

Always Putting Patients First

sawai

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Sawai Pharmaceutical Co., Ltd.
Integrated Report
Financial Section
For the Year Ended March 31, 2019

2019



Eleven-Year Summary (Years Ended March 31)

IFRS	Millions of yen		
	2019	2018	2017
Sales revenues	¥184,341	¥ 168,068	¥ 132,392
Cost of sales	109,442	98,628	80,548
Gross profit	74,899	69,440	51,844
Selling, general and administrative expenses (including research and development (R&D) expenses)	49,051	47,264	28,497
Operating income	25,798	22,209	22,943
Profit before tax	25,666	20,251	22,757
Profit attributable to owners of the parent	19,376	14,017	17,969
Total assets	372,889	358,453	225,609
Inventories	63,449	65,217	61,924
Total current liabilities	70,350	72,275	55,490
Total non-current liabilities	79,334	83,737	28,882
Total equity	223,204	202,441	141,237
Cash flows from operating activities	42,923	28,472	23,270
Cash flows used in investing activities	(16,820)	(127,900)	(18,827)
Cash flows from (used in) financing activities	(9,513)	108,597	(6,761)
Cash and cash equivalents at the end of the year	57,067	39,992	30,771
R&D expenses	16,671	14,533	7,238
Capital expenditures	10,709	16,807	18,839
Depreciation and amortization	16,280	14,239	8,520
		%	
Ratio of R&D expenses to sales revenues	9.0	8.6	5.5
Return on equity	10.2	8.7	13.4
Ratio of equity attributable to owners of the parent to total assets	53.4	50.6	62.6
		Yen	
Amounts per share			
Basic earnings per share	¥ 442.62	¥ 360.49	¥ 487.38
Diluted earnings per share	442.32	360.26	487.08
Dividends per share	135.00	130.00	130.00
Equity attributable to owners of the parent per share	4,551.50	4,143.15	3,830.84

Japanese-GAAP
Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating income
Profit before income taxes
Profit attributable to owners of parent
Total assets
Inventories
Total current liabilities
Total long-term liabilities
Net assets
Net cash provided by operating activities
Net cash used in investing activities
Net cash provided by (used in) financing activities
Cash and cash equivalents at end of year
Research and development (R&D) expenses
Capital expenditures
Depreciation and amortization
Ratio of R&D expenses to sales
Return on equity
Shareholders' equity to total assets
Amounts per common share:
Net income—basic
Net income—diluted
Cash dividends applicable to period
Net assets

Notes: 1. Diluted net income per common share is not disclosed in 2009 because there were no outstanding convertible securities.

2. Capital expenditures are presented on a cash flow basis.

3. The Company split its common stock two for one on October 1, 2013. Amounts per common share for years prior to 2014 were recalculated to reflect the share split.

4. The Company has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2018. In applying IFRS, "Core Operating Income" has been introduced as an ordinary profitability index.

5. Dividend per share in 2019 included our 90th anniversary commemorative dividend of 5 yen.

Millions of yen								
2017	2016	2015	2014	2013	2012	2011	2010	2009
¥132,428	¥123,492	¥105,454	¥ 89,824	¥ 80,503	¥ 67,603	¥ 63,853	¥ 50,070	¥ 44,284
80,309	71,858	60,048	48,353	42,511	34,411	33,736	26,275	25,156
52,119	51,634	45,406	41,471	37,992	33,192	30,117	23,795	19,128
31,486	28,449	24,718	22,380	20,607	18,188	16,531	15,276	14,461
20,633	23,185	20,688	19,091	17,385	15,004	13,586	8,519	4,668
19,871	23,092	20,298	18,990	18,098	14,928	12,289	8,372	4,320
15,914	17,156	14,053	12,193	12,022	9,026	7,183	4,982	2,439
221,539	206,492	166,180	149,348	127,843	123,400	117,056	81,236	72,320
61,777	55,668	44,663	39,182	29,529	25,780	21,218	18,081	13,588
54,876	50,078	42,209	39,097	30,105	26,932	25,811	25,441	20,911
29,063	30,692	11,572	8,949	36,258	37,893	40,382	9,537	9,703
137,600	125,722	112,399	101,302	61,480	58,575	50,863	46,258	41,706
20,628	19,975	12,112	13,422	12,256	7,814	5,937	7,907	3,169
(16,206)	(22,937)	(14,123)	(8,283)	(1,373)	(2,371)	(20,362)	(5,329)	(3,037)
(6,740)	13,473	(922)	(178)	(10,970)	(4,578)	24,756	348	1,027
30,771	33,096	22,604	25,537	20,584	20,671	19,805	9,474	6,548
10,208	8,019	6,110	5,170	4,551	4,317	3,902	3,593	3,409
16,194	17,775	13,251	7,353	4,599	4,599	2,805	5,370	2,840
8,645	7,044	5,863	4,989	3,793	3,389	3,066	3,025	2,709
%								
7.7	6.5	5.8	5.8	5.7	6.4	6.1	7.2	7.7
12.1	14.4	13.2	15.0	20.1	16.5	15.1	11.8	6.2
62.0	60.8	67.6	67.8	48.0	47.4	43.4	54.5	55.4
Yen								
¥ 431.65	¥ 465.57	¥ 382.26	¥ 365.18	¥ 386.71	¥ 285.25	¥ 228.04	¥ 158.66	¥ 77.66
431.39	465.25	381.85	330.41	318.17	235.07	203.67	158.43	—
130.00	120.00	105.00	95.00	85.00	70.00	55.00	35.00	27.50
3,722.90	3,405.20	3,053.29	2,755.29	2,027.15	1,846.84	1,605.16	1,408.83	1,275.53

Consolidated Financial Statements

[1] [Consolidated Statement of Income]

(millions of yen)

	Note No.	2018	2019
Sales revenues	5	168,068	184,341
Cost of sales		(98,628)	(109,442)
Gross profit		69,440	74,899
Selling, general and administrative expenses	6	(32,731)	(32,380)
Research and development expenses		(14,533)	(16,671)
Other income	7	328	269
Other expenses	8	(294)	(319)
Operating income		22,209	25,798
Financial income	9	160	421
Financial expenses	9	(2,118)	(553)
Profit before tax		20,251	25,666
Income tax	10	(6,140)	(5,939)
Profit for the year		14,111	19,727
Profit attributable to:			
Owners of the parent		14,017	19,376
Non-controlling interests		94	351
Total		14,111	19,727
Earnings per share (yen)			
Basic earnings per share	11	360.49	442.62
Diluted earnings per share	11	360.26	442.32

[2] [Consolidated Statements of Comprehensive Income]

(millions of yen)

	Note No.	2018	2019
Profit for the year		14,111	19,727
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in financial assets measured at fair value through other comprehensive income	12	452	(26)
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	12	(4,233)	4,900
Total other comprehensive income		(3,780)	4,874
Total comprehensive income		10,331	24,601
Comprehensive income attributable to:			
Owners of the parent		11,580	23,302
Non-controlling interests		(1,249)	1,299
Total		10,331	24,601

(millions of yen)

	Note No.	As of March 31, 2018	As of March 31, 2019
Assets			
Current assets			
Cash and cash equivalents	13	39,992	57,067
Trade and other receivables	14	56,206	63,676
Inventories	15	65,217	63,449
Other current assets		733	716
Total current assets		162,149	184,907
Non-current assets			
Property, plant and equipment	17	88,059	81,233
Goodwill	18	37,717	39,403
Intangible assets	18	58,918	55,134
Other financial assets	16	6,560	6,939
Other non-current assets		759	631
Deferred tax assets	10	4,292	4,641
Total non-current assets		196,305	187,981
Total assets		358,453	372,889

(millions of yen)

	Note No.	As of March 31, 2018	As of March 31, 2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19	39,909	43,434
Bonds and borrowings	20	4,718	4,802
Income taxes payable, etc.		7,383	4,841
Refund liabilities		6,678	8,071
Other financial liabilities	21, 22	5,754	530
Other current liabilities		7,833	8,672
Total current liabilities		72,275	70,350
Non-current liabilities			
Bonds and borrowings	20	79,787	75,004
Other financial liabilities	21, 22	2,855	2,523
Other non-current liabilities		1,031	1,742
Deferred tax liabilities	10	63	64
Total non-current liabilities		83,737	79,334
Total liabilities		156,012	149,684
Equity			
Share capital	24	41,170	41,184
Capital surplus	24	42,574	42,849
Retained earnings		99,657	113,342
Treasury shares	24	(1,385)	(1,385)
Other components of equity	24, 27	(666)	3,259
Total interests attributable to owners of the parent		181,350	199,250
Non-controlling interests		21,091	23,954
Total equity		202,441	223,204
Total liabilities and equity		358,453	372,889

[4] [Consolidated Statement of Changes in Equity]

Previous consolidated fiscal year (2018)

(millions of yen)

	Note No.	Equity attributable to owners of the parent						Non-controlling interests	Total Equity
		Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total		
Balance at April 1, 2017		27,171	27,803	90,434	(6,006)	1,836	141,237	-	141,237
Profit for the year				14,017			14,017	94	14,111
Other comprehensive income						(2,437)	(2,437)	(1,344)	(3,780)
Total comprehensive income		-	-	14,017	-	(2,437)	11,580	(1,249)	10,331
Issuance of new shares	24	13,999	13,999			(14)	27,984		27,984
Direct issuance costs for issuance of new shares			(81)				(81)		(81)
Disposal of treasury shares	24		120		4,622		4,742		4,742
Dividends	25			(4,793)			(4,793)		(4,793)
Changes in ownership interests in subsidiaries that do not result in a loss of control	31		732			(129)	604	22,341	22,944
Share-based payment transaction	27					77	77		77
Total transactions with owners		13,999	14,770	(4,793)	4,622	(65)	28,533	22,341	50,873
Balance at March 31, 2018		41,170	42,574	99,657	(1,385)	(666)	181,350	21,091	202,441

Current consolidated fiscal year (2019)

(millions of yen)

	Note No.	Equity attributable to owners of the parent						Non-controlling interests	Total Equity
		Share capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total		
Balance at April 1, 2018		41,170	42,574	99,657	(1,385)	(666)	181,350	21,091	202,441
Profit for the year				19,376			19,376	351	19,727
Other comprehensive income						3,926	3,926	947	4,874
Total comprehensive income		-	-	19,376	-	3,926	23,302	1,299	24,601
Issuance of new shares	24	15	15			(30)	0	1,098	1,098
Acquisition of treasury shares	24				(0)		(0)		(0)
Dividends	25			(5,691)			(5,691)		(5,691)
Share-based payment transaction	27					29	29		29
Other			261				261	465	726
Total transactions with owners		15	276	(5,691)	(0)	(1)	(5,401)	1,564	(3,837)
Balance at March 31, 2019		41,184	42,849	113,342	(1,385)	3,259	199,250	23,954	223,204

	Note No.	2018	2019
Cash flows from operating activities			
Profit before tax		20,251	25,666
Depreciation and amortization		14,239	16,280
Impairment loss		3,598	5,317
Financial income		(160)	(322)
Financial expenses		1,423	450
Loss/profit on sales and disposal of fixed assets		83	195
(Increase)decrease in trade and other receivables		(2,015)	(6,839)
(Increase)decrease in inventories		5,200	2,176
Increase(decrease) in trade and other payables		(3,509)	4,513
Increase(decrease) in refund liabilities		488	1,193
Increase(decrease) in other financial liabilities		(6,293)	(214)
Other		74	2,803
Subtotal		33,379	51,217
Interest received		38	186
Dividends received		109	126
Interest paid		(842)	(445)
Income taxes paid		(4,212)	(8,161)
Cash flows generated from operating activities		28,472	42,923
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(10,319)	(7,500)
Payments for purchase of intangible assets		(6,487)	(3,208)
Payments for acquisition of shares of subsidiaries accompanying the change in scope of consolidation	28	(111,195)	(5,546)
Other		102	(566)
Cash flows used in investing activities		(127,900)	(16,820)
Cash flows from financing activities			
Net increase(decrease) in short-term borrowings		(310)	-
Proceeds from long-term borrowings	20	60,000	-
Repayment of long-term borrowings	20	(2,297)	(4,718)
Proceeds from issuance of new shares		27,866	-
Proceeds from sales of shares of subsidiaries not accompanying the change in scope of consolidation		23,688	74
Dividends paid	25	(4,793)	(5,691)
Proceeds from disposition of treasury shares		4,742	-
Other		(299)	822
Cash flows generated from (used in) financing activities		108,597	(9,513)
Effect of exchange rate changes on cash and cash equivalents		52	484
Net increase(decrease) in cash and cash equivalents		9,221	17,074
Cash and cash equivalents at the beginning of the year		30,771	39,992
Cash and cash equivalents at the end of the year	13	39,992	57,067

1. Reporting Entity

Sawai Pharmaceutical Co., Ltd. and its consolidated subsidiaries (hereinafter referred to as “the Group”) are engaged in the pharmaceutical business. Sawai Pharmaceutical Co., Ltd., the parent of the Group (hereinafter referred to as “the Company”) is a corporation located in Japan.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards (hereinafter referred to as “IFRS”)

As the Group meets all requirements concerning the “Specified Company Applying Designated IFRS,” set forth in Article 1-2 of the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No.28 of 1976. Hereinafter referred to as “Ordinance on Consolidated Financial Statements”), the consolidated Financial Statements of the Group have been prepared in compliance with IFRS under the Ordinance on Consolidated Financial Statements, Article 93.

(2) Approval of Financial Statements

Consolidated Financial Statements of the Group were approved by the board of directors on June 25, 2019.

(3) Basis of Measurement

Consolidated Financial Statements have been prepared based on the historical cost basis, except for financial instruments, etc., stated in “3. Significant Accounting Policies.”

(4) Presentation Currency

Consolidated Financial Statements of the Group are presented in Japanese yen, which is the functional currency of the Company, and figures are rounded to the nearest million yen.

(5) Significant Accounting Estimates, Judgements and Assumptions

In preparation of Consolidated Financial Statements in compliance with IFRS, the management is required to set estimates, judgements and assumptions that affect the application of accounting policies and reported amount of assets, liabilities, income and expenses. Due to the uncertainty of these estimates and assumptions, material adjustments to the carrying amount of assets and liabilities might be required in the future periods.

Major accounting estimates, judgements and assumptions shall be as follows.

- Material assumptions used for calculation of discounted cash flow forecasts in the impairment test of goodwill and intangible assets (Note 18)
- Useful life of property, plant and equipment and intangible assets (Note 3 and 18)
- Recoverability of deferred tax assets (Note 10)
- Fair value of financial assets (Note 26)
- Accounting and valuation of refund liabilities (Note 5)

(6) New IFRS standards and interpretations not yet adopted

New or amended accounting standards and interpretations that have been issued as of the date of approval of Consolidated Financial Statements but are not effective and have not been early adopted by the Group are as follows.

IFRS		Mandatory adoption (Fiscal years beginning on or after)	The Group's application date	Overview of the new or amended standards and interpretations
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Providing accounting and disclosure related to leases

The Group will apply IFRS 16 *Leases* from the beginning of the fiscal year ending March 31, 2020. By application of this standard, in principal, right-of-use assets that represent the right to use underlying assets and lease liabilities that represent the obligation to pay lease payments will be recognized for all leases. Therefore, for operating leases, which had previously recognized lease payments as expenses, right-of-use assets and lease liabilities will be recognized in the Consolidated Statement of Financial Position, and depreciation expenses of right-of-use assets and financial expenses of lease liabilities will be recognized in the Consolidated Statement of Income.

By application of these standards, as of the beginning of the fiscal year ending March 31, 2020, it is expected that tangible fixed assets will increase by about ¥4,800 million and other financial liabilities (current and non-current) will increase by about ¥5,500 million in the Consolidated Statement of Financial Position. There will be no significant impact on the Consolidated Statement of Income.

3. Significant Accounting Policies

The accounting policies set forth below have been continuously applied for the entire period stated in the Consolidated Financial Statements, unless otherwise stated.

(1) Basis of Consolidation

Consolidated Financial Statements are prepared based on the financial statements of the Company and its subsidiaries and associates.

[1] Subsidiaries

Subsidiaries are companies controlled by the Company.

Financial statements of subsidiaries are included in the Consolidated Financial Statements of the Group from the date that control commences until the Company loses control.

Changes in ownership interests in subsidiaries which do not result in the loss of control have been accounted as capital transactions. The difference between the adjusted amount of non-controlling interests and the fair value of the consideration is directly recognized in equity as the interest attributable to owners of the parent.

Intercompany balances, transactions and unrealized profit or loss that accrued by transactions within the Group are eliminated in preparation of the Consolidated Financial Statements.

[2] Associates

Associates are companies for which the Group has significant influence on financial and operating policies but does not have control.

Investments in associates are accounted by the equity method and recognized as the acquisition cost at the time of acquisition.

Unrealized profits that accrued from transactions with the companies to which the equity method is applied are deducted from investments up to the interest of the Group. Unrealized losses are deducted from investments by the same method applied to unrealized profits unless there is evidence of impairment losses.

(2) Business Combination

Business combination is accounted for by applying the acquisition method.

Identifiable assets and liabilities of the acquiree are measured at fair value at the acquisition date.

Goodwill is measured as the excess amount if the total of the consideration transferred by the business combination, amount of non-controlling interests in the acquiree and the fair value of the equity interest previously held by the acquirer exceed the net value of the assets and liabilities identifiable as of the acquisition date. Consideration transferred by business combination is calculated by the total of assets transferred by the acquirer, liabilities to the former owners of the acquiree that accrued to the acquirer and the fair value of the equity interest issued by the acquirer as of the acquisition date.

The Group selects for each business combination whether to measure the non-controlling interests by the fair value or the amount equivalent to the non-controlling interests to the identifiable net assets of the acquiree.

Acquisition-related costs are recognized as expenses when incurred.

In this regard, the additional acquisition of the non-controlling interests after acquisition of control is accounted as equity transactions and goodwill is not recognized from such transactions.

(3) Foreign Currency Translation

[1] Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the exchange rate as of the transaction date or the approximation of the rate.

Foreign currency monetary items as of the closing date are re-translated into the functional currency at the exchange rate as of the closing date and foreign currency non-monetary items measured by fair value are retranslated into the functional currency at the exchange rate as of the calculation date of the fair value respectively.

Exchange differences arising from the translation and settlement is recognized as net profit or loss; provided, however, that the exchange differences arising from financial assets measured by fair value through other comprehensive income is recognized as other comprehensive income.

[2] Foreign operations

Assets and liabilities in the Statement of Financial Position of foreign operations are translated at the exchange rate as of the closing date and revenues and expenses of each statement indicating net profit or loss and other comprehensive income are translated at the exchange rate as of the transaction date or similar rate.

Exchange differences arising from the translation is recognized as other comprehensive income. If a foreign operation was disposed of, cumulative amount of exchange differences related to the foreign operation are reclassified to profit or loss for the period of disposition.

(4) Financial Instruments

[1] Non-derivative financial assets

(i) Initial recognition and measurement

The Group initially recognizes all financial assets as of the transaction date when the Group became a party to the contract.

Financial assets are classified as financial assets measured at amortized cost and financial assets measured at fair value at the initial recognition. The classification is made as follows depending on whether financial assets are debt instruments or equity instruments.

(a) Financial assets which are debt instruments

If both of the following conditions are satisfied, they are classified as financial assets measured at the amortized cost.

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

If both of the following conditions are satisfied, they are classified as financial assets measured at fair value through other comprehensive income.

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

The assets not falling under any of the above are classified as financial assets measured at fair value through net profit or loss.

(b) Financial assets which are equity instruments

Financial assets which are equity instruments are, except when held for trading purposes, designated as to be classified as “financial assets measured at fair value through other comprehensive income” or “financial assets measured at fair value through net profit or loss” and such classifications have been continuously applied. If financial assets are held for trading purposes, they are classified as financial assets measured at fair value through net profit or loss.

In principle, financial assets are initially measured at fair value plus the transaction costs directly attributable to the financial assets. Provided, however, that trade receivables not containing material financial elements are initially measured at the transaction price.

For financial assets measured at fair value through net profit or loss, transaction costs are recognized in net profit or loss when incurred.

(ii) Subsequent measurement

(a) Financial assets measured at amortized cost

They are measured at amortized cost by the effective interest method. Amortization under the effective interest method, impairment loss and any gain or loss in case of derecognition are recognized in net profit or loss as financial income and financial expenses.

(b) Financial assets measured at fair value

They are measured at fair value. For equity instruments which were selected to be classified as financial assets measured at fair value through other comprehensive income, changes in the amount of fair value are recognized in other comprehensive income and cumulative gains or losses are transferred to retained earnings when those assets are derecognized. However, except for cases where the dividend amount apparently shows recovery of acquisition cost of investment, it is recognized in financial income where it is reliably measured as the right to receive it was fixed and economic interest is likely to flow into the Group.

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

(iii) Impairment loss

For financial assets measured at amortized cost, it is determined at the end of each reporting period whether credit risk of the assets significantly increased from the time of initial recognition and according to the existence of the significant increase in credit risk from the time of initial recognition, the following amount is recognized as allowance for doubtful receivables.

(a) In a case where credit risk has not significantly increased from the time of initial recognition

The same amount as the expected credit loss for twelve months

(b) In a case where credit risk has significantly increased from the time of initial recognition

The same amount as the expected credit loss for the entire period

Provided, however, that for trade receivables, notwithstanding the above, allowance for doubtful receivables is recognized at the same amount as the expected credit loss for the entire period.

Amount of expected credit loss is calculated as the present value of the difference between all contractual cash flows to be paid to the Group in accordance with the contracts and all cash flows expected to be received by the Group.

(iv) Derecognition

The Group derecognizes a financial asset when the contractual rights to receive cash flows from the financial asset expire, or the contractual right to receive cash flows from the financial asset is transferred and substantially all risks and rewards related to ownership of the financial asset are transferred.

[2] Non-derivative financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes all financial liabilities as of the transaction date when the Group became a party to the contract.

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

While financial liabilities are initially measured at fair value, for financial liabilities measured at amortized cost, transaction costs directly attributable to the financial liability are deducted.

(ii) Subsequent measurement

After the initial recognition, financial liabilities are measured as follows according to their classifications.

(a) Financial liabilities measured at amortized cost

They are measured at amortized cost by the effective interest method. Amortization under the effective interest method and any gain or loss in case of derecognition are recognized in net profit or loss as financial income and financial expenses.

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

They are measured at fair value. Amount of changes in fair value is recognized in net profit or loss.

(iii) Derecognition

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

[3] Derivative

In some cases, the Group may use derivatives such as forward exchange contracts in order to hedge against exchange fluctuation risk.

These derivatives are initially recognized at fair value as of execution of the contract and they are subsequently measured at fair value thereafter. Changes in fair value of derivative are recognized in net profit or loss.

(5) Sales Revenues

The Group recognizes sales revenues when (or as) it satisfies a performance obligation by transfer to customers promised goods or services based on the following five-step model framework. Sales revenues are measured by the amount, deducting discount, rebate and other similar items, from the promised consideration in the contract with the customer (i.e. transaction price).

Step 1: Identify the contract(s) 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.

The Group is mainly engaged in sale of pharmaceuticals and customers obtain control of the products at the time of acceptance of the products and the Group satisfies performance obligation, therefore, the Group recognizes sales revenues at the time of customers' acceptance.

(6) Income Tax

Income tax is comprised of current income tax and deferred income tax.

These are recognized in net profit or loss, except for the items related to business combination and directly recognized in equity or other comprehensive income.

Current tax is calculated at the amount expected to be paid or recovered from the taxation authority by applying the tax rate enacted or substantially enacted at the end of the reporting period, adjusting the accrued income tax by the previous year.

Deferred tax assets and liabilities are recognized for temporary difference between the carrying amount of assets and liabilities in financial statements and the taxable standard amount as of the end of the year. However, deferred tax assets and liabilities are not recognized in the following cases:

- Differences related to investments in subsidiaries and joint control where it is probable that the difference will not reverse in the foreseeable future
- Taxable temporary difference arising from the initial recognition of goodwill

Deferred tax assets and liabilities are measured by the tax rate expected to apply to the period when temporary difference reverses, based on the law enacted or actually enacted at the end of the year.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax loss, and unused tax credits can be utilized. Deferred tax assets are reviewed at the end of each period and reduced for the portion where it is not probable to gain the taxable income sufficient to realize the benefit of part or all of deferred tax assets.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and they are related to income taxes levied by the same taxation authority on the same taxable entity.

(7) Earnings Per Share

Basic earnings per share are calculated by dividing profit for the period attributable to owners of the parent by the weighted average number of ordinary shares outstanding for the period, deducting the treasury shares. Diluted earnings per share is calculated so as to impact potential ordinary shares with a dilutive effect by the adjustment of the weighted average number of shares outstanding, adjusting treasury shares and the profit for the period attributable to owners of the parent.

(8) Cash and Cash equivalents

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

(9) Inventories

Inventories are mainly comprised of goods and products, work in progress, raw materials and stored goods.

Inventories are measured at the lower of cost or net realizable value. Cost is mainly calculated by the weighted-average method, which includes purchase cost, processing cost, and any other related manufacturing cost. Net realizable value is calculated as the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to sell.

(10) Property, Plant and Equipment

Cost model is adopted as the measurement method after recognition of property, plant and equipment. Property, plant and equipment are presented at the cost less accumulated depreciation and accumulated impairment loss.

The cost includes expenses directly related to acquisition of assets, expenses for dismantling, removal and restoration to original conditions and borrowing costs eligible for capitalization.

Depreciation of property, plant and equipment other than land and construction in progress is recorded by the straight-line method for the estimated useful life of each asset. Depreciation of these assets starts from the time when they become usable.

Useful life by type of major assets is as follows.

- Building and structures: 2 to 50 years
- Machinery and equipment: 2 to 20 years
- Tools, furniture and fixtures: 2 to 20 years

Depreciation method, residual value and useful life are reviewed at least at the end of each period and revised as necessary.

(11) Leases

Leases are classified as finance leases if substantially all the risks and rewards incidental to ownership are transferred to lessee, and leases other than finance lease are classified as operating leases.

Under Finance leases, assets or liabilities are recognized at the commencement of the lease in the Consolidated Statement of Financial Position at the lower of the fair value of the leased property or the present value of total amount of minimum lease payment, each determined at the inception of the lease. Total minimum lease payment of finance leases is allocated to financial expenses and reduction of liability balance. Financial expenses are allocated to each period of total lease term so that it shall be a constant periodic rate to the liability balance.

For operating leases, lease payment is recognized as expenses for the lease term by the straight-line method.

(12) Goodwill

Measurement of goodwill at the initial recognition is stated in “(2) Business Combination.”

After the initial recognition, it is presented at cost less accumulated impairment losses.

Goodwill shall not be amortized. It is allocated to cash-generating unit or cash-generating unit group and tested for annually and whenever there is an indication that cash-generating unit may be impaired. Impairment losses of goodwill are recognized in net profit or loss and reversal shall not be made thereafter.

(13) Intangible Assets

Research expenses that accrued internally are recognized as expenses when incurred.

Development expenses that accrued internally are recognized as intangible assets only if all criteria for capitalization are satisfied. The Group considers that internal development expenses accrued after the decision-making of conducting application for marketing meet the criteria for capitalization, and expenses accrued before the decision making are recognized as research and development expenses when incurred.

Intangible assets individually acquired are measured at cost on initial recognition. Costs of intangible assets acquired by business combination are measured at fair value as of the acquisition date.

Expenses for acquisition and development of software for internal use are recognized in intangible assets if the expected future economic benefits will flow to the Group.

Cost model is adopted as the measurement method after recognition of intangible assets and it is presented at the cost less accumulated amortization and accumulated impairment loss.

Intangible assets are amortized by the straight-line method for estimated useful life of each asset from when they become usable.

Useful life by type of major intangible assets is as follows.

- Intangible assets related to products: 1 to 10 years
- Right of approval of marketing: 6 years
- Software: 2 to 5 years

Amortization method, residual value and useful life are reviewed at least at the end of each period and revised as needed.

Intangible assets which were recorded in assets as in process research and development and intangible assets with indefinite useful lives are not amortized and tested for annually and whenever there is an indication of impairment.

(14) Impairment of Non-financial Assets

The Group assesses, at the end of reporting period, whether there is any indication of impairment of non-financial assets, excluding inventories, deferred tax assets and assets held for sale.

If there is an indication of impairment or annual impairment test is required, recoverable amount of each asset is calculated. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount of assets or cash-generating unit is measured at the higher of fair value less cost of disposal and value in use. Value in use is calculated by discounting the estimated future cash flow to the present value using the discount rate that reflects the time value of currency and risk specific to the asset.

Only if the recoverable amount of an asset or cash-generating unit is lower than the carrying amount, the carrying amount of the asset is reduced to the recoverable amount and impairment losses are recognized as net profit or loss.

For assets or cash-generating unit other than goodwill, for which impairment loss was recognized in previous fiscal years, the Group assesses whether there is any indication of decrease in or extinction of impairment loss recognized in the previous fiscal years at the end of reporting period. If there is such an indication, the Group estimates the recoverable amount of the asset or cash-generating unit and if the recoverable amount exceeds the carrying amount, impairment losses are reversed up to the lower of the calculated recoverable amount or the carrying amount (net of depreciation and amortization) where impairment loss was not recognized in the previous fiscal years. Reversal of impairment losses is recognized as net profit or loss.

(15) Assets Held for Sales

If the carrying amount of the assets or asset group is recovered principally through a sale transaction rather than through continuing use, the management of the Group made a firm commitment to execute the plan to sell them and the sale will be completed within a year, those assets or asset group are classified as assets held for sales. Assets classified as those held for sale are measured at the lower of the carrying amounts and fair value less cost to disposal.

(16) Employee Benefits

The Group adopts defined contribution plan (including advanced payment plan for retirement benefits) as the post-employment benefit plan. Defined contribution retirement benefit expenses are recognized as expenses in the period when an employee rendered service.

For short-term employee benefits, discount calculation is not made and it is recorded as the expenses for the period during which employees rendered related services. Bonus accrual is recognized as a liability when the Group has the present legal or constructive obligations resulting from service rendered by employees and the obligations can be reliably estimated.

(17) Provisions

Provisions are recognized when the Group has the present legal or constructive obligations as a result of previous events, it is probable that outflow of resources embodying economic benefits will be required to settle the obligations and the obligations can be reliably estimated.

If the impact of time value of money is material, the provision is measured at the present value of expenditures expected to be required for settlement of obligations. Recorded amount of provisions, increasing every period by reflecting the past due is recognized as a financial expense.

(18) Government Grants

Government grants are recognized as fair value if there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received.

Grants related to assets are recognized as deferred income and it is recognized in net profit or loss for the estimated useful life of the asset on a regular basis.

Grants related to income are recognized in net profit or loss for the period during which the related costs intended to be compensated by grants are recognized as expenses.

(19) Share-Based Payment

The Company adopts a stock option plan as the equity-settled share-based payment plan for directors, executive officers and some employees. Stock options are measured at fair value as of the grant date of a stock option, calculated by Black-Scholes Model.

Fair value determined as of the grant date of a stock option is recognized as expense for the period from the grant date over the vesting period, taking into account the number of stock options that eventually vest, with a corresponding amount as an increase in equity.

(20) Shareholders' Equity

For equity instruments issued by the Company, issue price is recorded in share capital and capital surplus. Costs directly attributable to issuance (after taking into account the tax effect) are deducted from equity.

When the Company reacquires its treasury shares, it is recognized at acquisition cost and deducted from equity. Transaction expense directly arising from the acquisition is deducted from capital surplus.

If treasury shares are sold, the consideration received is recognized as an increase in equity.

4. Business Segment

(1) Segment Information

The Group's reporting segments are the components for which separate financial information is available, and the Board of Directors regularly assesses this information in deciding how to allocate resources and evaluate results.

As a result of consideration of similarity of type of products, nature, manufacturing method and markets, etc., the Group adopts reporting segments of "Japan" and "US" comprising pharmaceutical business, conducting manufacture and sale of ethical pharmaceuticals.

Accounting policy for each reporting segment is the same as the accounting policy of the Group stated in "3. Significant Accounting Policies."

Previous consolidated fiscal year (2018)

				(millions of yen)	
	Reporting Segments			Adjustments (Note)	Amount recorded in the consolidated statement of income
	Japan	US	Total		
Sales revenues					
Sales revenues from external customers	134,720	33,347	168,068	-	168,068
Internal sales revenues or transfer amount between segments	-	-	-	-	-
Total	134,720	33,347	168,068	-	168,068
Segment profit	21,903	303	22,206	3	22,209
Financial income					160
Financial expenses					(2,118)
Profit before tax					20,251
Other items					
Depreciation and amortization	9,981	4,258	14,239	-	14,239
Impairment loss	1,866	1,732	3,598	-	3,598

(Note) In the adjustments of segment profit, elimination of transactions between segments is included.

Current consolidated fiscal year (2019)

	Reporting Segments			Adjustments (Note)	(millions of yen) Amount recorded in the consolidated statement of income
	Japan	US	Total		
Sales revenues					
Sales revenues from external customers	144,098	40,242	184,341	-	184,341
Internal sales revenues or transfer amount between segments	-	-	-	-	-
Total	144,098	40,242	184,341	-	184,341
Segment profit	24,230	1,568	25,798	(1)	25,798
Financial income					421
Financial expenses					(553)
Profit before tax					25,666
Other items					
Depreciation and amortization	10,899	5,382	16,280	-	16,280
Impairment loss	2,445	2,873	5,317	-	5,317

(Note) In the adjustments of segment profit, elimination of transactions between segments is included.

(2) Information about Products and Services

As a result of consideration of the sales composition ratio of the products and services handled by the Group, as sales revenues from ethical pharmaceuticals account for the majority of sales revenues in the Consolidated Statement of Income, descriptions are omitted.

(3) Geographical information

Sales revenues from external customers

As the geographical information and information of the reported segments of the Group are the same amount, descriptions are omitted.

Non-current Assets

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Japan	88,852	83,006
US	96,600	93,395
Total	185,452	176,401

(4) Information by Major Customer

External customers accounting for more than 10% of sales revenues in the Consolidated Statement of Income are as follows.

Name of Customer	(millions of yen)		
	2018	2019	Related segment name
MEDICEO CORPORATION	22,386	23,857	Japan
Alfresa Corporation	17,412	20,485	Japan

5. Sales Revenues

(1) Contracts with Customers

[1] Disaggregation of sales revenues

The Group is mainly engaged in manufacture and sale ethical pharmaceuticals and almost all revenues are gained by sale of pharmaceuticals. Breakdown of geographical sales revenues is as stated in “4. Business Segment” and sales revenues from external customers in Japan account most of sales revenue in the Consolidated Statement of Income.

[2] Contract balance

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Balance at the end of the year		
Trade receivables	54,118	62,274
Contract assets	1,452	843

Among the rights to the consideration received in exchange for the goods transferred to customers, the Group records the rights which have conditions other than the passage of time as contract assets.

Allowance for doubtful receivables for trade receivables in the previous and current consolidated fiscal year was ¥23 million and ¥54 million respectively.

(2) Performance Obligation

[1] Time of satisfying the performance obligation

Unless otherwise provided in the contract, it shall generally be the time of acceptance of customers. There is no contract satisfying the performance obligation over time along with provision of services.

[2] Terms of payment of consideration

Ordinary payment date after satisfaction of the performance obligation is between 1 month and 6 months. There is no consideration containing material financial elements.

[3] Details of goods or services transferred to customers

Goods transferred to customers are mainly pharmaceuticals. There is no license contract or service provision contract which granted third parties to manufacture or sell the Group products or use its technology.

The Group does not conduct transactions as an agent.

[4] Obligation to respond to returns and refund, etc.

The Group does not sell any products with the right to return or similar rights. However, the Group may accept returns due to the causes attributable to the Group and deduct the estimated return amount according to the actual rate of returns in the previous fiscal year from the current sales revenues.

[5] Type of product warranty and related obligations

The Group does not sell any products with product warranty or similar rights.

[6] Transaction price allocated to the performance obligation remaining at the end of the year

As there is no performance obligation which is not satisfied at the end of the year, statement of the allocated transaction price and breakdown by estimated time of recording of sales are omitted.

(3) Important Determination

The Group provides a rebate in accordance with commercial customs by individual product and good based on the type, quantity and other criteria of products and goods mainly at the time of shipment of the sold products and goods to medical institutions and other end users by customers. For rebate which is expected to be paid in the future, we determine that the estimated amount based on experiences in the similar previous contract is a reasonable estimated amount which shall not give rise to material reversal and we determine the amount deducting the estimated rebate amount according to the actual previous rebate ratio as the transaction price.

(4) Assets Recognized from the Costs for Acquisition or Performance of Contracts with Customers

At the end of the previous consolidated fiscal year and current consolidated fiscal year, there was no asset recognized in respect of contract costs.

6. Selling, General and Administrative Expenses

(millions of yen)		
	2018	2019
Salaries and allowance	7,817	8,617
Advertising expenses	1,834	1,418
Operation fees	5,288	3,863
Depreciation	4,245	5,173
Other	13,548	13,310
Total	32,731	32,380

7. Other Income

(millions of yen)		
	2018	2019
Compensation income	71	106
Profit on sale of fixed assets	80	-
Other	176	163
Total	328	269

8. Other Expenses

(millions of yen)		
	2018	2019
Loss on disposal of fixed assets	163	192
Other	131	127
Total	294	319

9. Financial Income and Financial Expenses

Breakdown of financial income is as follows.

	(millions of yen)	
	2018	2019
Interest income		
Financial assets measured at amortized cost	51	196
Dividend income		
Equity instruments measured at fair value through other comprehensive income	109	126
Foreign exchange gains	-	97
Other	-	2
Total	<u>160</u>	<u>421</u>

Breakdown of financial expenses is as follows.

	(millions of yen)	
	2018	2019
Interest expenses		
Financial liabilities measured at amortized cost		
Bonds	109	109
Borrowings	727	322
Other	166	98
Foreign exchange losses	992	-
Other	123	24
Total	<u>2,118</u>	<u>553</u>

Breakdown of dividend income for equity instruments measured at fair value through other comprehensive income is as follows.

	(millions of yen)	
	2018	2019
Derecognized financial assets	-	0
Equity instruments held as of the end of the year	<u>109</u>	<u>126</u>
Total	<u>109</u>	<u>126</u>

10. Deferred Tax and Income Tax

(1) Deferred Tax

[1] Deferred tax assets and deferred tax liabilities in the consolidated statement of financial position

(millions of yen)

	As of March 31, 2018	As of March 31, 2019
Deferred tax assets	4,292	4,641
Deferred tax liabilities	(63)	(64)
Net amount	4,228	4,577

[2] Breakdown of and increase/decrease in deferred tax assets and deferred tax liabilities

Previous consolidated fiscal year (2018)

(millions of yen)

	Balance at the beginning of the year	Recognized through net profit or loss	Recognized in other comprehensive income	Other (Note)	Balance at the end of the year
Deferred tax assets					
Investments in subsidiaries	-	3,600	-	(565)	3,035
Property, plant and equipment	215	421	-	-	636
Inventories	1,407	412	-	-	1,819
Refund liabilities	699	(21)	-	-	678
Accruals	713	14	-	-	727
Other	883	116	-	(3)	996
Subtotal	3,917	4,541	-	(567)	7,890
Deferred tax liabilities					
Intangible assets	(1,477)	(660)	-	-	(2,137)
Financial assets measured at fair value through other comprehensive income	(658)	-	(199)	-	(857)
Property, plant and equipment	(459)	(73)	-	-	(532)
Other	(200)	64	-	-	(135)
Subtotal	(2,794)	(668)	(199)	-	(3,662)
Net amount	1,123	3,873	(199)	(567)	4,228

Current consolidated fiscal year (2019)

	(millions of yen)				
	Balance at the beginning of the year	Recognized through net profit or loss	Recognized in other comprehensive income	Other (Note)	Balance at the end of the year
Deferred tax assets					
Investments in subsidiaries	3,035	(132)	-	594	3,497
Property, plant and equipment	636	762	-	-	1,397
Inventories	1,819	(482)	-	-	1,337
Refund liabilities	678	94	-	-	772
Accruals	727	(11)	-	-	715
Other	996	38	-	1	1,035
Subtotal	7,890	269	-	594	8,754
Deferred tax liabilities					
Intangible assets	(2,137)	(526)	-	-	(2,664)
Financial assets measured at fair value through other comprehensive income	(857)	-	12	-	(845)
Property, plant and equipment	(532)	(64)	-	-	(597)
Other	(135)	64	-	-	(71)
Subtotal	(3,662)	(527)	12	-	(4,177)
Net amount	4,228	(258)	12	594	4,577

In recognition of deferred tax assets, we consider the possibility that deductible temporary differences and part or all of loss carryforward can be used against the future taxable income. Assessment of recoverability of deferred tax assets takes into account reversal of expected deferred tax liabilities, forecasted future taxable income and tax planning. We determine that for the recognized deferred tax assets, it is probable that a taxable profit will be available based on the forecast of future taxable income during the period in which the past taxable income level and deferred tax assets can be utilized.

(Note) "Other" includes mainly exchange differences of foreign operations.

[3] Unrecognized deferred tax assets

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Deductible temporary differences	365	284
Carryforward of tax losses	41	38

If there is not probable that a temporary difference will reverse in the foreseeable future, or that taxable income used for temporary difference is gained, we do not recognize deferred tax assets related to temporary difference.

[4] Validity of carryforward of tax losses which does not recognize deferred tax assets

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Within 1 year	-	-
Over 1 year within 5 years	-	-
Over 5 years	41	38
Total	41	38

[5] Unrecognized deferred tax liabilities

If the Company is in a position to control the time of reversal of temporary difference and it is certain that reversal shall not be made within the foreseeable period, for the taxable temporary difference in investments in subsidiaries, deferred tax liabilities is not generally recognized.

Taxable temporary difference in investments in subsidiaries which did not recognize deferred tax liabilities was ¥4,456 million in the previous consolidated fiscal year and ¥4,419 million in the current consolidated fiscal year.

(2) Income Tax

[1] Income tax

	(millions of yen)	
	2018	2019
Current tax expense		
Current tax expense to Profit	10,013	5,681
Subtotal	10,013	5,681
Deferred tax expenses		
Accrual and reversal of temporary difference	(5,312)	258
Amount impacted by the tax rate change	1,440	-
Subtotal	(3,873)	258
Total	6,140	5,939

[2] Reconciliation of effective tax rate

The Group is mainly imposed with a corporation tax, resident tax and business tax and the effective statutory tax rate calculated on the basis thereof is 30.6%. Overseas subsidiaries are subject to income taxes applicable in the countries in which they operate.

	(%)	
	2018	2019
Effective statutory tax rate	30.8	30.6
Items not included in losses perpetually, including entertainment expense, etc.	0.4	0.1
Tax deduction	(7.3)	(3.9)
Impact by the change of tax rate	7.1	-
Changes in unrecognized differed tax assets	(0.0)	(0.6)
Difference with subsidiaries' effective tax rates	0.1	(0.5)
Other	(0.8)	(2.6)
Actual tax rate	30.3	23.1

In the previous consolidated fiscal year, as a result of the enactment of the Tax Cuts and Jobs Act of 2017 on December 22, 2017 (Local Time), the federal corporation tax was reduced to 21% from 35%, and this has been applied to the US consolidated subsidiaries of the Company since January 1, 2018.

In connection with the tax reform, income tax in the previous consolidated fiscal year increased by ¥1,440 million due to re-measurement of deferred tax assets and deferred tax liabilities of the US consolidated subsidiaries.

11. Earnings Per Share

	2018	2019
Basis of calculation of basic earnings per share		
Profit attributable to owners of parent (million yen)	14,017	19,376
Profit not attributable to common shareholders of parent (million yen)	-	-
Profit used to calculate basic earnings per share (million yen)	14,017	19,376
Average number of ordinary shares during the period (thousand shares)	38,883	43,775
Basis of calculation of diluted earnings per share		
Profit used to calculate basic earnings per share (million yen)	14,017	19,376
Profit adjustment (million yen)	-	-
Profit used to calculate diluted earnings per share (million yen)	14,017	19,376
Average number of ordinary shares during the period (thousand shares)	38,883	43,775
Number of increase in ordinary shares by new share subscription rights (thousand shares)	24	29
Average number of ordinary shares during the period after adjustment of effect of dilution (thousand shares)	38,907	43,804
Profit per share (attributable to the owners of parent)		
basic earnings per share (yen)	360.49	442.62
diluted earnings per share (yen)	360.26	442.32

Potential ordinary shares, including stock options, etc., which was not included in calculation of diluted earnings per share as they did not have a dilutive effect were 68 thousand shares and 80 thousand shares respectively as of March 31, 2018 and March 31, 2019.

12. Other Comprehensive Income

	2018	2019
		(millions of yen)
Changes in financial assets measured at fair value through other comprehensive income		
Current accruals	652	(37)
Before tax effect adjustment	652	(37)
Tax effect amount	(199)	12
Changes in financial assets measured at fair value through other comprehensive income	452	(26)
Exchange differences on translation of foreign operations		
Current accruals	(4,233)	4,900
Before tax effect adjustment	(4,233)	4,900
Tax effect amount	-	-
Exchange differences on translation of foreign operation	(4,233)	4,900
Total other comprehensive income	(3,780)	4,874

13. Cash and Cash Equivalents

As there is no balance of short-term investment which should be the cash equivalent at the end of the previous consolidated fiscal year and current consolidated fiscal year, cash and cash equivalents in the Consolidated Statement of Financial Position are only comprised of cash and deposits.

In addition, at the end of the previous consolidated fiscal year and current consolidated fiscal year, the balance of cash and cash equivalents is the same in the Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows.

14. Trade and Other Receivables

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Trade notes receivable	3,811	4,001
Accounts receivable	45,269	53,082
Electronically recorded monetary claims	5,039	5,191
Contract assets	1,452	843
Accounts due	635	559
Total	<u>56,206</u>	<u>63,676</u>

Trade receivables and other receivables are classified as financial assets measured by amortized cost, except for contract assets.

15. Inventories

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Goods and products	34,650	29,730
Work in process	12,679	14,782
Raw materials and supplies	17,889	18,937
Total	<u>65,217</u>	<u>63,449</u>

The write-downs of inventories recorded in the Consolidated Statement of Income were ¥4,825 million in the previous consolidated fiscal year and ¥3,945 million in the current consolidated fiscal year.

16. Other Financial Assets

(1) Breakdown

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Financial assets measured by amortized cost		
Guarantee deposits	411	275
Equity instruments measured at fair value through other comprehensive income		
Shares	6,149	6,664
Total	6,560	6,939
Other financial assets (Non-current)	6,560	6,939
Total	6,560	6,939

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

In order to strengthen business relationships, shares held for a long time are designated as those measured at fair value through other comprehensive income.

The breakdown of fair value of major shareholdings is as follows.

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Sumitomo Corporation	1,537	1,314
Nippon Kayaku Co., Ltd.	1,144	1,145
Alfresa Holdings Corporation	530	706
Medical Ikkou Co., LTD.	620	580
Yakult Honsha Co., Ltd.	586	576
Other	1,734	2,344
Total	6,149	6,664

17. Property, Plant and Equipment

(1) Movement of acquisition cost, accumulated depreciation amount and accumulated impairment losses and carrying amount

Previous consolidated fiscal year (2018)

	(millions of yen)						
	Building and structures	Machinery and equipment	Tools, furniture and fixtures	Land	Construction in progress	Lease assets	Total
Acquisition cost							
Balance at April 1, 2017	51,743	54,742	10,707	9,723	2,989	1,624	131,529
Acquisition	2,015	4,816	1,061	747	2,021	18	10,679
Acquisition by business combination	7,053	1,918	832	1,059	955	32	11,848
Sale and disposition	(79)	(847)	(374)	-	-	(39)	(1,339)
Transfer from construction in progress	282	2,391	168	294	(3,135)	-	-
Exchange differences on translation of foreign operations	(304)	(97)	(42)	(50)	(27)	(1)	(522)
Other	-	-	-	-	(615)	-	(615)
Balance at March 31, 2018	60,710	62,924	12,352	11,773	2,188	1,634	151,581
Accumulated depreciation amount and accumulated impairment losses							
Balance at April 1, 2017	(19,081)	(26,873)	(6,899)	(467)	-	(353)	(53,674)
Depreciation amount	(2,380)	(5,932)	(1,391)	-	-	(128)	(9,832)
Impairment losses (or reversal)	(494)	(767)	(45)	-	(3)	-	(1,309)
Sale and disposition	59	799	359	-	-	39	1,257
Exchange differences on translation of foreign operation	8	19	8	-	-	1	36
Balance at March 31, 2018	(21,888)	(32,754)	(7,968)	(467)	(3)	(442)	(63,522)
Carrying amount							
Balance at April 1, 2017	32,662	27,869	3,808	9,256	2,989	1,271	77,856
Balance at March 31, 2018	38,822	30,170	4,384	11,305	2,185	1,192	88,059

	Building and structures	Machinery and equipment	Tools, furniture and fixtures	Land	Construction in progress	Lease assets	Total
Acquisition cost							
Balance at April 1, 2018	60,710	62,924	12,352	11,773	2,188	1,634	151,581
Acquisition	1,507	1,789	572	4	1,097	28	4,998
Sale and disposition	(102)	(437)	(468)	(16)	(25)	(45)	(1,092)
Transfer from construction in progress	793	764	116	-	(1,672)	-	-
Exchange differences on translation of foreign operations	305	98	42	50	28	1	525
Other	-	-	-	-	105	-	105
Balance at March 31, 2019	63,213	65,137	12,615	11,811	1,721	1,619	156,116
Accumulated depreciation amount and accumulated impairment losses							
Balance at April 1, 2018	(21,888)	(32,754)	(7,968)	(467)	(3)	(442)	(63,522)
Depreciation amount	(2,509)	(6,229)	(1,399)	-	-	(113)	(10,251)
Impairment losses (or reversal)	(1,260)	(397)	(73)	-	-	(247)	(1,978)
Sale and disposition	50	381	437	-	3	33	905
Exchange differences on translation of foreign operation	(9)	(20)	(8)	-	-	(1)	(37)
Balance at March 31, 2019	(25,616)	(39,018)	(9,013)	(467)	-	(769)	(74,883)
Carrying amount							
Balance at April 1, 2018	38,822	30,170	4,384	11,305	2,185	1,192	88,059
Balance at March 31, 2019	37,598	26,119	3,602	11,343	1,721	849	81,233

Depreciation expenses of property, plant and equipment is indicated as “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” in the Consolidated Statement of Income.

(2) Lease Assets by Finance Lease

Carrying amount of lease assets by finance lease included in property, plant and equipment is as follows.

	(millions of yen)			
	Building and structures	Machinery and equipment	Tools, furniture and fixtures	Total
Previous consolidated fiscal year (March 31, 2018)	1,104	-	89	1,192
Current consolidated fiscal year (March 31, 2019)	777	4	68	849

(3) Impairment

Property, plant and equipment are grouped by the minimum cash-generating unit which generates independent cash flow in general. The Group generally classifies geographical business units, managed for the purpose of internal reporting as a cash-generating unit.

The Group, in the previous consolidated fiscal year, recorded impairment losses of ¥17 million in “Cost of sales” of the Consolidated Statement of Income and impairment losses of ¥1,292 million in “Research and development expenses” in the Consolidated Statement of Income respectively. Major assets for which impairment losses were recognized were assets to be retired and buildings and machinery which are not expected to be used in the future and the carrying amount was impaired to the recoverable amount. Recoverable amount was measured by fair value less cost of disposal and set as nil. The fair value hierarchy level was level 3. Recoverable amount of assets to be retired was set as nil.

In the current consolidated fiscal year, impairment losses of ¥999 million were recorded in “Cost of sales” of the Consolidated Statement of Income and impairment losses of ¥979 million were recorded in “Research and development expenses” of the Consolidated Statement of Income respectively. Major assets for which impairment losses were recognized were buildings and machinery, etc., which were not expected to be used in the future and the carrying amount had been impaired to the recoverable amount. Recoverable amount was measured by fair value less cost of disposal and set as nil. The fair value hierarchy level was level 3.

(4) Commitment

Commitment to acquisition of property, plant and equipment was ¥1,989 million in the previous consolidated fiscal year and ¥563 million in the current consolidated fiscal year.

(5) Amount Compensated by Third Parties, Recorded in Income

Insurance payments of ¥45 million and ¥41 million were received respectively in the previous consolidated fiscal year and the current consolidated fiscal year, and included in “Other income.” These insurance payments are to compensate for the loss of machinery, etc.

18. Goodwill and Intangible Assets

(1) Movement of acquisition cost, accumulated amortization amount and accumulated impairment losses and carrying amount

Previous consolidated fiscal year (2018)

(millions of yen)

(in millions of yen)							
		Intangible Assets					
	Goodwill	Intangible assets related to products	In process Research and development	Trademark right	Software	Other	Total
Acquisition cost							
Balance at April 1, 2017	-	802	4,224	9	4,379	1,267	10,681
Acquisition	-	-	2,984	-	364	3,426	6,774
Acquisition by business combination	39,396	31,937	15,580	6,625	224	-	54,366
Sale and disposition	-	(100)	-	-	(35)	(0)	(135)
Transfer	-	6,281	(6,281)	-	415	(20)	395
Exchange differences on translation of foreign operations	(1,679)	(1,548)	(473)	(282)	(26)	-	(2,330)
Other	-	-	-	-	-	3	3
Balance at March 31, 2018	37,717	37,372	16,034	6,352	5,320	4,675	69,753
Accumulated amortization amount and accumulated impairment losses							
Balance at April 1, 2017	-	(87)	(108)	(9)	(3,000)	(1,184)	(4,388)
Amortization expenses	-	(3,489)	-	(0)	(652)	(267)	(4,408)
Impairment losses (or reversal)	-	(217)	(2,072)	-	-	-	(2,289)
Sale and disposition	-	3	-	-	33	0	36
Exchange differences on translation of foreign operations	-	136	73	-	7	-	216
Other	-	(8)	8	-	-	(3)	(3)
Balance at March 31, 2018	-	(3,662)	(2,099)	(9)	(3,611)	(1,454)	(10,835)
Carrying amount							
Balance at April 1, 2017	-	715	4,116	0	1,379	83	6,293
Balance at March 31, 2018	37,717	33,710	13,935	6,343	1,710	3,221	58,918

		Intangible Assets					
	Goodwill	Intangible assets related to products	In process Research and development	Trademark right	Software	Other	Total
Acquisition cost							
Balance at April 1, 2018	37,717	37,372	16,034	6,352	5,320	4,675	69,753
Acquisition	-	-	2,741	-	265	452	3,458
Sale and disposition	-	-	-	(1)	(98)	(61)	(161)
Transfer	-	4,838	(4,838)	-	114	(95)	20
Exchange differences on translation of foreign operations	1,686	1,559	471	284	27	-	2,340
Other	-	-	-	-	(0)	-	(0)
Balance at March 31, 2019	39,403	43,769	14,408	6,634	5,627	4,971	75,409
Accumulated amortization amount and accumulated impairment losses							
Balance at April 1, 2018	-	(3,662)	(2,099)	(9)	(3,611)	(1,454)	(10,835)
Amortization expenses	-	(4,805)	-	(0)	(692)	(532)	(6,030)
Impairment losses (or reversal)	-	-	(3,339)	-	(0)	-	(3,340)
Sale and disposition	-	-	-	1	91	61	154
Exchange differences on translation of foreign operations	-	(142)	(76)	-	(8)	-	(225)
Other	-	(233)	233	-	0	-	0
Balance at March 31, 2019	-	(8,842)	(5,281)	(8)	(4,220)	(1,925)	(20,275)
Carrying amount							
Balance at April 1, 2018	37,717	33,710	13,935	6,343	1,710	3,221	58,918
Balance at March 31, 2019	39,403	34,927	9,127	6,626	1,408	3,046	55,134

Amortization expenses of intangible assets are indicated as “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” of the Consolidated Statement of Income.

As accrual of research and development expenses satisfying the definition of intangible assets is after April 1, 2015, recognition period of intangible assets recognized in the Consolidated Statement of Financial Position is limited to 3 years in the previous consolidated fiscal year and 4 years in the current consolidated fiscal year.

(2) Significant Goodwill and Intangible Assets

Goodwill recorded in the Consolidated Statement of Financial Position accrued by acquisition of Upsher-Smith Laboratories, LLC (hereinafter referred to as “USL”) and the carrying amount is ¥37,717 million in the previous consolidated fiscal year and ¥39,403 million in the current consolidated fiscal year.

Major intangible assets recorded in the Consolidated Statement of Financial Position are as follows. At each closing date, there are no significant internally-generated intangible assets.

- [1] Intangible assets related to the products obtained and in process research and development by acquisition of USL in 2017.

Carrying amount at the end of the previous consolidated fiscal year is ¥31,731 million and ¥8,924 million respectively and the remaining amortization period of intangible assets related to the products is 1 - 10 years.

Carrying amount at the end of the current consolidated fiscal year is ¥30,860 million and ¥4,484 million respectively and the remaining amortization period of intangible assets related to the products is 1 - 10 years.

- [2] Trademark right obtained by acquisition of USL in 2017

Carrying amount is ¥6,343 million at the end of the previous consolidated fiscal year and ¥6,626 million at the end of the current consolidated fiscal year. We determine that its useful life cannot be fixed in the current consolidated fiscal year because the trademark right basically survives as long as business continues.

- [3] Manufacturing and marketing approval right of Zomig

Carrying amount at the end of the previous consolidated fiscal year is ¥2,899 million and the remaining amortization period is 6 years. Carrying amount at the end of the current consolidated fiscal year is ¥2,370 million and the remaining amortization period is 5 years. The manufacturing and marketing approval right is included in “Other” above.

(3) Impairment Test of Goodwill

Goodwill is allocated to US business cash-generating unit and the carrying amount is ¥37,717 million in the previous consolidated fiscal year and ¥39,403 million in the current consolidated fiscal year. In conducting impairment test, recoverable amount is calculated by value in use. Value in use is based on the 5 year medium-term business plan, approved by the board of directors and the long-term growth rate thereafter is assumed to be 2.3% in the previous consolidated fiscal year and 2.2% in the current consolidated fiscal year, taking into consideration the long-term average growth rate of the market or national long-term average growth rate to which US business cash-generating unit belongs.

For impairment test of goodwill, weighted average cost of capital by region is used for discount rate and the weighted average cost of capital used for impairment test (pre-tax) is 12.2% in the previous consolidated fiscal year and 11.5% in the current consolidated fiscal year.

Value in use sufficiently exceeds the carrying amount of the cash-generating unit and if key assumptions used for calculation of the value in use change within a reasonable range, the Group expects that there is very little probability that the value in use will become lower than the carrying amount.

(4) Impairment Loss on Intangible Assets related to Products and In Process Research and Development

Intangible assets related to the products and in process research and development are grouped by individual cash-generating unit by product and developed product, the minimum unit generating independent cash flow in general.

Impairment losses are calculated by deducting the recoverable amount from the carrying amount. Recoverable amount is measured by value in use based on the forecast of cash flow during the period in which profit is expected with certainty.

In the previous consolidated fiscal year, the Group recorded impairment loss of ¥2,276 million in “Research and development expenses” of the Consolidated Statement of Income and impairment loss of ¥13 million in “Selling, general and administrative expenses” of the Consolidated Statement of Income, respectively. Out of which, losses attributable to the fact that initially expected profitability would not be achieved for the products now being sold were ¥217 million and losses attributable to the fact that the expected profitability would not be achieved because of discontinuation of development and changes in development conditions, etc., for products under development were ¥2,072 million. Discount rate (pre-tax) used for calculation of value in use above was calculated based on the weighted average cost of capital, which was 12.2% for the US Segment.

In the current consolidated fiscal year, impairment loss of ¥3,339 million was recorded in “Research and development expenses” of the Consolidated Statement of Income. Impairment losses recorded in “Research and development expenses” were all attributable to the fact that the initially expected profitability would not be achieved because of discontinuation of development and changes in development conditions, etc., for products under development. Discount rates (pre-tax) used for calculation of value in use above were calculated based on the weighted average cost of capital, which were 5.4% for the Japan Segment and 15.4% for the US Segment.

19. Trade and Other Payables

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Trade accounts payable	14,291	18,875
Electronically recorded obligations	3,088	5,428
Other accounts payable	22,522	19,114
Other	9	18
Total	39,909	43,434

Trade payables and other payables are classified as financial liabilities measured at amortized cost.

20. Bonds and Borrowings

(1) Breakdown

	(millions of yen)			
	As of March 31, 2018	As of March 31, 2019	Average interest rate	Repayment date
Financial liabilities measured at amortized cost				
Current portion of long-term borrowings	4,718	4,802	0.62%	-
Long-term borrowings (except for current portion)	59,849	55,048	0.49%	June 2021 - December 2032
Bonds (except for current portion)	19,938	19,957	0.54%	-
Total	84,506	79,806		
Bonds and borrowings (current)	4,718	4,802		
Bonds and borrowings (non-current)	79,787	75,004		
Total	84,506	79,806		

(2) Issuance Terms of Bonds

(millions of yen)							
Company name	Name of Bond	Issue date	As of March 31, 2018	As of March 31, 2019	Interest rate	Security	Redemption date
Sawai Pharmaceutical Co., Ltd.	1st Unsecured Bonds (with pari passu special clause only among bonds)	June 12, 2015	9,968	9,975	0.67%	None	June 10, 2022
Sawai Pharmaceutical Co., Ltd.	2nd Unsecured Bonds (with pari passu special clause only among bonds)	December 3, 2015	9,970	9,981	0.42%	None	December 3, 2020
Total			19,938	19,957			

(3) Changes in Liabilities accompanying Changes in Cash Flows from Financing Activities

Previous consolidated fiscal year (2018)

(millions of yen)

	Balance at the beginning of the year	Cash flows from financing activities	Changes by non- cash elements			Balance at the end of the year
			Acquisition	Foreign exchange movement	Other	
Bonds	19,919	-	-	-	19	19,938
Long-term borrowings	6,865	57,703	-	-	-	64,568
Total	26,784	57,703	-	-	19	84,506

Current consolidated fiscal year (2019)

(millions of yen)

	Balance at the beginning of the year	Cash flows from financing activities	Changes by non-cash elements			Balance at the end of the year
			Acquisition	Foreign exchange movement	Other	
Bonds	19,938	-	-	-	19	19,957
Long-term borrowings	64,568	(4,718)	-	-	-	59,849
Total	84,506	(4,718)	-	-	19	79,806

21. Other Financial Liabilities

(millions of yen)

	As of March 31, 2018	As of March 31, 2019
Financial liabilities measured at amortized cost		
Deposits	214	-
Contingent consideration	5,266	-
Guarantee deposits	2,304	2,476
Finance lease obligations	825	577
Total	8,609	3,053
Other financial liabilities (current)	5,754	530
Other financial liabilities (non-current)	2,855	2,523
Total	8,609	3,053

22. Lease Transactions

(1) Finance Lease Liabilities

	(millions of yen)			
	Total minimum lease payment		Present value of total minimum lease payment	
	As of March 31, 2018	As of March 31, 2019	As of March 31, 2018	As of March 31, 2019
Current portion	302	598	275	530
Over 1 year and within 5 years	619	48	550	46
Over 5 years	-	1	-	1
Total	921	647	825	577
Deduction: financial expenses	96	70		
Present value of total minimum lease payment	825	577		
Finance lease liabilities (current)	275	530		
Finance lease liabilities (non-current)	550	47		

Weighted average interest rate of finance lease liabilities (non-current) to the balance at the end of the current consolidated fiscal year is 3.5% and the weighted average interest rate of finance lease liabilities (current) to the balance at the end of the current consolidated fiscal year is 3.5%.

(2) Operating Lease Liabilities

Future total minimum lease payment payable under non-cancellable operating lease is as follows.

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Current portion	141	124
Over 1 year and within 5 years	314	232
Over 5 years	23	3
Total	477	358

Total minimum lease payment payable under operating lease contracts, recognized as expenses is as follows.

	(millions of yen)	
	2018	2019
Total minimum lease payment	134	158

23. Employee Benefits

Amount recognized as expenses in relation to the defined contribution plan is ¥661 million in the previous consolidated fiscal year and ¥678 million in the current consolidated fiscal year.

Total employee benefit expenses recognized as expenses are ¥30,390 million and ¥34,300 million respectively in the previous consolidated fiscal year and the current consolidated fiscal year and they are recorded in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” of the Consolidated Statement of Income.

24. Equity and other Equity Items

(1) Share Capital and Capital Surplus

Increase/decrease in the number of shares issued and fully paid and the movement of share capital and capital surplus are as follows.

	Number of shares authorized (ordinary shares without par value) (thousands of shares)	Number of shares issued (ordinary shares without par value) (thousands of shares)	Share capital (millions of yen)	Capital surplus (millions of yen)
Balance as of April 1, 2017	77,600	38,168	27,171	27,803
Increase	-	5,903	13,999	14,852
Decrease	-	-	-	(81)
Balance as of March 31, 2018	77,600	44,071	41,170	42,574
Increase	-	6	15	276
Decrease	-	-	-	-
Balance as of March 31, 2019	77,600	44,076	41,184	42,849

(Note) Increase in the number of shares issued in the previous consolidated fiscal year was due to issuance of new shares by capital increase through public offering and allotment to third parties and exercise of new share subscription rights. Increase in the number of shares issued in the current consolidated fiscal year was due to exercise of new share subscription rights.

(2) Treasury Shares

Number of shares of treasury shares and an increase/decrease in its amount are as follows.

	Number of shares (thousands of shares)	Amount (millions of yen)
Balance as of April 1, 2017	1,300	6,006
Increase	-	-
Decrease	1,000	(4,622)
Balance as of March 31, 2018	300	1,385
Increase	0	0
Decrease	-	-
Balance as of March 31, 2019	300	1,385

(Note) Decrease in the number of treasury shares in the previous consolidated fiscal year was due to disposition of treasury shares. Increase in the number of treasury shares in the current consolidated fiscal year was due to claim for purchase of shares less than a unit.

(3) Other Components of Equity

Previous consolidated fiscal year (2018)

				(millions of yen)
	New share subscription rights	Changes in financial assets measured by fair value through other comprehensive income	Exchange differences on translation of foreign operations	Total
Balance at the beginning of the year	343	1,493	-	1,836
Other comprehensive income	-	452	(2,889)	(2,437)
Total current comprehensive income	-	452	(2,889)	(2,437)
Issuance of new shares	(14)	-	-	(14)
Share-based payment transaction	77	-	-	77
Changes in ownership interests in subsidiaries not accompanying loss of control	-	-	(129)	(129)
Total transactions with owners	64	-	(129)	(65)
Balance at the end of the year	407	1,945	(3,018)	(666)

Current consolidated fiscal year (2019)

				(millions of yen)
	New share subscription rights	Changes in financial assets measured by fair value through other comprehensive income	Exchange differences on translation of foreign operations	Total
Balance at the beginning of the year	407	1,945	(3,018)	(666)
Other comprehensive income	-	(26)	3,952	3,926
Total current comprehensive income	-	(26)	3,952	3,926
Issuance of new shares	(30)	-	-	(30)
Share-based payment transaction	29	-	-	29
Total transactions with owners	(1)	-	-	(1)
Balance at the end of the year	406	1,919	934	3,259

The details and purpose of other components of equity are as follows.

[1] New share subscription rights

The Company adopts a stock option plan and issues new share subscription rights under the Companies Act. Terms of contract and amounts are stated in “27. Share-Based Payment.”

[2] Changes in financial assets measured by fair value through other comprehensive income

This is net amount of cumulative changes in fair value of financial assets measured by fair value through other comprehensive income.

[3] Exchange differences on translation of foreign operations

This is accumulated exchange differences that accrued in consolidation of financial statements of overseas subsidiaries prepared in foreign currencies.

25. Dividends

(1) Total Amount of Dividends and Dividend Amount per Share

Previous consolidated fiscal year (2018)

Date of resolution	Type of share	Total amount of dividends (millions of yen)	Dividend amount per share (yen)	Record date	Effective date
Annual general meeting of shareholders (June 27, 2017)	Ordinary shares	2,396	65	March 31, 2017	June 28, 2017
Board of Directors' meeting (November 13, 2017)	Ordinary shares	2,397	65	September 30, 2017	December 7, 2017

Current consolidated fiscal year (2019)

Date of resolution	Type of share	Total amount of dividends (millions of yen)	Dividend amount per share (yen)	Record date	Effective date
Annual general meeting of shareholders (June 26, 2018)	Ordinary shares	2,845	65	March 31, 2018	June 27, 2018
Board of Directors' meeting (November 14, 2018)	Ordinary shares	2,845	65	September 30, 2018	December 7, 2018

(2) Dividends whose Record Date belongs to the Current Consolidated Fiscal Year and Effective Date is in the Next Consolidated Fiscal Year

Previous consolidated fiscal year (2018)

Date of resolution	Type of share	Total amount of dividends (millions of yen)	Dividend amount per share (yen)	Record date	Effective date
Annual general meeting of shareholders (June 26, 2018)	Ordinary shares	2,845	65	March 31, 2018	June 27, 2018

Current consolidated fiscal year (2019)

Date of resolution	Type of share	Total amount of dividends (millions of yen)	Dividend amount per share (yen)	Record date	Effective date
Annual general meeting of shareholders (June 25, 2019)	Ordinary shares	3,064	70	March 31, 2019	June 26, 2019

26. Financial Instruments

(1) Capital Management

The Company sets a basic policy for capital management so as to maintain the optimum capital composition, which improves capital efficiency securing soundness and flexibility of finance in order to continue improvement of corporate value and realize improvement of returns to shareholders through thereof.

The Company conducts monitoring of financial indices in order to maintain the optimum capital composition. The Company monitors its credit rating for soundness and flexibility of finance and return on equity (ROE) of the interest attributable to owners of parent for capital efficiency on a timely basis.

There are no material capital regulations applied to the Group.

(2) Risk Management Policy

The Group is exposed to various financial risks (credit risk, market risk and liquidity risk) in the course of performing business activities. Therefore, under the internal management rules and other certain rules, the Group conducts monitoring of financial risks on a regular basis and carries out measures for avoiding or reducing risks as necessary.

The Group does not conduct derivative transactions for speculation.

(3) Credit Risk

[1] Overview

Credit risk means the risk of financial losses incurred by the Group if customers or counterparties of transactions of financial instruments cannot perform obligations under contracts, which mainly arises from the receivables of the Group from customers.

(i) Credit risk management

Regarding credit risk of customers related to trade notes and accounts receivable, in accordance with the internally-established standards for receivable management, the Group conducts management of maturity dates and balance by customer and establishes the system to regularly understand the status of credit of major customers to reduce risk.

As for funds on hand, in accordance with the internal regulations for fund management, we limit to short-term bank deposits and bonds, etc., with high ratings and manage based on the limit set out according to the rating and management period, therefore, credit risk is minor.

As for the use of derivatives, we only conduct transactions with financial institutions with high ratings to reduce counterparty risk.

(ii) Concentration of credit risk

In the Japan Segment, the Group sells products mainly through a small number of wholesalers. Total sales revenues from the top four companies account for approximately 50% of consolidated sales revenues in the Japan Segment. Trade receivables with the top four companies were ¥20,548 million in the previous consolidated fiscal year and ¥24,488 million in the current consolidated fiscal year.

In the US Segment, sales revenues from specific customers account for about 30% of consolidated sales revenues in the US Segment. Trade receivables and contract assets with the customer were ¥1,301 million and ¥1,452 million respectively in the previous consolidated fiscal year and ¥1,137 million and ¥843 million respectively in the current consolidated fiscal year.

[2] Credit exposure

The largest exposure to credit risk of financial assets held by the Group is the carrying amount after deducting impairment losses indicated in the Consolidated Financial Statements. However, there was no record of recognition of material loss of bad debts in the previous fiscal years.

[3] Increase/decrease in allowance for doubtful accounts

The Company calculates the amount of allowance for doubtful accounts by dividing into trade receivables and receivables other than trade receivables.

As for trade receivables, allowance for doubtful accounts is always recorded at the same amount as the expected credit loss for the entire period. For receivables other than trade receivables, allowance for doubtful accounts is generally recorded at the same amount as the expected credit loss for 12 months, but if the terms of repayment under the contract are not performed, the Group record allowance for doubtful accounts at the same amount as the expected credit loss for the entire period regarding as credit risk significantly increased from the initial recognition, except for clerical errors of the counterparty.

As for any financial assets, if a debtor requests reconsideration of terms of repayment, in case of its serious financial difficulty or if legal proceedings commences due to bankruptcy of the debtor, etc., we treat them as credit impairment financial assets. For amounts which are obviously unrecoverable in the future, carrying amount of financial assets is directly reduced and the amount of corresponding allowance for doubtful accounts is also reduced.

Amount of allowance for doubtful accounts is calculated as follows.

(i) Trade receivables

The receivables are classified according to the number of days in arrears from the repayment date and calculated by multiplying allowance rate taking into account the forecast of future financial position and other situations in the previous records of bad debts calculated according to the classification.

(ii) Receivables other than trade receivables

As for assets which are not determined as credit risk significantly increased, it is calculated by multiplying the carrying amount by the allowance rate taking into account the forecast of future financial position and other situations in the previous records of bad debts in the same type. However, in the cases falling under assets which are determined as credit risk significantly increased and credit impairment financial assets, it is calculated by the present value of the difference between contractual cash flow to be received by the Group under the contract and cash flow expected to be received by the Group.

The Group treats any financial assets as default if repayment terms under the contract cannot be performed.

Previous consolidated fiscal year (2018)

(millions of yen)			
	Trade receivables	Other receivables	
	Those measured at the amount equal to expected credit loss for the entire period	Those measured at the amount equal to expected credit loss for 12 months	Total
Balance at the beginning of the year	38	0	38
Increased amount by business combination	13	-	13
Increased amount during the period	24	0	24
Decreased amount during the period (utilization)	(27)	-	(27)
Decreased amount during the period (reversal)	(24)	(0)	(24)
Other (Note)	(0)	-	(0)
Balance at the end of the year	23	0	23

(Note) Other mainly includes changes from the effect of foreign exchanges.

Current consolidated fiscal year (2019)

(millions of yen)

	Trade receivables	Other receivables	
	Those measured at the amount equal to expected credit loss for the entire period	Those measured at the amount equal to expected credit loss for 12 months	Total
Balance at the beginning of the year	23	0	23
Increased amount during the period	54	0	55
Decreased amount during the period (utilization)	-	-	-
Decreased amount during the period (reversal)	(24)	(0)	(24)
Other (Note)	0	-	0
Balance at the end of the year	54	0	55

(Note) Other mainly includes changes from the effect of foreign exchanges.

- [4] Total amount of carrying amount of financial assets to be recorded as allowance for doubtful accounts
Age analysis of financial assets to be recorded as allowance for doubtful accounts at the end of period is as follows.

As of March 31, 2018

(millions of yen)

	Trade receivables, etc.	Other receivables	
	Those measured at the amount equal to expected credit loss for the entire period	Those measured at the amount equal to expected credit loss for 12 months	Total
Not past due	54,938	1,047	55,984
Within 30 days	596	-	596
Over 30 days within 60 days	-	-	-
Over 60 days within 90 days	60	-	60
Over 90 days within 1 year	-	-	-
Over 1 year	-	-	-
Total	55,593	1,047	56,640

As of March 31, 2019

(millions of yen)

	Trade receivables, etc.	Other receivables	
	Those measured at the amount equal to expected credit loss for the entire period	Those measured at the amount equal to expected credit loss for 12 months	Total
Not past due	63,171	559	63,730
Within 30 days	-	-	-
Over 30 days within 60 days	-	-	-
Over 60 days within 90 days	-	-	-
Over 90 days within 1 year	-	-	-
Over 1 year	-	-	-
Total	63,171	559	63,730

[5] Details of security and other credit supplementation

The Group holds guarantee deposits as a security for some trade receivables. Balance of guarantee deposits recorded in other financial liabilities at the end of period is as follows.

	(millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Guarantee deposits	2,304	2,476

(4) Liquidity Risk

[1] Overview

Liquidity risk is the risk payment of which cannot be made by the Group at the payment date. The Group systematically secures funds for payment of liabilities, including bonds and borrowings, etc., by preparing and renewing in a timely manner the funding plan based on the annual business plan.

[2] Maturity analysis

Balance by maturity date of financial liabilities of the Group is as follows.

As of March 31, 2018

	(millions of yen)							
	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years
Bonds	19,938	20,330	91	91	10,080	59	10,010	-
Borrowings	64,568	66,943	5,026	5,007	4,718	4,069	3,339	44,784
Total	84,506	87,273	5,116	5,098	14,798	4,128	13,348	44,784

As of March 31, 2019

	(millions of yen)							
	Carrying amount	Contractual cash flow	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years
Bonds	19,957	20,240	91	10,080	59	10,010	-	-
Borrowings	59,849	60,149	4,832	4,489	3,849	3,131	3,047	40,801
Total	79,806	80,389	4,922	14,569	3,909	13,141	3,047	40,801

(Note) For finance lease liabilities, refer to “22. Lease Transactions.” Maturity date of other major financial liabilities is within 1 year.

(5) Market Risk

[1] Overview

Market risk is the risk related to changes in market price, including foreign exchange rate, interest rate and stock price, etc., which impacts income of the Group or the value of financial instruments held by the Group. The purpose of market risk management is to maximize returns while managing and controlling exposure to market risk within the tolerable scope.

[2] Exchange risk

There are those in foreign currency in connection with importation of raw materials, etc., among trade notes, trade accounts payable and other accounts payable and exposed to foreign exchange fluctuation risk. However, we conduct risk hedge by utilizing foreign currency deposits as for important payables.

(i) Exposure to exchange risk

Summary of quantitative data of exposure to exchange risk of the Group, which were submitted to the management of the Group based on the risk management policy, is as follows.

(Thousands of USD)		
	2018	2019
Receivables	21,025	162
Obligations	(620)	(558)
Net amount of exposure in the Consolidated Statement of Financial Position	20,406	(396)
Net amount of exposure	20,406	(396)

(ii) Exchange sensitivity analysis

The Group is exposed mainly to exchange risk of the USD.

If the yen becomes weaker by 1% to the USD for financial instruments held by the Group as of the closing date, an impact on net profit or loss is ¥22 million in the previous consolidated fiscal year and ¥(0) million in the current consolidated fiscal year.

In this regard, they do not include the impact on translation into Japanese yen for financial instruments in functional currency, assets, liabilities, revenues and expenses of foreign operations. In addition, it assumes that other fluctuation factors are constant.

[3] Interest rate risk

The Group conducts financing by interest-bearing liabilities. Variable interest rate applies to some interest-bearing liabilities, which are exposed to interest rate fluctuation risk.

If the interest rate increases by 1% on the financial instruments held by the Group as of the closing date to which the variable interest rate applies, an impact on net profit or loss is ¥(492) million in the previous consolidated fiscal year and ¥(453) million in the current consolidated fiscal year.

Exposure to interest fluctuation risk is as follows.

(millions of yen)		
	As of March 31, 2018	As of March 31, 2019
Borrowings to which variable interest rate applies	49,162	45,330

(6) Classification of Accounting and Fair Value

[1] Calculation method of fair value

(i) Cash and cash equivalents, trade and other receivables, trade and other payables

As they are settled in a short period, fair value is almost same as carrying amount and according to carrying amount.

(ii) Shares

Fair value of marketable shares is measured by market price. For shares for which an active market does not exist, fair value is measured by an appropriate method, comprehensively taking into account quantitative information of net asset price and major assets held by the investees.

(iii) Bonds, borrowings and finance lease obligations

Fair value thereof is measured by the method calculating by discounting at the interest rate expected in the case of similar new financing for the total of principal and interest.

For calculation method of fair value of contingent consideration, refer to “31. Business Combination.”

[2] Fair value hierarchy level

Table analyzing financial instruments recorded at fair value by valuation method is as follows.

Each level is defined as follows.

Level 1: Market price (unadjusted) of the same assets and liabilities in active markets

Level 2: Input directly (that is, by price) or indirectly (that is, due to price) observable for assets and liabilities other than market price included in Level 1.

Level 3: Input about assets and liabilities not based on the observable market data (unobservable input)

Transfer between fair value hierarchy levels is recognized on the day of change of events or situations that caused transfer.

[3] Comparison between fair value and carrying amount

(millions of yen)				
	As of March 31, 2018		As of March 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured by amortized cost				
Bonds	19,938	20,128	19,957	20,175
Borrowings	64,568	63,572	59,849	58,955
Finance lease liabilities	825	897	577	585
Total	85,331	84,597	80,384	79,715

Fair value of financial assets and financial liabilities other than the above is similar to carrying amount.

Level of fair value of bonds is Level 2 and level of fair value of borrowings and finance lease liabilities is Level 3.

[4] Measurement of fair value recognized in the consolidated statement of financial position

As of March 31, 2018

	(millions of yen)			
	Level 1	Level 2	Level 3	Total
Equity instruments measured at fair value through other comprehensive income				
Share	5,497	-	652	6,149
Total	5,497	-	652	6,149

There is no financial instrument whose transfer between levels was made.

As of March 31, 2019

	(millions of yen)			
	Level 1	Level 2	Level 3	Total
Equity instruments measured at fair value through other comprehensive income				
Share	5,363	-	1,301	6,664
Total	5,363	-	1,301	6,664

There is no financial instrument whose transfer between levels was made.

Table of adjustment from balance at the beginning of the year to balance at the end of the year of financial instruments classified as Level 3 is as follows. For the table of adjustment of contingent consideration, refer to “31. Business Combination.”

	(millions of yen)	
	2018	2019
Balance at the beginning of the year	617	652
Gains or losses		
Other comprehensive income	38	93
Purchases	-	555
Other	(2)	0
Balance at the end of the year	652	1,301

Financial instruments classified as Level 3 are mainly comprised of unlisted shares and fair value is measured by an appropriate method, comprehensively taking into account the future possibility of the investees and quantitative information including net asset price and major assets held by the investees. Reasonableness of the valuation is reviewed by the accounting department and approved by the department manager. Gains or losses arising from measurement of fair value are included in “Changes in financial assets measured at fair value through other comprehensive income” of the Consolidated Statement of Comprehensive Income.

27. Share-Based Payment

(1) Overview of Share-Based Payment Contract

The Company adopts a stock option plan. The plan is in accordance with the method of issuing new share subscription rights under the Companies Act. The share-based payment plan of the Company is accounted as equity-settled share-based payment.

(2) Amount of Expenses Recorded and Item Name for Stock Options

	(millions of yen)	
	2018	2019
Share-based payment expenses of selling, general and administrative expenses	77	29

(3) Description of Stock Options

	New share subscription rights issued in July 2013	New share subscription rights issued in August 2014	New share subscription rights issued in July 2015
Category and number of persons to be granted	8 directors and 6 executive officers of the Company	8 directors and 7 executive officers of the Company	8 directors and 7 executive officers of the Company
Number of stock options by type of share (Note)	Ordinary shares: 7,800 shares	Ordinary shares: 6,200 shares	Ordinary shares: 5,800 shares
Date of grant	July 10, 2013	August 11, 2014	July 10, 2015
Vesting requirements	New share subscription right holders may exercise new share subscription rights within ten (10) days from the following day of the date of losing status of directors and executive officers of the Company during the exercise period of new share subscription rights. Other terms and conditions for exercise shall be in accordance with the “New share subscription rights allotment contract,” executed between the Company and the new share subscription right holders.	New share subscription right holders may exercise new share subscription rights within ten (10) days from the following day of the date of losing status of directors and executive officers of the Company during the exercise period of new share subscription rights. Other terms and conditions for exercise shall be in accordance with the “New share subscription rights allotment contract,” executed between the Company and the new share subscription right holders.	New share subscription right holders may exercise new share subscription rights within ten (10) days from the following day of the date of losing status of directors and executive officers of the Company during the exercise period of new share subscription rights. Other terms and conditions for exercise shall be in accordance with the “New share subscription rights allotment contract,” executed between the Company and the new share subscription right holders.
Vesting period	No determined period.	No determined period.	No determined period.
Exercise period	From July 11, 2013 to July 10, 2043	From August 12, 2014 to August 11, 2044	From July 11, 2015 to July 10, 2045
	New share subscription rights issued in August 2015	New share subscription rights issued in July 2016	New share subscription rights issued in July 2017
Category and number of persons to be granted	5 directors, 7 executive officers and 206 employees of the Company	6 directors and 11 executive officers of the Company	6 directors and 11 executive officers of the Company
Number of stock options by type of share (Note)	Ordinary shares: 207,100 shares	Ordinary shares: 5,600 shares	Ordinary shares: 6,600 shares
Date of grant	August 7, 2015	July 12, 2016	July 12, 2017
Vesting requirements	New share subscription rights holder shall be a director, executive officer or employee of the Company when exercising the rights, unless any director or executive officer retires upon expiration of the term of office, or any employee retires upon reaching the mandatory retirement age, or the board of directors of the Company recognizes any reasonable cause.	New share subscription right holders may exercise new share subscription rights within ten (10) days from the following day of the date of losing status of directors and executive officers of the Company during the exercise period of new share subscription rights. Other terms and conditions for exercise shall be in accordance with the “New share subscription rights allotment contract,” executed between the Company and the new share subscription right holders.	New share subscription right holders may exercise new share subscription rights within ten (10) days from the following day of the date of losing status of directors and executive officers of the Company during the exercise period of new share subscription rights. Other terms and conditions for exercise shall be in accordance with the “New share subscription rights allotment contract,” executed between the Company and the new share subscription right holders.
Vesting period	From August 7, 2015 to August 7, 2017	No determined period.	No determined period.
Exercise period	From August 8, 2017 to August 31, 2021	From July 13, 2016 to July 12, 2046	From July 13, 2017 to July 12, 2047

	New share subscription rights issued in July 2018
Category and number of persons to be granted	6 directors and 10 executive officers of the Company
Number of stock options by type of share (Note)	Ordinary shares: 8,200 shares
Date of grant	July 11, 2018
Vesting requirements	New share subscription right holders may exercise new share subscription rights within ten (10) days from the following day of the date of losing status of directors and executive officers of the Company during the exercise period of new share subscription rights. Other terms and conditions for exercise shall be in accordance with the "New share subscription rights allotment contract," executed between the Company and the new share subscription right holders.
Vesting period	No determined period.
Exercise period	From July 12, 2018 to July 11, 2048

(Note) It is stated by translating into the number of shares. In this regard, the Company made a stock split as of October 1, 2013 at the ratio of 2 shares per 1 ordinary share and it is stated by translating into the number of shares after stock split.

(4) Size and Status of Changes in Stock Options

[1] Changes in the number of stock options and weighted average exercise price

	2018		2019	
	Number of options (share)	Weighted average exercise price (yen)	Number of options (share)	Weighted average exercise price (yen)
Unexercised balance at the beginning of the year	230,500	7,008	234,500	6,815
Grant of rights	6,600	1	8,200	1
Exercise of rights	(2,600)	1	(5,800)	1
Invalidation of rights	-	-	-	-
Expired exercise of rights	-	-	-	-
Unexercised balance at the end of the year	234,500	6,815	236,900	6,746
Exercisable balance at the end of the year	207,100	7,716	207,100	7,716

Number of stock options is stated by translating into the number of shares.

[2] Status of exercise of stock options

Previous consolidated fiscal year (2018)

	Number of exercised rights (shares)	Weighted average price of shares at the time of exercise (yen)
Issued in July 2013	800	6,118
Issued in August 2014	600	6,118
Issued in July 2015	600	6,118
Issued in July 2016	600	6,118
Total	2,600	6,118

Current consolidated fiscal year (2019)

	Number of exercised rights (shares)	Weighted average price of shares at the time of exercise (yen)
Issued in July 2013	1,400	4,935
Issued in August 2014	1,200	4,935
Issued in July 2015	1,000	4,935
Issued in July 2016	1,000	4,935
Issued in July 2017	1,200	4,935
Total	5,800	4,935

Weighted average remaining contract years of unexercised stock options are 6.21 years and 5.53 years respectively.

[3] Fair value as of the date of grant of stock options

	(yen)						
	Issued in July 2013	Issued in August 2014	Issued in July 2015	Issued in August 2015	Issued in July 2016	Issued in July 2017	Issued in July 2018
Exercise price	1	1	1	7,716	1	1	1
Fair value as of the date of grant	4,895	4,555	5,491	1,336	6,328	4,478	3,507

The Company made a stock split as of October 1, 2013 at a ratio of 2 shares per 1 ordinary share and it is stated by translating into the number of shares after stock split.

Fair value as of the date of grant is indicated by rounding a fraction less than a yen which accrued by adjustment in connection with stock split.

[4] Method of estimation of fair value of stock options

Fair value of granted stock options is measured in accordance with Black-Scholes Model. Assumptions used in Black-Scholes Model are as follows.

	2018	2019
Share price	¥6,150	¥5,130
Expected volatility (Note 1)	32.20%	31.11%
Expected remaining period (Note 2)	15 years	15 years
Expected dividends (Note 3)	¥130/share	¥130/share
Risk-free interest rate (Note 4)	0.338%	0.262%

- (Note) 1. It is calculated based on the records of share price corresponding to the expected remaining period.
2. Expected remaining period is estimated based on the average term of officers and executive officers of the Company and the terms and conditions of exercise of rights.
3. It is according to the actual dividends in the fiscal year ended March 31, 2018.
4. It is the interest rate of government bonds for the period corresponding to the expected remaining period.

28. Cash Flow Information

Expenditures by acquisition of the shares of a subsidiary accompanying the change in scope of consolidation are as follows.

Previous Consolidated Fiscal Year (2018)

Major breakdown of assets and liabilities of USL, which became a new subsidiary by acquisition of shares, and the payment consideration are as follows. Those amounts are measured at the time of acquisition of control of USL.

	(millions of yen)
	Amount
Current assets	34,107
Non-current assets	66,489
Goodwill	39,396
Liabilities	(23,395)
Total payment consideration	116,596
Contingent consideration included in payment consideration	(5,338)
Cash and cash equivalents held by the acquiree at the time of acquisition	(63)
Payment for acquisition of shares of the subsidiary	111,195

Current Consolidated Fiscal Year (2019)

This is the payment of contingent consideration for acquisition of USL.

29. Consolidation

Major subsidiaries of the Company at the end of the current consolidated fiscal year are as follows.

Names of Major Subsidiaries	Major Business Activities	Location	Ownership ratio of voting rights (%)
Medisa Shinyaku Inc.	Sale of ethical pharmaceuticals	Japan	100.0
Kaken Shoyaku Co., Ltd.	Manufacture and sale of ethical pharmaceuticals	Japan	100.0
Sawai America Holdings INC.	Holding Company	US	100.0
Sawai America, LLC	Management of subsidiaries through holding of interests in subsidiaries	US	80.0
Upsher-Smith Laboratories, LLC	Manufacture and sale of ethical pharmaceuticals	US	80.0

There is no subsidiary that has material non-controlling interests in the previous consolidated fiscal year and the current consolidated fiscal year.

30. Related Parties

Remuneration for key management personnel is as follows.

	(millions of yen)	
	2018	2019
Basic remuneration and bonuses	345	332
Share-based payment expenses	16	16

31. Business Combination

(1) Status of Business Combination

Previous consolidated fiscal year (2018)

Acquisition of USL

[1] Name and business line of the acquired company

Name of the acquired company: Upsher-Smith Laboratories, LLC

Business Line: Manufacture and sale of generics

[2] Major reasons for business combination

In the medium-term business plan, “M1 TRUST 2018,” the Company sets out to, “transform into a company that can continue to grow in a rapidly changing market environment” and has focused on key themes including firmly maintaining its No. 1 share in the domestic generic market, strengthening its stable supply capacity and cost management capacity that corresponds to the current period of an 80% share of the generic market and acceleration of efforts to establish overseas business opportunities.

For overseas business opportunities, we are pursuing challenges in the US market, the largest pharmaceutical market in the world and established a US subsidiary in June 2013 and submitted to the Food and Drug Administration (FDA) an Abbreviated New Drug Application (ANDA) for Pitavastatin, an HMG-CoA reductase inhibitor in August 2013, and obtained approval under Paragraph IV on February 10, 2017 for the first time as a Japanese generic manufacturer. On June 28, 2016, the Company made an application for ANDA of Mirabegron, selective β_3 adrenergic receptor agonist for treatment of overactive bladders and we will continue to pursue opportunities under Paragraph IV.

On the other hand, USL is a US pharmaceutical company, which was established in 1919 and has been engaged in research and development, manufacture and sale of generics. USL has a portfolio of about 30 products, mainly of oral solid preparations and more than 30 pipeline products and has established a firm standing in the US generic market.

In addition to promoting efforts mainly under Paragraph IV since 2013, the Company acquired a firm business foundation in the United States through the acquisition to realize full-scale penetration into the US market. The Company will utilize this business foundation and deploy in the US market pipeline products of the Company for the United States, in addition to pipeline products specific to USL. Through combination of an intellectual property strategy, preparation technology accumulated by the Company in Japan and research and development, manufacturing and sales capacity of USL, we will develop the US business and strive for further growth and expansion.

[3] Date of acquisition

May 31, 2017

[4] Percentage of voting equity interests acquired

We acquired 100% of the voting equity interests of USL in consideration for cash (including contingent consideration). The Company acquired its interest in USL through SAWAI AMERICA, LLC, a consolidated subsidiary of the Company (hereinafter referred to as “SAL”). All interests in SAL are held by SAWAI AMERICA HOLDINGS INC., a consolidated subsidiary of the Company.

[5] Fair value of acquired assets and assumed liabilities and breakdown of the acquired consideration

Fair value of acquired assets and assumed liabilities and acquired consideration as of the date of acquisition are as follows.

	(millions of yen)
Trade and other receivables	24,819
Intangible assets	54,366
Other assets	21,411
Other liabilities	(23,395)
Goodwill	39,396
Total	116,596
Cash	111,259
Contingent consideration	5,338
Total acquired consideration	116,596

Accrued amount of acquired trade and other receivables under contract is ¥24,832 million and the estimated cash flow under contract, which is not expected to be recovered, is ¥13 million.

Goodwill mainly reflects the synergy effect expected from integration of research and development organizations. All recognized goodwill will be deductible for tax purposes. Major intangible assets are intangible assets related to products of ¥31,937 million and in process research and development of ¥15,580 million. For a temporary difference which accrued as a result of recognition of identifiable intangible assets, etc., deferred tax liabilities are recognized.

As the acquisition-related expenses related to the business combination, the amount of ¥1,405 million was recorded in “Selling, general and administrative expenses.”

[6] Impact on the performance of the Group

Regarding pro forma information, in a case where it is assumed that the business combination was conducted at the beginning of the current consolidated fiscal year, as the impact on sales revenues or net profit is relatively small, a statement is omitted. Sales revenues and net profit included in the Consolidated Statement of Income for the current consolidated fiscal year are ¥33,347 million and ¥1,928 million respectively.

[7] Partial assignment of the interest in subsidiaries after business combination

The Company adopted a resolution at the board of directors’ meeting held on November 13, 2017 that part of interest of SAL, holding 100% of the interest in USL would be assigned to Sumitomo Corporation of Americas (hereinafter referred to as “SCOA”) and executed an interest assignment contract with SCOA and assigned on January 3, 2018. The ratio of interest assigned was 20% and the ratio of interest held by the Group after assignment was 80% and as it does not cause loss of control, the difference between the assigned interest and the assignment price was accounted for as capital surplus.

The impact on capital surplus by changes in the ownership interest in the subsidiary not accompanying loss of control is as follows.

	(millions of yen)	
	2017	2018
Amount of impact on capital surplus	-	732

Current consolidated fiscal year (2019)

No applicable matter.

(2) Contingent Consideration

Previous consolidated fiscal year (2018)

The Group will additionally pay a contingent consideration up to US\$50 million according to the level of performance index of USL after business combination. This contingent consideration is recognized as “Other financial liabilities” in the Consolidated Statement of Financial Position, taking into account the time value, etc.

As the payment amount of contingent consideration was determined in January 2018 and the payment date arrived within a year from the end of the current consolidated fiscal year (March 31, 2018), disclosure of expected amount of payment by date and sensitivity analysis to fair value is omitted.

Breakdown of increase/decrease in the contingent consideration is as follows.

	(millions of yen)
	2018
Balance at the beginning of the year	-
Increased amount by business combination	5,338
Changes in amount by fair value valuation, etc.	162
Exchange differences on translation of foreign operations	(234)
Balance at the end of the year	5,266

Hierarchy level of fair value of contingent consideration is Level 3. Out of amount of changes in fair value related to contingent consideration, part of changes in time value is recorded in “Financial expenses” and the part of changes in those other than time value is recorded in “Other income” or “Other expenses.”

Current consolidated fiscal year (2019)

The Group has completed payment of the full amount of the above contingent consideration in the current consolidated fiscal year.

32. Contingency

There is no event which might give material impact on the Consolidated Financial Statements.

33. Events after Reporting Period

(Conclusion of a significant agreement)

USL, a consolidated subsidiary of the Company, has entered into an agreement to acquire US and other territory rights for Tosymra™ (sumatriptan nasal spray), 10 mg, and Zembrace® Symtouch® (sumatriptan injection), 3 mg.. The counterparties of this agreement are Dr. Reddy’s Laboratories Ltd. (“DRL”, Head office: Hyderabad Telangana, India, Co-Chairman and CEO: G.V. Prasad) and DRL’s wholly owned subsidiary, Promius Pharma LLC (“Promius”, Head office: New Jersey, USA, President: Anil Namboodiripad). The products are currently commercialized through Promius.

Under the terms of the agreement, DRL is eligible to receive \$110.5 million as upfront and milestone payments and also to receive performance-based earnouts during a specified period.

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