥	¥	¥	¥	¥
Balance at April 1, 2018	25,003	45,308	7,640	9,533	6,838	94,321
Balance at March 31, 2019	28,978	56,548	7,879	9,364	6,101	108,870
Balance at March 31, 2020	30,743	58,325	12,406	9,318	3,835	114,628

  

<i>Thousands of U.S. Dollars</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2020	\$ 282,042	\$ 535,093	\$113,817	\$ 85,491	\$ 35,188	\$1,051,631

Notes: 1. Depreciation of property, plant, and equipment is included in “Cost of sales” “Selling, general, and administrative expenses” and “Research and development costs” in the consolidated statement of income.

2. The amounts of right-of-use assets are included and described in each item of property, plant, and equipment. The carrying amount of each right-of-use asset is described in “21. Lease Transactions.”

3. Commitments related to property, plant, and equipment purchases are described in “38. Commitments for Expenditure.”

4. The Group has applied IFRS 16 “Leases” from the fiscal year ended March 31, 2020 as it is described in “2. Basis of Preparation (4) Changes in Accounting Policies.” In accordance with the transition under IFRS 16, the Group has retrospectively adopted IFRS 16 and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings for the fiscal year ended March 31, 2020. The balance as of the end of the fiscal year ended March 31, 2019 is not restated for the adjustment.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(2) Impairment Losses

Property, plant, and equipment are grouped into the smallest cash-generating unit(s) generating largely independent cash inflows.

The Group recognized impairment losses for property, plant, and equipment of ¥94 million and ¥9 million (\$85 thousand) for the years ended March 31, 2019 and 2020, respectively, which are included in “Other expenses” in the consolidated statement of income.

Impairment losses recognized for the years ended March 31, 2019 and 2020, represent reductions in the carrying amounts of assets to be disposed of and idle assets not expected to be used in the future to their recoverable amounts. The recoverable amounts were measured at fair value less costs to sell. The recoverable amounts of assets to be disposed of were considered to be zero.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**14. Intangible Assets**

(1) Schedule of Movements

The movements in the cost, accumulated amortization, and accumulated impairment losses and carrying amount of intangible assets are as follows:

Cost

	<i>Millions of Yen</i>			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2018	¥ 55,683	¥11,945	¥ 2,333	¥ 69,962
Acquisition	9,496	1,009	1,227	11,732
Transfer	—	2,138	(2,138)	—
Disposal	—	(1,021)	(3)	(1,024)
Exchange differences on translation of foreign operations	—	(0)	—	(0)
Other	—	—	(288)	(288)
Balance at March 31, 2019	¥ 65,179	¥14,070	¥ 1,132	¥ 80,381
Acquisition	9,296	867	1,409	11,572
Transfer	—	1,073	(1,073)	—
Disposal	—	(972)	(9)	(981)
Exchange differences on translation of foreign operations	—	(2)	—	(2)
Other	—	—	(156)	(156)
Balance at March 31, 2020	¥ 74,475	¥15,037	¥ 1,302	¥ 90,814

	<i>Thousands of U.S. Dollars</i>			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2019	\$ 597,976	\$129,082	\$ 10,382	\$ 737,441
Acquisition	85,282	7,959	12,925	106,166
Transfer	—	9,843	(9,843)	—
Disposal	—	(8,918)	(83)	(9,001)
Exchange differences on translation of foreign operations	—	(16)	—	(16)
Other	—	—	(1,432)	(1,432)
Balance at March 31, 2020	\$ 683,258	\$137,950	\$ 11,949	\$ 833,157

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Accumulated amortization and accumulated impairment losses

	<i>Millions of Yen</i>			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2018	¥ (7,971)	¥ (5,885)	¥ (390)	¥ (14,247)
Amortization	(2,721)	(1,306)	(1)	(4,028)
Disposal	—	1,017	0	1,017
Impairment losses	—	(65)	—	(65)
Exchange differences on translation of foreign operations	—	0	—	0
Other	—	—	—	—
Balance at March 31, 2019	¥ (10,692)	¥ (6,239)	¥ (392)	¥ (17,322)
Amortization	(3,764)	(1,518)	(1)	(5,283)
Disposal	—	949	1	950
Impairment losses	(2,675)	(50)	—	(2,724)
Exchange differences on translation of foreign operations	—	1	—	1
Other	—	—	—	—
Balance at March 31, 2020	¥ (17,130)	¥ (6,856)	¥ (392)	¥ (24,378)

	<i>Thousands of U.S. Dollars</i>			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2019	\$ (98,090)	\$ (57,239)	\$ (3,593)	\$ (158,921)
Amortization	(34,532)	(13,924)	(14)	(48,469)
Disposal	—	8,707	10	8,717
Impairment losses	(24,537)	(456)	—	(24,994)
Exchange differences on translation of foreign operations	—	12	—	12
Other	—	—	—	—
Balance at March 31, 2020	\$ (157,159)	\$ (62,900)	\$ (3,597)	\$ (223,655)

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Carrying amount

<i>Millions of Yen</i>				
	Patents and licenses	Software	Other	Total
Balance at April 1, 2018	¥ 47,712	¥ 6,059	¥ 1,943	¥ 55,715
Balance at March 31, 2019	54,488	7,831	740	63,059
Balance at March 31, 2020	57,345	8,181	910	66,436

  

<i>Thousands of U.S. Dollars</i>				
	Patents and licenses	Software	Other	Total
Balance at March 31, 2020	\$ 526,099	\$ 75,051	\$ 8,352	\$ 609,502

Notes: 1. Amortization of intangible assets is included in “Cost of sales” “Selling, general, and administrative expenses” and “Research and development costs” in the consolidated statement of income.

2. Among the intangible assets above, intangible assets that are still not available for use amounted to ¥19,162 million and ¥17,269 million (\$158,435 thousand) as of March 31, 2019 and 2020, respectively. These mainly consist of separately acquired in-process research and development costs recorded in “Patents and licenses,” which are still in research and development phases, and accordingly, they are not in a condition available for use until the phase where marketing approvals have been obtained from related authorities and they are finally made into products.

3. Commitments related to intangible asset purchases are described in “38. Commitments for Expenditure.”

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(2) Individually Significant Intangible Assets

① Details and Carrying Amounts

Details of significant intangible assets and their carrying amounts are as follows:

Item	Details	Millions of Yen		Thousands of U.S. Dollars
		March 31, 2019	March 31, 2020	March 31, 2020
Patents and licenses	In-process research and development costs			
	acquired separately	¥ 18,835	¥ 16,762	\$ 153,782
	Sales licenses	35,653	40,583	372,317

Note: Major items of in-process research and development costs acquired separately and sales licenses consisting of lump-sum payments for introductions to licensors and milestone payments are as follows:

	March 31, 2019	March 31, 2020
In-process research and development costs acquired separately	ONO-7643/Anamorelin	ONO-7643/Anamorelin
	ONO-1162/Ivabradine	ONO-2370/Opicapone
	ONO-2370/Opicapone	ONO-7701 (BMS-986205)
	ONO-7701 (BMS-986205)	/Linrodostat
	ONO-5704/SI-613	ONO-5704/SI-613
	ONO-7705/Selinexor	ONO-7912(CPI-613)/Devimistat
Sales licenses	ONO-7706/KPT-8602	ONO-7913/Magrolimab
	STAYBLA	FORXIGA
	RIVASTACH	KYPROLIS
	FORXIGA	PARSABIV
	KYPROLIS	BRAFTOVI, MEKTOVI
	PARSABIV	CORALAN
	BRAFTOVI, MEKTOVI	

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

② Remaining Amortization Period

The average remaining amortization periods of significant intangible assets are as follows:

Item	Details	March 31, 2019	March 31, 2020
Patents and licenses	Sales licenses (years)	11.3	9.7

(3) Impairment Losses

Intangible assets are grouped into the smallest cash-generating unit(s) generating largely independent cash inflows.

In addition, patents and licenses are grouped separately by cash-generating units based on products and developed goods, which are the smallest group of units generating largely independent cash inflows.

The recoverable amount of an asset is calculated based on value in use measured based on the valuation of risk-adjusted future cash flows discounted at an appropriate rate. Future cash flows are estimated based on business forecasts. There is a possibility that a future event may result in changes in assumptions used in such impairment tests and may affect future operating results of the Group. The Group's discount rate used in calculating value in use is calculated based on the weighted-average cost of capital, and the pretax discount rate used in the calculation of value in use is from 7.5% to 11.8% and from 8.1% to 14.2% for the years ended March 31, 2019 and 2020, respectively.

As a result of impairment testing, the Group recognized impairment losses for intangible assets of ¥65 million and ¥2,724 million (\$24,994 thousand) for the years ended March 31, 2019 and 2020, respectively. Impairment losses on sales licenses were included in "Cost of sales" in the consolidated statement of income and impairment losses on in-process research and development costs were included in "Research and development costs." Impairment losses on software were included in "Other expenses." Impairment losses on patents and licenses were recognized in the year ended March 31, 2020 mainly due to the discontinuation of new drug development.



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**15. Investments in Associates**

Aggregate financial information of equity-method investees is summarized as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Profit from continuing operations attributable to the Group	¥ (1)	¥ (4)	\$ (35)
Other comprehensive income attributable to the Group	(1)	(4)	(33)
Total comprehensive income attributable to the Group	¥ (3)	¥ (7)	\$ (68)

Note: There are no quoted stock prices available for associates.

**16. Income Taxes**

(1) Deferred Income Taxes

Amounts of deferred tax assets and deferred tax liabilities for each consolidated fiscal year end are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Deferred tax assets	¥ 21,079	¥ 34,817	\$ 319,419
Deferred tax liabilities	1,053	1,059	9,717
Net	¥ 20,026	¥ 33,758	\$ 309,702

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Details and movements of deferred tax assets and deferred tax liabilities by major sources are as follows:

For the year ended March 31, 2019

	<i>Millions of Yen</i>					
	Balance at March 31, 2018	Changes in Accounting Policies	Balance at April 1, 2018	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2019
Deferred tax assets						
Accrued bonuses	¥ 1,575	¥ –	¥ 1,575	¥ 163	¥ –	¥ 1,738
Accrued enterprise tax	727	–	727	253	–	980
Expenses for research and development commissions and others	29,576	–	29,576	6,690	–	36,266
Investment securities	–	–	–	29	–	29
Property, plant, and equipment	2,433	–	2,433	(105)	–	2,328
Intangible assets	222	–	222	(178)	–	44
Retirement benefit liabilities	3,141	–	3,141	109	393	3,642
Long-term advances received	1,559	(1,559)	–	–	–	–
Other accounts payable	2,127	(63)	2,064	(333)	–	1,731
Provision for patent royalties	3,324	–	3,324	1,941	–	5,265
Other	4,358	(198)	4,160	696	–	4,857
Total	<u>¥ 49,042</u>	<u>¥ (1,820)</u>	<u>¥ 47,222</u>	<u>¥ 9,265</u>	<u>¥ 393</u>	<u>¥ 56,880</u>
Deferred tax liabilities						
Property, plant, and equipment	¥ (3,665)	¥ –	¥ (3,665)	¥ (370)	¥ –	¥ (4,035)
Intangible assets	(3,695)	–	(3,695)	211	–	(3,484)
Investment securities	(32,505)	–	(32,505)	25	3,145	(29,335)
Total	<u>¥ (39,866)</u>	<u>¥ –</u>	<u>¥ (39,866)</u>	<u>¥ (133)</u>	<u>¥ 3,145</u>	<u>¥ (36,854)</u>
Net	<u>¥ 9,176</u>	<u>¥ (1,820)</u>	<u>¥ 7,357</u>	<u>¥ 9,132</u>	<u>¥ 3,537</u>	<u>¥ 20,026</u>

Note: The changes in accounting policies are due to the recording of deferred tax assets of ¥1,820 million (in the consolidated statement of financial position at the beginning of the year ended March 31, 2019, deferred tax assets decreased by ¥1,820 million, compared with the application of the former accounting standards) as of the beginning of the year ended March 31, 2019 as a result of the application of IFRS 15.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

For the year ended March 31, 2020

<i>Millions of Yen</i>				
	Balance at April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2020
Deferred tax assets				
Accrued bonuses	¥ 1,738	¥ (7)	¥ –	¥ 1,730
Accrued enterprise tax	980	107	–	1,087
Expenses for research and development commissions and others	36,266	4,841	–	41,107
Investment securities	29	4	–	33
Property, plant, and equipment	2,328	(22)	–	2,306
Intangible assets	44	17	–	61
Retirement benefit liabilities	3,642	115	48	3,806
Other accounts payable	1,731	86	–	1,817
Provision for patent royalties	5,265	1,076	–	6,341
Other	4,857	807	–	5,664
Total	¥ 56,880	¥ 7,024	¥ 48	¥ 63,953
Deferred tax liabilities				
Property, plant, and equipment	¥ (4,035)	¥ (103)	¥ –	¥ (4,138)
Intangible assets	(3,484)	729	–	(2,755)
Investment securities	(29,335)	2	6,031	(23,302)
Other	–	(0)	–	(0)
Total	¥ (36,854)	¥ 628	¥ 6,031	¥ (30,195)
Net	¥ 20,026	¥ 7,652	¥ 6,080	¥ 33,758

<i>Thousands of U.S. Dollars</i>				
	Balance at April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Balance at March 31, 2020
Deferred tax assets				
Accrued bonuses	\$ 15,943	\$ (68)	\$ –	\$ 15,875
Accrued enterprise tax	8,990	984	–	9,974
Expenses for research and development commissions and others	332,717	44,412	–	377,129
Investment securities	269	36	–	306
Property, plant, and equipment	21,353	(197)	–	21,156
Intangible assets	406	157	–	563
Retirement benefit liabilities	33,417	1,056	441	34,914
Other accounts payable	15,885	787	–	16,672
Provision for patent royalties	48,303	9,868	–	58,171
Other	44,556	7,407	–	51,963
Total	\$ 521,839	\$ 64,442	\$ 441	\$ 586,722
Deferred tax liabilities				
Property, plant, and equipment	\$ (37,016)	\$ (946)	\$ –	\$ (37,961)
Intangible assets	(31,965)	6,690	–	(25,275)
Investment securities	(269,132)	15	55,335	(213,782)
Other	–	(2)	–	(2)
Total	\$ (338,112)	\$ 5,757	\$ 55,335	\$ (277,020)
Net	\$ 183,727	\$ 70,199	\$ 55,776	\$ 309,702

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

- Notes: 1. The differences between deferred tax expense and the amount recognized in profit or loss are exchange differences on translation of foreign operations and others.
2. The effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities as of March 31, 2019 and 2020 in Japan is 30.6%.
3. Taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities were not recognized, amounted to ¥2,858 million and ¥3,457 million (\$31,717 thousand) as of March 31, 2019 and 2020, respectively. This is because the Group is able to control the timing of the reversal of the temporary differences, and it is certain that the temporary differences will not reverse in the foreseeable future.

(2) Income Tax Expense

Details of income tax expense are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Current tax expense	¥ 22,601	¥ 27,492	\$ 252,224
Deferred tax expense	(9,139)	(7,685)	(70,500)
Total	¥ 13,462	¥ 19,808	\$ 181,724

Note: The Group is subject to corporate tax, inhabitant tax, and enterprise tax in Japan, which in the aggregate resulted in an applicable tax rate for current tax expense of approximately 30.6% for the years ended March 31, 2019 and 2020, respectively. Overseas subsidiaries use the income tax rates of the countries in which they are located.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(3) Reconciliation of Applicable Tax Rates and Average Actual Tax Rates

Details of the differences between the applicable tax rates and average actual tax rates are as follows:

	For the year ended March 31, 2019	For the year ended March 31, 2020
Applicable tax rates	30.6 %	30.6 %
Permanent non-deductible items	0.5	0.4
Non-taxable dividends	(0.3)	(0.2)
Tax credit for research and other	(11.0)	(6.6)
Other	0.9	0.7
Average actual tax rates	20.7 %	24.9 %

Note: The applicable tax rates used to reconcile the applicable tax rates and average actual tax rates are the Company's effective statutory income tax rates.

**17. Trade and Other Payables**

Details of trade and other payables are as follows:

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020
Notes payable	¥ 503	\$ 4,322
Trade accounts payable	5,794	54,367
Other accounts payable	28,846	238,130
Refund liabilities	1,690	19,131
Total	¥ 36,833	\$ 315,951

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

## 18. Borrowings

Details of borrowings are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Current liabilities			
Short-term lease obligations	¥ 435	¥ –	\$ –
Total	¥ 435	¥ –	\$ –
Non-current liabilities			
Long-term lease obligations	¥ 1,765	¥ –	\$ –
Total	¥ 1,765	¥ –	\$ –

## 19. Other Financial Liabilities

Details of other financial liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Current liabilities			
Dividends payable	¥ 114	¥ 114	\$ 1,042
Deposits received	316	309	2,835
Other	86	27	249
Total	¥ 515	¥ 450	\$ 4,127
Non-current liabilities			
Other	¥ 5	¥ 0	\$ 3
Total	¥ 5	¥ 0	\$ 3

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**20. Assets Pledged as Collateral**

Assets pledged as collateral are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>March 31, 2019</u>	<u>March 31, 2020</u>	<u>March 31, 2020</u>
Other current assets	¥ 4,000	¥ 4,000	\$ 36,697
Total	<u>¥ 4,000</u>	<u>¥ 4,000</u>	<u>\$ 36,697</u>

Note: These were pledged as collateral for the deferred payment arrangements of customs duties and consumption taxes related to import transactions based on the Customs Act of Japan and the Consumption Tax Act of Japan.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**21. Leases**

March 31, 2019

The comparative information presented for March 31, 2019 is based on IAS 17.

**(1) Finance Leases**

Lessee

Details of future minimum lease payments under finance lease contracts and their present value are as follows:

	<i>Millions of Yen</i>	<i>Millions of Yen</i>
	Minimum lease payments	Present value of minimum lease payments
	March 31, 2019	March 31, 2019
One year or less	¥ 438	¥ 435
More than one year to five years	1,046	993
More than five years	1,034	772
Total	¥ 2,518	¥ 2,200

Note: Lease transactions classified as finance leases of the Group are buildings and structures, machinery and vehicles, and tools, furniture, and fixtures. These lease contracts do not include renewal options, purchase options, variable lease payments, or escalation clauses, and there are no restrictions, such as additional borrowings and additional lease contract.



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(2) Operating Leases

Lessee

① Non-cancelable Operating Lease Contracts

Details of future minimum lease payments under non-cancelable operating lease contracts are as follows:

	<i>Millions of Yen</i>	
	<u>March 31, 2019</u>	
One year or less	¥	213
More than one year to five years		286
More than five years		—
Total	¥	<u>499</u>

Note: The Group engages in office rental, etc., classified as operating leases. Certain lease contracts include renewal options. The lease contracts do not include variable lease payments or escalation clauses, and there are no restrictions, such as additional borrowings and additional lease contracts, in the contracts.

② Operating Lease Contracts Recognized as Expenses

Minimum lease payments based on operating lease contracts recognized as expenses are as follows:

	<i>Millions of Yen</i>	
	<u>For the year ended March 31, 2019</u>	
Minimum lease payments	¥	174

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

Lessor

① Non-cancelable Operating Lease Contracts

Details of future minimum lease receipts based on non-cancelable operating lease contracts are as follows:

	<i>Millions of Yen</i>
	<u>March 31, 2019</u>
One year or less	¥ 19
More than one year to five years	17
More than five years	5
Total	<u>¥ 41</u>

Note: The Group engages in land rental, etc., classified as operating leases.

March 31, 2020

(1) Right-of-use assets

Right-of-use assets are included in “Property, plant, and equipment” in the consolidated statement of financial position.

The main areas of leases that the Group has entered into are for offices, parking lots, and cars. Certain lease contracts include renewal options. The lease contracts do not include purchase options, variable lease payments, or escalation clauses. There are no restrictions, such as additional borrowings and additional lease contracts, in the contracts.

Information on leases that the Group has entered into as a lessee is as follows:

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

*Millions of Yen*

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2019	¥ –	¥ 1,202	¥ 802	¥ 57	¥ 2,060
Changes in accounting policies	1,869	4,376	–	–	6,245
Balance at April 1, 2019	1,869	5,577	802	57	8,305
Acquisition	527	1,303	945	–	2,774
Depreciation	(271)	(1,579)	(372)	(21)	(2,243)
Other	(321)	(179)	(2)	–	(502)
Balance at March 31, 2020	¥ 1,804	¥ 5,123	¥ 1,372	¥ 35	¥ 8,334

*Thousands of U.S. Dollars*

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2019	\$ –	\$ 11,024	\$ 7,354	\$ 519	\$ 18,897
Changes in accounting policies	17,150	40,145	–	–	57,294
Balance at April 1, 2019	17,150	51,168	7,354	519	76,192
Acquisition	4,832	11,950	8,669	–	25,452
Depreciation	(2,483)	(14,482)	(3,416)	(195)	(20,575)
Other	(2,948)	(1,638)	(21)	–	(4,607)
Balance at March 31, 2020	\$ 16,551	\$ 46,999	\$ 12,587	\$ 325	\$ 76,461

Note: The balance as of March 31, 2019 is the carrying amount of leased assets under finance leases based on IAS 17.

(2) Lease liabilities

The maturity analysis of lease liabilities of the Group is disclosed in “34. Financial Instruments (4) Liquidity Risk Management.”

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(3) Amount recognized in profit or loss

The amount recognized in profit or loss is as follows:

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2020</u>
Depreciation for right-of-use assets	¥ 2,243	\$ 20,575

Note: The interest expenses on lease liabilities are disclosed in “31. Finance Income and Finance Costs.”

(4) Amount recognized in the consolidated statement of cash flows

The amount recognized in the consolidated statement of cash flows is as follows:

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2020</u>
Total cash outflow for leases	¥ 3,824	\$ 35,080

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**22. Other Liabilities**

Details of other current liabilities and other non-current liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Other current liabilities			
Accrued consumption taxes	¥ 1,729	¥ 2,629	\$ 24,120
Accrued salary and bonus	5,800	5,753	52,783
Accrued compensated vacation	3,130	3,256	29,873
Accrued expenses	1,505	1,416	12,992
Other	16	130	1,194
Total	¥ 12,181	¥ 13,185	\$ 120,961
Other non-current liabilities			
Compensated long-service benefit obligations	¥ 620	¥ 625	\$ 5,733
Other	212	188	1,724
Total	¥ 832	¥ 813	\$ 7,456

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**23. Retirement Benefits**

The Group has defined benefit corporate pension plans and lump-sum payment plans for its defined benefit schemes. Effective October 1, 2004, the Company introduced a new defined benefit corporate pension plan combining the defined benefit corporate pension plan (formerly additional pensions under employees' pension fund plan) and a tax-qualified pension plan, and granted employees the option to select a defined contribution plan for certain lump-sum payment plans. In addition, the Company has set up a retirement benefit trust in order to supplement funding deficits in benefit obligations.

Further, three overseas subsidiaries have defined contribution plans, one overseas subsidiary has a lump-sum payment plan, and two domestic subsidiaries participate in corporate pension fund plans (multiemployer pension plans) in addition to lump-sum payment plans.

The Group calculates the present value of defined benefit obligations and related service costs based on actuarial assumptions. The actuarial assumptions require estimates and judgments on variables, such as discount rates and net interest, etc. With advice obtained from external pension actuaries with respect to the appropriateness of the actuarial assumptions including the variables, the actuarial assumptions are determined based on the best estimates and judgments made by management; however, changes in uncertain future economic conditions may have a material impact on amounts recognized in the consolidated financial statements.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(1) Defined Benefit Plans

① Defined Benefit Plan Liabilities and Assets

Details of defined benefit plan liabilities and assets in the consolidated statement of financial position are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Contributory			
Defined benefit obligations	¥ 49,967	¥ 50,802	\$ 466,073
Fair value of plan assets (including retirement benefit trust)	(45,249)	(45,535)	(417,755)
Subtotal	4,717	5,267	48,318
Non-contributory			
Defined benefit obligations	798	781	7,166
Subtotal	798	781	7,166
Net defined benefit liability	¥ 5,515	¥ 6,048	\$ 55,485
Retirement benefit liabilities stated in the consolidated statement of financial position	¥ 5,515	¥ 6,048	\$ 55,485

② Obligations under Defined Benefit Plans

Movements in the defined benefit obligations are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Opening balance of defined benefit obligations	¥ 48,105	¥ 50,765	\$ 465,731
Service cost	2,368	2,496	22,902
Interest expense	366	308	2,829
Remeasurements			
Actuarial losses (gains) due to changes in financial assumptions	1,383	(235)	(2,159)
Other	72	40	370
Benefits paid	(1,530)	(1,791)	(16,433)
Closing balance of defined benefit obligations	¥ 50,765	¥ 51,583	\$ 473,240

Notes: 1. The weighted-average payment years for the defined benefit obligations as of March 31, 2019 and 2020, were 18.2 years and 17.1 years, respectively.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

2. Remeasurements of defined benefit plans are the differences between the actuarial assumptions used for calculation of “Defined benefit liabilities” and actual experience, and the impact of changes in actuarial assumptions.

③ Plan Assets

Movements in the fair value of plan assets are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Opening balance of fair value of plan assets	¥ 44,249	¥ 45,249	\$ 415,132
Interest income	345	281	2,577
Remeasurements			
Return on plan assets	173	(352)	(3,231)
Contributions from employers	1,526	1,571	14,412
Benefits paid	(1,043)	(1,214)	(11,135)
Closing balance of fair value of plan assets	¥ 45,249	¥ 45,535	\$ 417,755

Note: The Group expected to make contributions of ¥1,570 million (\$14,403 thousand) to the defined benefit corporate pension plans in the year subsequent to March 31, 2020.



# Notes to Consolidated Financial Statements

## Year Ended March 31, 2020

The fair value of plan assets classified by nature of assets and risks is as follows:

	<i>Millions of Yen</i>						<i>Thousands of U.S. Dollars</i>		
	March 31, 2019			March 31, 2020			March 31, 2020		
	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total
Equity instruments									
Domestic equity instruments	¥ 2,315	¥ –	¥ 2,315	¥ 1,870	¥ –	¥ 1,870	\$ 17,153	\$ –	\$ 17,153
Overseas equity instruments	2,067	–	2,067	1,758	–	1,758	16,124	–	16,124
Debt instruments									
Domestic debt instruments	–	4,033	4,033	–	2,957	2,957	–	27,132	27,132
Overseas debt instruments	–	1,513	1,513	–	1,825	1,825	–	16,739	16,739
General accounts at life insurance companies	–	29,715	29,715	–	30,339	30,339	–	278,343	278,343
Other	–	5,607	5,607	–	6,787	6,787	–	62,263	62,263
Total	¥ 4,382	¥40,868	¥45,249	¥ 3,627	¥41,908	¥45,535	\$33,277	\$ 384,478	\$ 417,755

The Group's operating policy for plan assets is as follows:

The Group's basic policy for plan asset management aims to secure necessary long-term returns within a tolerable risk level in order to ensure future payment of pension benefits stipulated in the terms of defined benefit corporate pension plans and lump-sum payments.

A target rate of return is set aiming to exceed the rate of return necessary for maintaining sound operations of the defined benefit corporate pension plans over the future, specifically higher than the expected rate of return for pension financing.

In order to meet this return target, the asset portfolio is verified by both the Company and the investment management institutions to be in conformity with the basic policy, and, in addition, the composition of the asset portfolio is reviewed as necessary.

The basic policy is subject to change in accordance with changes in the Company's status and systems or operating environment surrounding the Company.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

④ Profit and Loss on Defined Benefit Plans

Profit and loss on defined benefit plans for each fiscal year recognized in the consolidated statement of income are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Service costs	¥ 2,368	¥ 2,496	\$ 22,902
Net interest	21	28	252
Expenses recognized in the consolidated statement of income	¥ 2,389	¥ 2,524	\$ 23,154

Note: Among the above expenses, service costs are included in “Cost of sales,” “Selling, general, and administrative expenses,” and “Research and development costs,” and net interest is included in “Finance income” or “Finance costs.”

⑤ Significant Assumptions Used for the Actuarial Valuations

The significant assumptions used for the purposes of the actuarial valuations are as follows:

	March 31, 2019	March 31, 2020
Discount rate (%)	0.6	0.6
Expected rate of salary increase (%)	2.8	2.8
Expected average remaining lives of current pensioners at age 60 at year-end (years)	25.2	25.3
Expected average remaining lives, from age 60, of future pensioners at age 40 at year-end (years)	26.8	26.8

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

⑥ Sensitivity Analysis

The sensitivity analysis represents the effects of changes in significant actuarial assumptions on the present value of the defined benefit obligations. The effects of any changes in assumptions used for measuring defined benefit obligations are as follows:

		<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
		<u>March 31, 2019</u>		<u>March 31, 2020</u>		<u>March 31, 2020</u>	
	Changes in principal assumptions	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Defined benefit obligations							
	0.5%						
Discount rate	increase/decrease	¥(4,369)	¥ 4,807	¥(4,187)	¥ 4,581	\$ (38,409)	\$42,032
Expected average remaining lives	1 year increase/decrease	953	(987)	990	(1,024)	9,087	(9,396)

Note: The analysis is based on the assumption that other factors remain constant.

(2) Multiemployer Pension Plans

Two domestic consolidated subsidiaries have joined corporate pension funds (multiemployer pension plan). This plan is integrated-type defined benefit plan, and therefore, the amount of pension assets corresponding to the contributions made by each company cannot be determined reasonably. Thus, the amount of the contribution is recognized as postemployment expenses in the same manner as defined contribution plans.

(3) Defined Contribution Plans

The Group recognized ¥3,052 million and ¥3,051 million (\$27,993 thousand) as expenses for defined contribution plans for the years ended March 31, 2019 and 2020, respectively.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**24. Provisions**

(1) Details

Provisions stated in current liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>March 31, 2019</u>	<u>March 31, 2020</u>	<u>March 31, 2020</u>
Provision for patent royalties	¥ 17,206	¥ 20,721	\$ 190,103

(2) Schedule of Movements

The movements in provisions are as follows:

	<i>Provision for patent royalties</i>	
	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Balance at March 31, 2019	¥ 17,206	\$ 157,856
Added to provisions	3,515	32,247
Balance at March 31, 2020	<u>¥ 20,721</u>	<u>\$ 190,103</u>

Note: Provision for patent royalties is recognized and measured based on estimated royalty payment to third parties. The information required in IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” is disclosed according to IAS 37. 92., instead of disclosing the respective figures, because such information may have some effects on the results of future discussion, etc.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

## 25. Share Capital and Other Equity Items

### (1) Share Capital and Capital Reserves

Changes in the number of authorized shares and issued shares, share capital, and capital reserves are as follows:

	Number of authorized shares (Shares)	Number of issued shares (Shares)	<i>Millions of Yen</i>	
			Share capital	Capital reserves
Balance at April 1, 2018	1,500,000,000	543,341,400	¥ 17,358	¥ 17,175
Increase (decrease)	—	—	—	27
Balance at March 31, 2019	1,500,000,000	543,341,400	¥ 17,358	¥ 17,202
Increase (decrease)	—	(15,000,000)	—	27
Balance at March 31, 2020	1,500,000,000	528,341,400	¥ 17,358	¥ 17,229

	<i>Thousands of U.S. Dollars</i>	
	Share capital	Capital reserves
Balance at March 31, 2019	\$ 159,250	\$ 157,814
Increase (decrease)	—	248
Balance at March 31, 2020	\$ 159,250	\$ 158,062

Notes: 1. All shares issued by the Company are fully paid-up ordinary shares with no par value.

2. Increases and decreases in the number of issued shares for the year ended March 31, 2020 are due to retirement of treasury shares.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(2) Treasury Shares

Changes in the number and amount of treasury shares are as follows:

	Number of shares (Shares)	Amount (Millions of Yen)
Balance at April 1, 2018	29,219,787	¥ 38,148
Increase (decrease)	1,073	3
Balance at March 31, 2019	29,220,860	¥ 38,151
Increase (decrease)	1,412	6,587
Balance at March 31, 2020	29,222,272	¥ 44,737

	Amount (Thousands of U.S. Dollars)
Balance at March 31, 2019	\$ 350,006
Increase (decrease)	60,430
Balance at March 31, 2020	\$ 410,435

- Notes: 1. Increases and decreases in the number and amount of treasury shares for the year ended March 31, 2019 are due to purchases of fractional unit shares. Those for the year ended March 31, 2020 are due to purchases under Article 156 of the Companies Act, applied by the reading of terms pursuant to the provisions of Paragraph 3, Article 165 of the Companies Act, retirement of treasury shares, and purchases of fractional unit shares.
2. Treasury shares held by associates as of March 31, 2019 and 2020, are ¥27 million and ¥29 million (\$266 thousand), respectively.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(3) Other Components of Equity

Changes in other components of equity are as follows:

	<i>Millions of Yen</i>				
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	Total
Balance at April 1, 2018	¥ 605	¥ –	¥ 67,416	¥ –	¥ 68,021
Increase (decrease)					
Other comprehensive income	78	–	(68)	(890)	(881)
Transfer to retained earnings	–	–	(6,178)	890	(5,288)
Balance at March 31, 2019	¥ 682	¥ –	¥ 61,170	¥ –	¥ 61,852
Increase (decrease)					
Other comprehensive income	(219)	–	(1,884)	(109)	(2,212)
Transfer to retained earnings	–	–	(11,719)	109	(11,610)
Balance at March 31, 2020	¥ 463	¥ –	¥ 47,567	¥ –	¥ 48,030

  

	<i>Thousands of U.S. Dollars</i>				
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	Total
Balance at March 31, 2019	\$ 6,259	\$ –	\$ 561,190	\$ –	\$ 567,450
Increase (decrease)					
Other comprehensive income	(2,008)	–	(17,286)	(1,001)	(20,295)
Transfer to retained earnings	–	–	(107,513)	1,001	(106,512)
Balance at March 31, 2020	\$ 4,252	\$ –	\$ 436,391	\$ –	\$ 440,643

Notes: 1. Exchange differences on translation of foreign operations are the differences arising from consolidating the financial statements of overseas subsidiaries, which were prepared in foreign currencies.

2. Net fair value loss on derivatives under hedge accounting is the effective portion of fair value change in derivative transactions, which are designated as cash flow hedges and meet their specific criteria.

3. Changes in fair value of financial assets measured through other comprehensive income are valuation differences in fair value of financial assets measured through other comprehensive income.

4. Remeasurement of defined benefit plans is recognized in “Other comprehensive income” when it is incurred and immediately transferred from “Other components of equity” to “Retained earnings.”

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

## 26. Dividends

### (1) Dividends Paid

Dividends paid are as follows:

For the year ended March 31, 2019

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2018	Ordinary shares	¥ 10,282	¥ 20	March 31, 2018	June 25, 2018
Board of Directors' meeting held on November 1, 2018	Ordinary shares	¥ 11,568	¥ 22.5	September 30, 2018	December 3, 2018

For the year ended March 31, 2020

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders' meeting held on June 20, 2019	Ordinary shares	¥ 11,568	¥ 22.5	\$ 106,126	\$ 0.21	March 31, 2019	June 21, 2019
Board of Directors' meeting held on October 31, 2019	Ordinary shares	¥ 11,230	¥ 22.5	\$ 103,029	\$ 0.21	September 30, 2019	December 2, 2019

### (2) Dividends Whose Effective Date is in the Following Fiscal Year

Dividends whose record date is in the current fiscal year and whose effective date is in the following fiscal year are as follows:

For the year ended March 31, 2019

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 20, 2019	Ordinary shares	¥ 11,568	¥ 22.5	March 31, 2019	June 21, 2019

For the year ended March 31, 2020

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders' meeting held on June 18, 2020	Ordinary shares	¥ 11,230	¥ 22.5	\$ 103,029	\$ 0.21	March 31, 2020	June 19, 2020



Notes to Consolidated Financial Statements  
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**27. Revenue**

(1) Disaggregation of revenue

The Group disaggregated revenue by type of goods or services and by geographic area.

① Details of revenue by type of goods or services

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Revenue of goods and products	¥ 208,947	¥ 205,614	\$ 1,886,369
Royalty and others			
Opdivo Intravenous Infusion	58,504	61,608	565,208
Keytruda® from Merck & Co., Inc.	12,813	19,297	177,041
Others	8,370	5,900	54,131
Sub total	79,687	86,805	796,380
Total	¥ 288,634	¥ 292,420	\$ 2,682,749

② Details of revenue by geographic area

Details of revenue by geographic area are included in “6. Segment Information

(3) Revenue by Geographic Area.”

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(2) Contract balances

Receivables and contract liabilities from contracts with customers are as follows:

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	<u>April 1, 2018</u>	<u>March 31, 2019</u>	<u>March 31, 2020</u>	<u>March 31, 2020</u>
Receivables from contracts with customers				
Trade accounts receivable	¥ 70,398	¥ 67,868	¥ 68,962	\$ 632,682
Notes receivable	2,315	2,885	1,832	16,811

Notes: 1. There were no material contract liabilities.

2. Revenue recognized relating to performance obligations satisfied in previous periods were ¥71,715 million and ¥81,329 (\$746,140 thousand) for the years ended March 31, 2019 and 2020, respectively, and mainly represents milestone revenue and royalty revenue.

(3) Transaction price allocated to the remaining performance obligations

There was no transaction price allocated to the remaining performance obligations.

(4) Assets recognized from the costs to obtain or fulfil a contract with a customer

There were no costs to obtain or fulfil a contract with a customer that should be recognized as assets.

## 28. Selling, General, and Administrative Expenses

Major details of selling, general, and administrative expenses are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2019</u>	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2020</u>
Business planning expenses	¥ 4,814	¥ 3,774	\$ 34,623
Sales promotion expenses	4,719	5,778	53,010
Employee benefit expenses	26,713	26,986	247,578
Depreciation and amortization	2,033	2,483	22,778
Business consignment expenses	10,005	9,086	83,355

Notes to Consolidated Financial Statements  
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**29. Employee Benefit Expenses**

Details of the Group's employee benefit expenses are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Salary and bonus	¥ 34,935	¥ 35,176	\$ 322,711
Retirement benefit expenses (defined benefit plans)	2,368	2,496	22,902
Retirement benefit expenses (multiemployer pension plans)	20	20	180
Retirement benefit expenses (defined contribution plans)	3,052	3,051	27,993
Legal welfare expenses	1,982	1,948	17,871
Other welfare expenses	1,900	1,572	14,421
Other employee benefit expenses	3,733	3,400	31,192
Total	¥ 47,990	¥ 47,662	\$ 437,270

Notes: 1. Employee benefit expenses are included in “Cost of sales,” “Selling, general, and administrative expenses,” and “Research and development costs” in the consolidated statement of income.

2. The employee benefit expenses above include remuneration of key management personnel. Remuneration of key management personnel is described in “37. Related Parties.”

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

### 30. Other Income and Other Expenses

Details of other income and other expenses are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Other income			
Gain on sale of non-current assets	¥ 149	¥ 163	\$ 1,498
Insurance proceeds	270	257	2,356
Subsidy income	—	88	804
Others	227	314	2,884
Total	¥ 646	¥ 822	\$ 7,543
Other expenses			
Impairment losses	¥ 209	¥ 141	\$ 1,295
Loss on disposal of non-current assets	7	29	268
Donations	1,609	1,807	16,579
Litigation costs, etc.	1,502	299	2,745
Others	72	235	2,154
Total	¥ 3,400	¥ 2,512	\$ 23,042

Note: “Litigation costs, etc.” in other expenses include the payment of the settlement with Pfizer for patent-related litigation for the year ended March 31, 2019.

### 31. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
(Finance income)			
Interest income			
Financial assets measured at amortized cost	¥ 74	¥ 92	\$ 847
Dividend income			
Financial assets measured at FVPL	18	—	—
Financial assets measured at FVOCI	3,073	2,876	26,385
Exchange gains	25	—	—
Others	93	85	780
Total	¥ 3,282	¥ 3,053	\$ 28,012
(Finance costs)			
Interest expenses			
Financial liabilities measured at amortized cost	¥ 27	¥ 1	\$ 5
Lease liabilities	—	76	695
Losses on marketable securities			
Financial assets measured at FVPL	83	6	53
Net interest on employee benefits	21	28	252
Exchange losses	—	717	6,580
Others	19	18	164
Total	¥ 150	¥ 845	\$ 7,749

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

### 32. Other Comprehensive Income

Amounts incurred for the current year, reclassification adjustments to profit or loss, and tax effects (including non-controlling interests) for each item of “Other comprehensive income” are as follows:

For the year ended March 31, 2019

	<i>Millions of Yen</i>				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net (loss) gain on financial assets measured at FVOCI	¥ (59)	¥ –	¥ (59)	¥ 16	¥ (43)
Remeasurement of defined benefit plans	(1,283)	–	(1,283)	393	(890)
Share of net (loss) gain on financial assets measured at FVOCI of associates	(2)	–	(2)	1	(1)
Total	(1,343)	–	(1,343)	409	(935)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	78	–	78	–	78
Net fair value (loss) gain on cash flow hedges	53	(53)	–	–	–
Total	131	(53)	78	–	78
Total other comprehensive income	¥ (1,213)	¥ (53)	¥ (1,266)	¥ 409	¥ (857)

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

For the year ended March 31, 2020

	<i>Millions of Yen</i>				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net (loss) gain on financial assets measured at FVOCI	¥ (2,673)	¥ –	¥ (2,673)	¥ 764	¥ (1,909)
Remeasurement of defined benefit plans	(157)	–	(157)	48	(109)
Share of net (loss) gain on financial assets measured at FVOCI of associates	(5)	–	(5)	2	(4)
Total	(2,836)	–	(2,836)	813	(2,022)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(219)	–	(219)	–	(219)
Net fair value (loss) gain on cash flow hedges	30	(30)	–	–	–
Total	(188)	(30)	(219)	–	(219)
Total other comprehensive income	¥ (3,024)	¥ (30)	¥ (3,054)	¥ 813	¥ (2,241)

	<i>Thousands of U.S. Dollars</i>				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net (loss) gain on financial assets measured at FVOCI	\$ (24,524)	\$ –	\$ (24,524)	\$ 7,007	\$ (17,517)
Remeasurement of defined benefit plans	(1,442)	–	(1,442)	441	(1,001)
Share of net (loss) gain on financial assets measured at FVOCI of associates	(48)	–	(48)	15	(33)
Total	(26,015)	–	(26,015)	7,463	(18,552)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(2,008)	–	(2,008)	–	(2,008)
Net fair value (loss) gain on cash flow hedges	278	(278)	–	–	–
Total	(1,729)	(278)	(2,008)	–	(2,008)
Total other comprehensive income	\$ (27,744)	\$ (278)	\$ (28,022)	\$ 7,463	\$ (20,559)

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**33. Earnings per Share**

(1) Basic Earnings per Share

① Basic earnings per share are as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Basic earnings per share	¥ 100.25	¥ 118.47	\$ 1.09

② Basis of Calculation of Basic Earnings per Share

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Profit for the year attributable to owners of the parent company	¥ 51,539	¥ 59,704	\$ 547,740
Weighted-average number of ordinary shares outstanding (thousands of shares)	514,121	503,975	

Notes to Consolidated Financial Statements  
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(2) Diluted Earnings per Share

① Diluted earnings per share are as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Diluted earnings per share	¥ 100.24	¥ 118.45	\$ 1.09

② Basis of Calculation of Diluted Earnings per Share

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Profit for the year attributable to owners of the parent company	¥51,539	¥59,704	\$ 547,740
Weighted-average number of ordinary shares outstanding (thousands of shares)	514,121	503,975	
Increased number of ordinary shares under subscription rights to share (thousands of shares)	50	69	
Weighted-average number of diluted ordinary shares outstanding (thousands of shares)	514,171	504,044	



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**34. Financial Instruments**

**(1) Equity Management**

The Group manages its equity in view of maintaining the confidence of investors, creditors, and the market, securing a firm capital base for continued future growth, and implementing strategic investments necessary to maximize corporate value while distributing consistent dividend payments.

The Group's capital management focuses on net debt where cash and cash equivalents are deducted from interest-bearing debt and equity (attributable to owners of the parent company and non-controlling interests). The Group considers methods of capital distribution to shareholders based on an evaluation of the medium-term strategic plan, including business performance, future research and development of new medicines, partnerships with bio-ventures, and additionally the introduction of pipelines to complement research and development risk. This evaluation will exert influence on decision-making regarding the level of dividend payments and the Group's market purchase of treasury shares.

**(2) Financial Risk Management**

The Group is constantly exposed in its operating activities to various financial risks, including credit, liquidity, market, and others (e.g., foreign exchange and price fluctuation). In order to avoid or mitigate these risks, the Group manages risks according to certain basic policies. The Group policy is not to enter into speculative derivative or equity transactions, but to operate funds primarily through debt instruments such as safe government bonds, etc., while also partially employing financial assets with guaranteed liquidity to meet short-term capital requirements. For derivative transactions, the Group enters into foreign exchange contracts to mitigate the foreign exchange risk associated with settling payments in foreign currencies. Such transactions are controlled by the Accounting Department of the Company.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(3) Credit Risk Management

Credit risks are risks that result in financial losses incurred by the Group when a customer goes into default for contractual obligations. When full or partial collection of trade receivables, etc., is considered impossible, or extremely difficult, it is deemed to be a default.

The Group's trade receivables are exposed to the credit risk of its customers. In addition, like other pharmaceutical companies, the Group is exposed to concentrated credit risk from a small number of wholesale companies through which it sells its products. In cases where any of these wholesale companies face financial difficulties, there is a possibility that this may have a severe and disadvantageous influence on the Group's financial performance.

The Group's revenue mainly consists of royalty revenue and sales of products through a small number of wholesalers, and the total revenue from the top five group companies (including the parent company and the group company) accounts for about 76% of "Revenue" in the consolidated statement of income. Trade receivables from the top five group companies as of March 31, 2019 and 2020 were ¥55,140 million and ¥56,591 million (\$519,182 thousand), respectively.

In order to mitigate monetary damage caused by the default of such counterparties, the Group, in principle, determines credit limits and trade terms and conditions based on the credit management policy. In addition, in order to minimize the amount of uncollectable receivables, the Group manages due dates and balances by transaction, and executes continuous credit evaluation by receiving credit updates for its main counterparties from third party rating agencies. With regard to trade receivables, etc., that do not contain significant financing components, the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition, and the Group has never recorded a significant bad debt loss on its trade receivables in the past.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

The Group is also exposed to issuer credit risk for bonds held to make use of surplus funds and shares held for political purposes. In addition, the Group is exposed to credit risk of the financial institutions that are the counterparties in derivative transactions used to mitigate the foreign exchange risk associated with settling payments in foreign currencies. Because the Group operates funds primarily through secure debt instruments and executes transactions with highly rated financial institutions in order to prevent the emergence of credit risk in advance, credit risk is low.

The carrying amounts of financial assets after impairment presented in the consolidated statement of financial position represent the Group's maximum exposure to financial asset credit risk.

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since the initial recognition, and with respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

The movements in allowance for doubtful accounts are as follows:

	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Balance at the beginning of the year	¥ 8	¥ 8	\$ 75
Increase	0	—	—
Decrease (utilization)	—	(2)	(17)
Decrease (other)	—	(1)	(8)
Balance at the end of the year	<u>¥ 8</u>	<u>¥ 5</u>	<u>\$ 50</u>

#### (4) Liquidity Risk Management

The Group is exposed to the liquidity risk of not being able to fulfill its payment obligations at present or in the future due to an inability to source sufficient cash.

The Group, in particular the Accounting Department, maintains appropriate reserves and manages liquidity risk through monitoring of the Group's cash flow forecasts and results. Because the Group has sufficient cash and cash equivalents and other highly liquid assets and secures stable cash inflows from operating activities, this risk is low.

Notes to Consolidated Financial Statements  
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Financial liabilities by maturity are as follows:

March 31, 2019

	<i>Millions of Yen</i>			
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>One year or less</u>	<u>More than one year</u>
Trade and other payables	¥ 36,833	¥ 36,833	¥ 36,833	¥ –
Borrowings				
Short-term lease obligations	435	438	438	–
Long-term lease obligations	1,765	2,080	–	2,080
Other financial liabilities	520	520	515	5

March 31, 2020

	<i>Millions of Yen</i>			
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>One year or less</u>	<u>More than one year</u>
Trade and other payables	¥ 34,439	¥ 34,439	¥ 34,439	¥ –
Lease liabilities	8,362	8,744	2,271	6,473
Other financial liabilities	450	450	450	0

	<i>Thousands of U.S. Dollars</i>			
	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>One year or less</u>	<u>More than one year</u>
Trade and other payables	\$ 315,951	\$ 315,951	\$ 315,951	\$ –
Lease liabilities	76,712	80,218	20,836	59,383
Other financial liabilities	4,130	4,130	4,127	3

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(5) Market Risk Management

① Foreign Exchange Risk

1) Foreign Exchange Risk Management

The Group engages in business activities internationally and receives royalties or makes payment of expense in foreign currencies. Therefore, the Group is exposed to risks such as decrease in revenue, increase in cost price and development cost, and foreign exchange losses through fluctuations in foreign exchange rates. This risk primarily arises from currencies such as U.S. dollar, Euro, and British pound. In order to mitigate this risk, the Group enters into hedging instruments for a fixed portion of foreign currency-denominated transactions through forward foreign exchange contracts in accordance with the market risk management policy.

These forward foreign exchange contracts are maturities of one year or less.

2) Details of Forward Foreign Exchange Contracts by Currency

Details of forward foreign exchange contracts by currency are as follows:

	March 31, 2019		March 31, 2020		March 31, 2020
	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Fair value (Thousands of U.S. Dollars)
(Sell)					
U.S. Dollar	\$ 47	¥ (86)	\$ 40	¥ (27)	\$ (249)
- Cash flow hedge included in the above	45	(84)	40	(27)	(249)

Notes to Consolidated Financial Statements  
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3) Foreign Exchange Sensitivity Analysis

At the end of each fiscal year, the amount of impact on equity and profit or loss in the case of the yen depreciating by 10% against the U.S. dollar, Euro, and British pound is as follows:

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	March 31, 2019		March 31, 2020		March 31, 2020	
	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)
U.S. Dollar	¥ 306	¥(541)	¥ 307	¥ (56)	\$ 2,817	\$ (511)
Euro	—	(36)	—	(11)	—	(100)
British pound	116	(17)	117	(24)	1,071	(222)

Note: The analysis is based on the assumption that other variable factors remain constant.

② Price Fluctuation Risk

The Group is exposed to the risk of share price fluctuations that arise from equity instruments.

These equity instruments are basically held for the purpose of business strategy and not for short-term trading purposes. In addition, the Group periodically reviews the fair value of the instruments and the financial condition of issuers and the like, and takes into account the relationship with that company and reconsiders the composition of holdings in the company as necessary.

In case that the share price of equity instruments held by the Group increases or decreases by 10% at year-end, accumulated other comprehensive income (net-of-tax) would increase or decrease by ¥11,553 million and ¥9,253 million (\$84,886 thousand) as of March 31, 2019 and 2020, respectively, as a result of changes in fair value of the equity instruments designated as financial assets measured at FVOCI.

Notes to Consolidated Financial Statements  
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(6) Hedge Accounting

① Hedging instruments

The periods over which the Group hedges cash flow fluctuations by foreign exchange contract are within one year or less.

The carrying amounts (fair value) of the assets of hedging instruments are included in “Other financial assets,” and the carrying amounts (fair value) of the liabilities of hedging instrument are included in “Other financial liabilities.”

March 31, 2019

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value)		Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness  Millions of Yen
				Assets (Millions of Yen)	Liabilities (Millions of Yen)	
Cash flow hedge	Foreign currency risk	Forward exchange contract	\$ 45	¥ -	¥ 86	¥ 54

Note: The average foreign exchange rate in foreign exchange contracts is ¥109.10 per U.S. dollar.

March 31, 2020

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value)				Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness	
				Assets (Millions of Yen)	Liabilities (Millions of Yen)	Assets (Thousands of U.S. Dollars)	Liabilities (Thousands of U.S. Dollars)	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	Foreign currency risk	Forward exchange contract	\$ 40	¥ -	¥ 27	\$ -	\$ 249	¥ 18	\$ 168

Note: The average foreign exchange rate in foreign exchange contracts is ¥108.15 per U.S. dollar.

Notes to Consolidated Financial Statements  
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② Hedged items

March 31, 2019

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness	Balance in cash flow hedge reserve for continuing hedges
	Millions of Yen	Millions of Yen
Cash flow hedge	¥ (53)	¥ -

March 31, 2020

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness		Balance in cash flow hedge reserve for continuing hedges	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	¥ (30)	\$ (278)	¥ -	\$ -



Notes to Consolidated Financial Statements  
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- ③ Amounts that affected the consolidated statement of comprehensive income in association with cash flow hedges

For the year ended March 31, 2019

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income	Amount transferred from cash flow hedge reserve to profit or loss	Line item in profit or loss affected by the transfer
			Millions of Yen	Millions of Yen	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ 53	¥ 53	Revenue, etc.

For the year ended March 31, 2020

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income		Amount transferred from cash flow hedge reserve to profit or loss		Line item in profit or loss affected by the transfer
			Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ 30	\$ 278	¥ 30	\$ 278	Revenue, etc.

Note: The figures represent amounts before tax effect adjustments.

The hedge ineffectiveness is immaterial. Also, there is no cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied.

Notes to Consolidated Financial Statements  
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(7) Fair Value of Financial Instruments

① Fair Value Measurements

The methods and assumptions used in measuring the fair values of financial assets and financial liabilities are as follows:

Cash and cash equivalents, trade and other receivables, and trade and other payables

Since these items are settled in a short period of time, the fair values of these items are approximately equivalent to their carrying amounts.

Marketable securities and investment securities

The fair values of marketable securities and investment securities are measured using quoted market prices. The fair values of unlisted shares are measured through rational methods, such as the adjusted net assets method and others.

Other financial assets and other financial liabilities

- Insurance reserve fund

The fair value of the insurance reserve fund is measured based on the surrender value because there are no significant contractual restrictions associated with a refund.

- Forward foreign exchange contracts

The fair values of forward foreign exchange contracts are measured based on quoted market prices for forward foreign exchange contracts under the same terms and conditions as of the closing date.

- Time deposits

The fair values of time deposits are based on discounted future cash flows using an interest rate assumed to be applied if similar contracts were to be newly carried out.

- Others

Since other items are settled in a short period of time, their fair values are approximately equivalent to their carrying amounts.

# Notes to Consolidated Financial Statements

## Year Ended March 31, 2020

### ② Fair Value and Carrying Amount

The carrying amounts and fair values of financial assets and liabilities held by the Group by account are as follows. The following table does not include financial assets and liabilities whose carrying amounts and fair values are equivalent.

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	March 31, 2019		March 31, 2020		March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
(Financial assets)						
Financial assets measured at amortized cost						
- Marketable securities and investment securities	¥ 5,234	¥ 5,223	¥ 4,507	¥ 4,591	\$ 41,351	\$ 42,124
- Other financial assets	95,800	95,800	115,800	115,800	1,062,385	1,062,385

### ③ Fair Value Hierarchy

IFRS 13 *Fair Value Measurement* requires an entity to classify the fair value of financial instruments into Level 1 through Level 3 of the fair value hierarchy based on the observability of the inputs used in the fair value measurements of financial instruments.

The fair value hierarchy is as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2: Inputs are inputs other than quoted market prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3: Inputs are unobservable inputs for assets or liabilities.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

1) Financial Assets and Financial Liabilities Measured at Fair Value

The fair values of financial assets and financial liabilities measured at fair value in the consolidated statement of financial position, grouped by fair value hierarchy are as follows:

<i>Millions of Yen</i>				
March 31, 2019				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	¥ 350	¥ –	¥ 114	¥ 464
- Other financial assets	–	–	6,672	6,672
Financial assets measured at FVOCI				
- Investment securities	164,187	–	2,277	166,464
Total	¥ 164,537	¥ –	¥ 9,064	¥ 173,601
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	¥ –	¥ 86	¥ –	¥ 86
Total	¥ –	¥ 86	¥ –	¥ 86

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

<i>Millions of Yen</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	¥ 311	¥ –	¥ 144	¥ 454
- Other financial assets	–	–	6,694	6,694
Financial assets measured at FVOCI				
- Investment securities	130,850	–	2,472	133,322
Total	¥ 131,161	¥ –	¥ 9,310	¥ 140,470
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	¥ –	¥ 27	¥ –	¥ 27
Total	¥ –	¥ 27	¥ –	¥ 27

  

<i>Thousands of U.S. Dollars</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	\$ 2,852	\$ –	\$ 1,318	\$ 4,169
- Other financial assets	–	–	61,408	61,408
Financial assets measured at FVOCI				
- Investment securities	1,200,456	–	22,683	1,223,139
Total	\$ 1,203,308	\$ –	\$ 85,409	\$ 1,288,717
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	\$ –	\$ 249	\$ –	\$ 249
Total	\$ –	\$ 249	\$ –	\$ 249

Note: For the years ended March 31, 2019 and 2020, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

2) Financial Assets and Financial Liabilities Measured at Amortized Cost

The fair values of financial assets and financial liabilities measured at amortized cost in the consolidated statement of financial position, grouped by fair value hierarchy are as follows:

<i>Millions of Yen</i>				
March 31, 2019				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	¥ –	¥ 5,223	¥ –	¥ 5,223
- Other financial assets	–	95,800	–	95,800
<i>Millions of Yen</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	¥ –	¥ 4,591	¥ –	¥ 4,591
- Other financial assets	–	115,800	–	115,800
<i>Thousands of U.S. Dollars</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	\$ –	\$ 42,124	\$ –	\$ 42,124
- Other financial assets	–	1,062,385	–	1,062,385

Note: For the years ended March 31, 2019 and 2020, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

3) Reconciliation of Financial Instruments Measured Using Level 3 Inputs on a Recurring Basis

Movements of the financial assets measured using Level 3 inputs on a recurring basis from the beginning of the year to the end of the year are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Balance at beginning of the year	¥ 8,922	¥ 9,064	\$ 83,155
Total gains or losses	266	33	303
Profit or loss	83	110	1,010
Other comprehensive income	183	(77)	(706)
Purchase	400	766	7,026
Sale	(18)	—	—
Settlement	(507)	(553)	(5,075)
Balance at end of the year	¥ 9,064	¥ 9,310	\$ 85,409

Notes: 1. Profit or loss included in total gains or losses is related to financial assets measured at FVPL. These gains and losses are included in “Finance income” and “Finance costs,” respectively.

2. Other comprehensive income included in total gains or losses is related to financial assets measured at FVOCI. These gains and losses are included in “Net gain (loss) on financial assets measured at FVOCI.”

3. There are no applicable financial liabilities measured using Level 3 on a recurring basis.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**35. Share-based Payments**

The Company has a share option plan which reflects the Board of Directors' goal of long-term improvement of corporate value to share the consciousness of the profit of the Company with shareholders.

**(1) Contractual conditions of share options**

	Eligible persons	Number of share options granted (Shares)	Grant date	Exercise period	Settlement method	Vesting conditions
2015 issued	The Company's directors (excluding outside directors)	2,900	July 13, 2015	From July 14, 2015 through July 13, 2055	Settled in equity	None
2016 issued	The Company's directors (excluding outside directors)	13,000	July 14, 2016	From July 15, 2016 through July 14, 2056	Settled in equity	None
2017 issued	The Company's directors (excluding outside directors)	14,500	July 14, 2017	From July 15, 2017 through July 14, 2057	Settled in equity	None
2018 issued	The Company's directors (excluding outside directors)	14,500	July 9, 2018	From July 10, 2018 through July 9, 2058	Settled in equity	None
2019 issued	The Company's directors (excluding outside directors)	20,000	July 5, 2019	From July 6, 2019 through July 5, 2059	Settled in equity	None

Notes: 1. Holders of subscription rights to shares can exercise their share subscription rights only from the day following the date of resignation from their position as director of the Company.



Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

2. Although the Company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016, the effect of this stock split is not reflected in the above table for 2015 issued.

(2) Movement of the number of share options and their weighted-average exercise price

	For the year ended March 31, 2019		For the year ended March 31, 2020		For the year ended March 31, 2020
	Number of share options (Shares)	Weighted- average exercise price (Yen)	Number of share options (Shares)	Weighted- average exercise price (Yen)	Weighted- average exercise price (Dollar)
Outstanding at the beginning of the year	42,000	1	56,500	1	0.01
Granted	14,500	1	20,000	1	0.01
Exercised	—	—	—	—	—
Forfeited	—	—	—	—	—
Outstanding at the end of the year	56,500	1	76,500	1	0.01
Options exercisable, at the end of the year	—	—	—	—	—

Note: The exercise price of unexercised share options was ¥1 (\$0.01) for the year ended March 31, 2020 and the weighted-average remaining life was 37.3 years as of March 31, 2020.

(3) Fair value and fair value measurement method of share options

① Measurement method

Black-Scholes model

② Primary base assumptions and measurement method

	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Fair value	¥1,909	¥1,338	\$12
Share price at the grant date	¥2,598.5	¥2,068.5	\$19
Exercise price	¥1	¥1	\$0.01
Expected volatility	31.649%	31.409%	
Option life	20 years	20 years	
Expected dividend yield	¥40	¥45	\$0.41
Risk-free interest rate	0.487%	0.208%	

Note: The expected volatility is estimated based on share prices for the past 20 years.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(4) Expenses related to share-based payments

Expenses related to share-based payments are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Share-based payments	¥ 27	¥ 27	\$ 248

**36. Non-cash Transactions**

Non-cash transactions (investments and financial transactions that do not involve the use of cash and cash equivalents) are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Property, plant, and equipment acquired under finance leases	¥ 1,933	¥ –	\$ –
Additions to right-of-use assets	–	2,774	25,452
Total	¥ 1,933	¥ 2,774	\$25,452

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

### 37. Related Parties

#### (1) Subsidiaries and Affiliates

Details of the Group's subsidiaries and affiliates are as follows:

Name	Primary business	Location	Proportion of voting rights held by the Group	
			March 31, 2019	March 31, 2020
			(%)	(%)
ONO PHARMA USA, INC.	Pharmaceutical business	New Jersey, United States of America	100.0	100.0
ONO PHARMA UK Ltd.	Pharmaceutical business	London, United Kingdom	100.0	100.0
ONO PHARMA KOREA CO., LTD.	Pharmaceutical business	Seoul, Korea	100.0	100.0
ONO PHARMA TAIWAN CO., LTD.	Pharmaceutical business	Taipei, Taiwan	100.0	100.0
Oriental Pharmaceutical & Synthetic Chemical Co., Ltd.	Pharmaceutical business	Chuo-ku, Osaka City	45.5	45.5
Bee Brand Medico Dental Co., Ltd.	Pharmaceutical business	Higashiyodogawa-ku, Osaka City	80.0 (40.0)	80.0 (40.0)

Notes: 1. The percentage of voting rights in parentheses represents the percentage held indirectly, which is inclusive of the proportion of voting rights held.

2. The Group holds 50% or less of equity in Oriental Pharmaceutical and Synthetic Chemical Co., Ltd., but treats the company as a subsidiary because the Group substantially controls it.

#### (2) Transactions with Related Parties

There were no significant transactions and balances of receivables and payables between the Group and its related parties.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

(3) Remuneration of Key Management Personnel

The remuneration of the Group's key management personnel is as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2019	For the year ended March 31, 2020	For the year ended March 31, 2020
Fixed remuneration	¥ 257	¥ 260	\$ 2,389
Bonuses	77	81	739
Share-based payments	27	27	248
Total	¥ 361	¥ 368	\$ 3,376

Notes: 1. Remuneration of key management personnel comprises the remuneration for eight people for the year ended March 31, 2020 (eight people for the year ended March 31, 2019), who are key management personnel having authority and responsibility for planning, supervising, and managing business activities of the Group.

2. As for remuneration of key management personnel, remuneration of internal directors consists of fixed remuneration, bonuses and share-based payments, and remuneration of outside directors and auditors consists of only fixed remuneration. The fixed remuneration of internal directors is determined in consideration of factors such as the size of the Group's business, the nature of their duties, scope of responsibility of each management personnel, and consistency in treatment with respect to other employees with a remuneration database from major consulting companies. The bonuses and stock options as share-based payments are determined in consideration of management indicators, such as revenue and operating profit that reflect performance and qualitative indicators such as contributions to enhancement of long-term corporate value. On the other hand, in consideration of factors, such as the nature of their duties and to ensure the independence from the execution of business, the remuneration of outside directors and auditors consists of only fixed remuneration. To determine the level of remuneration of outside directors, the Company refers to a remuneration database from major consulting companies so that the Company can seek suitable persons who have significant experience and broad knowledge.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

### 38. Commitments for Expenditure

Payment commitments after the end of each fiscal year date are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2019	March 31, 2020	March 31, 2020
Property, plant, and equipment	¥ 2,013	¥ 1,122	\$ 10,294
Intangible assets	—	109	996
Total	¥ 2,013	¥ 1,231	\$ 11,290

The Group has milestone payments relating to the success of development projects and achievement of specific sales targets. Milestone payments that the Group may potentially pay within three years are ¥18,158 million and ¥11,760 million (\$107,890 thousand) as of March 31, 2019 and 2020, respectively.

These milestone payment amounts are undiscounted and include all such potential payments assuming all projects currently in development are successful and specific sales targets are achievable.

### 39. Contingent Liabilities

In September 2015, Dana-Farber Cancer Institute in the United States of America filed a suit in the U.S. District Court for Massachusetts against the Company, Bristol-Myers Squibb Company, and Professor Tasuku Honjo for addition of inventors for patent applications on anti-PD-1 antibodies and anti-PD-L1 antibodies that the Company owned.

On May 17, 2019, in the first instance, the Court ruled that Clive Wood, PhD and Dana-Farber Cancer Institute scientist, Gordon Freeman, PhD are coinventors on the patents. On June 21, 2019, Dana-Farber Cancer Institute, that received the rights and interests relating to the invention from Gordon Freeman, PhD, filed a suit in the U.S. District Court for Massachusetts for the right to receive a part of license revenue that the Company and Bristol-Myers Squibb Company received by a settlement or a license agreement as a result of suits for infringement of patents that the Company and Bristol-Myers Squibb Company, as owners of the patent monopoly, filed against their competitors.

The Company was dissatisfied with the decision and appealed. The Group is not able to estimate the impact on its consolidated financial statements at this stage.

Notes to Consolidated Financial Statements  
Year Ended March 31, 2020

**40. Approval of Consolidated Financial Statements**

The consolidated financial statements for the year ended March 31, 2020, were approved by Gyo Sagara, President, Representative Director, and Chief Executive Officer, on June 18, 2020.

**41. Significant Subsequent Events**

There is no applicable item.