

July 27, 2018

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Financial Results of Astellas for the First Three Months of FY2018

Japan, July 27, 2018 – Astellas Pharma Inc. (TSE: 4503, President and CEO: Kenji Yasukawa, “the Company”) today announced the financial results for the first three months (April 1, 2018 – June 30, 2018) of the fiscal year 2018 (FY2018) ending March 31, 2019.

Consolidated financial results for the first three months of FY2018 (core basis)

(Millions of yen)

	First three months of FY2017	First three months of FY2018	Change (%)
Sales	322,571	329,085	+6,514 (+2.0%)
Core operating profit	65,124	84,038	+18,914 (+29.0%)
Core profit for the period	51,914	70,350	+18,436 (+35.5%)

Cautionary Notes

In this material, statements made with respect to current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Astellas. These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to: (i) changes in general economic conditions and in laws and regulations, relating to pharmaceutical markets, (ii) currency exchange rate fluctuations, (iii) delays in new product launches, (iv) the inability of Astellas to market existing and new products effectively, (v) the inability of Astellas to continue to effectively research and develop products accepted by customers in highly competitive markets, and (vi) infringements of Astellas' intellectual property rights by third parties. Information about pharmaceutical products (including products currently in development) which is included in this material is not intended to constitute an advertisement or medical advice.

1. Qualitative information on consolidated financial results for the first three months of FY2018

(1) Business performance

<Consolidated financial results (core basis ^(Note))>

Consolidated financial results (core basis) in the first three months of FY2018 are shown in the table below. Sales, core operating profit and core profit for the period increased across the board.

Consolidated financial results (core basis)

(Millions of yen)

	First three months of FY2017	First three months of FY2018	Change (%)
Sales	322,571	329,085	+6,514 (+2.0%)
Cost of sales	79,272	70,736	-8,536 (-10.8%)
Selling, general and administrative expenses	112,335	112,888	+553 (+0.5%)
R&D expenses	56,477	52,132	-4,345 (-7.7%)
Amortisation of intangible assets	8,971	9,039	+68 (+0.8%)
Share of profits/losses of associates and joint ventures	-392	-252	+140 (—)
Core operating profit	65,124	84,038	+18,914 (+29.0%)
Core profit for the period	51,914	70,350	+18,436 (+35.5%)
Basic core earnings per share (yen)	25.14	35.70	+10.55 (+42.0%)

(Note) The Company discloses financial results on a core basis as an indicator of its recurring profitability. Certain items reported in financial results on a full basis that are deemed to be non-recurring items by the Company are excluded as non-core items from these financial results on a core basis. These adjusted items include impairment losses, gain/loss on sales of property, plant and equipment, restructuring costs, loss on disaster, a large amount of losses on compensation or settlement of litigations and other legal disputes, and other items that are deemed to be excluded based on the Company's judgment. A reconciliation table between results on a full basis and results on a core basis is provided on page 24 of the "Supplementary Documents for Results Q1/FY2018."

Sales

Consolidated sales in the first three months of FY2018 increased by 2.0% compared to those in the corresponding period of the previous fiscal year (“year-on-year”) to ¥329.1 billion.

- Sales of the mainstay products such as XTANDI for the treatment of prostate cancer, overactive bladder (“OAB”) treatments Vesicare and Betanis / Myrbetriq / BETMIGA, and Prograf, an immunosuppressant, increased.
- Although sales in Japan were impacted by the NHI drug price revision implemented in April 2018 and the effect of generic drugs on the sales of long-listed products such as Micardis for treatment of hypertension, the growth of mainstay products globally contributed to sales increase.

Core operating profit / Core profit for the period

- Gross profit increased by 6.2% year-on-year to ¥258.3 billion. The cost-to-sales ratio fell by 3.1 percentage points year-on-year to 21.5%, mainly owing to changes in product mix.
- Selling, general and administrative expenses were generally at the same level as the corresponding period of the previous fiscal year at ¥112.9 billion (up 0.5% year-on-year), mainly due to lower expense and optimal resource allocation, offset by increased XTANDI co-promotion fees in the United States.
- Research and development (R&D) expenses were ¥52.1 billion, down 7.7% year-on-year due in part to the termination of research activities of Agensys, Inc., which had been carried out until March 2018, despite increased expenses related to enhanced investment in new opportunities. The R&D cost-to-sales ratio was down 1.7 percentage points year-on-year to 15.8%.
- Amortisation of intangible assets increased by 0.8% year-on-year to ¥9.0 billion.

As a result of the above, core operating profit increased by 29.0% year-on-year to ¥84.0 billion and core profit for the period increased by 35.5% year-on-year to ¥70.4 billion.

Impact of exchange rate on financial results

The exchange rates for the yen in the first three months of FY2018 are shown in the table below. The resulting impacts were a ¥4.0 billion increase in sales and a ¥4.9 billion increase in core operating profit compared with if the exchange rates of the first three months of FY2017 were applied.

Average rate	First three months of FY2017	First three months of FY2018	Change
US\$/¥	111	109	¥2 (Strengthening of yen)
€/¥	122	130	¥8 (Weakening of yen)

Change from beginning to end of period	As of June 30, 2017	As of June 30, 2018
US\$/¥	¥0 (Strengthening of yen)	¥4 (Weakening of yen)
€/¥	¥8 (Weakening of yen)	¥3 (Strengthening of yen)

<Consolidated financial results (full basis)>

Consolidated financial results on a full basis in the first three months of FY2018 are shown in the table below. Sales, operating profit, profit before tax and profit for the period increased across the board.

The full basis financial results include “Other income,” “Other expense” (including impairment losses and net foreign exchange losses), which are excluded from the core basis financial results.

In the first three months of FY 2018, the Company recorded a gain on sales of property, plant and equipment in relation to the transfer of assets held by Agensys, Inc. as “Other income.” On the other hand, the Company recorded restructuring costs mainly in relation to business restructuring in Japan, litigation costs, and impairment losses in relation to the termination of a development project as “Other expense.” As a result of the above, “Other income” was ¥4.2 billion (¥9.7 billion in the same period of the previous fiscal year) and “Other expense” was ¥24.7 billion (¥31.3 billion in the same period of the previous fiscal year).

Consolidated financial results (full basis)

(Millions of yen)

	First three months of FY2017	First three months of FY2018	Change (%)
Sales	322,571	329,085	+6,514 (+2.0%)
Operating profit	43,529	63,548	+20,019 (+46.0%)
Profit before tax	48,471	64,495	+16,024 (+33.1%)
Profit for the period	42,468	54,559	+12,092 (+28.5%)
Basic earnings per share (yen)	20.57	27.68	+7.11 (+34.6%)
Comprehensive income	83,520	70,861	-12,659 (-15.2%)

<Sales of Main Products>

(Billions of yen)

	First three months of FY2017	First three months of FY2018	Change
XTANDI	67.9	81.2	+19.6%
OAB products in Urology	51.8	59.3	+14.5%
Vesicare	24.6	24.9	+1.4%
Betanis / Myrbetriq / BETMIGA	27.2	34.4	+26.3%
Prograf*	49.4	52.2	+5.7%

* Prograf: Includes Advagraf, Graceptor, and ASTAGRAF XL.

<XTANDI>

- Sales increased by 19.6% year-on-year to ¥81.2 billion. Sales grew in all regions of Japan, the Americas, EMEA*, and Asia and Oceania.

<OAB products in Urology>

- Sales of Betanis / Myrbetriq / BETMIGA increased by 26.3% year-on-year to ¥34.4 billion. Sales increased in all regions of Japan, the Americas, EMEA, and Asia and Oceania. Sales of Vesicare increased by 1.4% year-on-year to ¥24.9 billion.

<Prograf>

- Sales increased by 5.7% year-on-year to ¥52.2 billion, and sales grew in the Americas, EMEA, and Asia and Oceania regions.

<Other new products and main products>

- In the Japanese market, sales of Suglat for the treatment of type2 diabetes and Sujanu Combination Tablets, launched in May 2018 increased. In addition, Cimzia for the treatment of adult patients with rheumatoid arthritis and the new products Repatha for the treatment of hypercholesterolemia and Linzess for the treatment of irritable bowel syndrome with constipation continued to grow.
- In the Americas, sales of azole antifungal CRESEMBA grew.

* EMEA: Europe, the Middle East and Africa.

<Sales by region>

Sales by region are shown in the table below. Sales in Japan decreased, while in the Americas, EMEA and Asia and Oceania increased.

As for the Japanese market, sales decreased largely due to effect of NHI drug price revisions implemented in April 2018, and the impact of generic drugs on the sales of long-listed products such as Micardis for the treatment of hypertension.

(Billions of yen)

	First three months of FY2017	First three months of FY2018	Change
Japan	114.2	100.2	-12.3%
The Americas	101.6	112.9	+11.2%
EMEA	83.4	90.8	+8.9%
Asia and Oceania	23.4	25.2	+7.5%

*Sales by region calculated according to locations of sellers.

(2) Financial position

i. Assets, equity and liabilities

An overview of the consolidated statement of financial position as of June 30, 2018 and the main changes from the end of the previous fiscal year are shown below.

Assets

Total assets as of June 30, 2018 saw an increase of ¥8.3 billion compared to the end of the previous fiscal year to ¥1,866.6 billion.

<Non-current assets> As of June 30, 2018: ¥1,021.8 billion (an increase of ¥9.2 billion)

- Goodwill increased by ¥6.3 billion compared to the end of the previous fiscal year to ¥219.2 billion, and other intangible assets decreased by ¥7.9 billion compared to the end of the previous fiscal year to ¥409.0 billion.

<Current assets> As of June 30, 2018: ¥844.7 billion (a decrease of ¥0.9 billion)

- Cash and cash equivalents decreased by ¥22.0 billion compared to the end of the previous fiscal year to ¥309.7 billion.

Equity

Total equity as of June 30, 2018 saw an increase of ¥7.6 billion compared to the end of the previous fiscal year to ¥1,275.9 billion, making the ratio of equity attributable to owners of the parent to gross assets 68.4%.

- While profit for the period stood at ¥54.6 billion, the Company paid ¥35.6 billion of dividends of surplus and executed a ¥27.8 billion acquisition of own shares.
- The effect of foreign currency translation adjustments increased equity by ¥8.9 billion.
- Cancellation of treasury shares totaling ¥130.4 billion (89 million shares) was carried out on May 31, 2018.

Liabilities

Total liabilities increased by ¥0.7 billion compared to the end of the previous fiscal year to ¥590.6 billion.

<Non-current liabilities> As of June 30, 2018: ¥152.0 billion (a decrease of ¥16.3 billion)

<Current liabilities> As of June 30, 2018: ¥438.6 billion (an increase of ¥17.0 billion)

ii. Cash flow

Cash flows from operating activities

Net cash flows from operating activities in the first three months of FY2018 decreased year-on-year by ¥22.3 billion to ¥37.2 billion.

- Income tax paid was ¥24.3 billion.

Cash flows from investing activities

Net cash flows provided by investing activities in the first three months of FY2018 was ¥2.4 billion, a decrease in outflow of ¥58.5 billion year-on-year.

- The sale of property, plant and equipment mainly in relation to the transfer of assets owned by Agensys, Inc. contributed to a cash inflow of ¥14.3 billion.

Cash flows from financing activities

Net cash flows used in financing activities in the first three months of FY2018 was ¥63.3 billion, an increase in outflow of ¥27.1 billion year-on-year.

- Dividends paid increased by ¥0.5 billion year-on-year to ¥35.6 billion. Other outflow included cash of ¥27.8 billion (an increase of ¥27.1 billion year-on-year) used for the acquisition of own shares.

As a result, cash and cash equivalents totaled ¥309.7 billion as of June 30, 2018, a decrease of ¥22.0 billion compared to the end of the previous fiscal year.

(3) Consolidated business forecasts for FY2018 and other forward-looking statements

The Company's business forecasts for FY2018 are presented on a core basis and full basis.

The consolidated full-year business forecasts for FY2018 are shown below. The Company has chosen to leave its business forecasts unchanged from the consolidated full-year business forecasts announced in April 2018.

Consolidated full-year business forecasts (core basis)

(Millions of yen)

	FY2017 Results	FY2018 Forecasts	Change (%)
Sales	1,300,316	1,278,000	-22,316 (-1.7%)
R&D expenses	220,781	214,000	-6,781 (-3.1%)
Core operating profit	268,698	262,000	-6,698 (-2.5%)
Core profit for the year	204,326	210,000	+5,674 (+2.8%)
Basic core earnings per share (yen)	100.64	106.98	+6.34 (+6.3%)

Consolidated full-year business forecasts (full basis)

(Millions of yen)

	FY2017 Results	FY2018 Forecasts	Change (%)
Sales	1,300,316	1,278,000	-22,316 (-1.7%)
Operating profit	213,258	265,000	+51,742 (+24.3%)
Profit before tax	218,113	266,000	+47,887 (+22.0%)
Profit for the year	164,679	213,000	+48,321 (+29.3%)
Basic earnings per share (yen)	81.11	108.51	+27.40 (+33.8%)

Expected exchange rate for

FY2018 (Forecast)	¥105/US\$	¥130/€
FY2017 (Result)	¥111/US\$	¥130/€

(Note) The forecasts for basic core earnings per share and basic earnings per share reflect acquisitions of own shares carried out from June 1 to June 30, 2018.

2. Condensed Interim Consolidated Financial Statements and Notes
(1) Condensed Interim Consolidated Statement of Income

(Millions of yen)

	Three months ended 30 June 2017	Three months ended 30 June 2018
Sales	322,571	329,085
Cost of sales	(79,272)	(70,736)
Gross profit	243,299	258,349
Selling, general and administrative expenses	(112,335)	(112,888)
Research and development expenses	(56,477)	(52,132)
Amortisation of intangible assets	(8,971)	(9,039)
Share of losses of associates and joint ventures	(392)	(252)
Other income	9,702	4,239
Other expense	(31,297)	(24,728)
Operating profit	43,529	63,548
Finance income	5,223	1,166
Finance expense	(281)	(219)
Profit before tax	48,471	64,495
Income tax expense	(6,003)	(9,935)
Profit for the period	42,468	54,559
Profit attributable to:		
Owners of the parent	42,468	54,559
Earnings per share		
Basic (Yen)	20.57	27.68
Diluted (Yen)	20.54	27.65

(2) Condensed Interim Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended 30 June 2017	Three months ended 30 June 2018
Profit for the period	42,468	54,559
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Financial assets measured at fair value through other comprehensive income	—	7,289
Remeasurements of defined benefit plans	1,343	158
Subtotal	1,343	7,446
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation adjustments	40,039	8,856
Fair value movements on available-for-sale financial assets	(330)	—
Subtotal	39,710	8,856
Other comprehensive income, net of tax	41,053	16,302
Total comprehensive income	83,520	70,861
Total comprehensive income attributable to:		
Owners of the parent	83,520	70,861

(3) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of 31 March 2018	As of 30 June 2018
Assets		
Non-current assets		
Property, plant and equipment	181,295	179,769
Goodwill	212,976	219,240
Other intangible assets	416,912	408,998
Trade and other receivables	25,282	25,591
Investments in associates and joint ventures	3,138	3,009
Deferred tax assets	97,237	95,204
Other financial assets	67,375	81,903
Other non-current assets	8,372	8,103
Total non-current assets	<u>1,012,587</u>	<u>1,021,817</u>
Current assets		
Inventories	147,626	145,593
Trade and other receivables	319,512	333,509
Income tax receivable	8,412	14,809
Other financial assets	13,517	23,702
Other current assets	14,448	17,381
Cash and cash equivalents	331,731	309,741
Sub total	<u>835,245</u>	<u>844,734</u>
Assets held for sale	10,374	—
Total current assets	<u>845,619</u>	<u>844,734</u>
Total assets	<u><u>1,858,205</u></u>	<u><u>1,866,551</u></u>

(Millions of yen)

	As of 31 March 2018	As of 30 June 2018
Equity and liabilities		
Equity		
Share capital	103,001	103,001
Capital surplus	177,219	177,064
Treasury shares	(135,951)	(32,978)
Retained earnings	976,076	864,746
Other components of equity	147,945	164,088
Total equity attributable to owners of the parent	1,268,289	1,275,921
Total equity	1,268,289	1,275,921
Liabilities		
Non-current liabilities		
Trade and other payables	3,515	3,502
Deferred tax liabilities	26,426	22,100
Retirement benefit liabilities	36,673	36,654
Provisions	4,891	4,745
Other financial liabilities	49,422	44,720
Other non-current liabilities	47,370	40,262
Total non-current liabilities	168,296	151,983
Current liabilities		
Trade and other payables	140,909	138,123
Income tax payable	25,184	21,981
Provisions	126,231	39,914
Other financial liabilities	7,559	18,521
Other current liabilities	121,737	220,109
Total current liabilities	421,620	438,647
Total liabilities	589,916	590,630
Total equity and liabilities	1,858,205	1,866,551

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Subscription rights to shares	Foreign currency translation adjustments
As of 1 April 2017	103,001	177,091	(138,207)	1,013,923	1,784	99,590
Comprehensive income						
Profit for the period	—	—	—	42,468	—	—
Other comprehensive income	—	—	—	—	—	40,039
Total comprehensive income	—	—	—	42,468	—	40,039
Transactions with owners of the parent						
Acquisition of treasury shares	—	—	(708)	—	—	—
Disposals of treasury shares	—	(159)	307	(95)	(54)	—
Cancellation of treasury shares	—	—	132,150	(132,150)	—	—
Dividends	—	—	—	(35,105)	—	—
Share-based payments	—	135	—	—	—	—
Transfers	—	—	—	1,343	—	—
Total transactions with owners of the parent	—	(24)	131,749	(166,007)	(54)	—
As of 30 June 2017	103,001	177,068	(6,459)	890,384	1,730	139,629
As of 1 April 2018	103,001	177,219	(135,951)	976,076	1,477	128,179
Change in an accounting policy	—	—	—	—	—	—
As of 1 April 2018 (after adjustment)	103,001	177,219	(135,951)	976,076	1,477	128,179
Comprehensive income						
Profit for the period	—	—	—	54,559	—	—
Other comprehensive income	—	—	—	—	—	8,856
Total comprehensive income	—	—	—	54,559	—	8,856
Transactions with owners of the parent						
Acquisition of treasury shares	—	—	(27,786)	—	—	—
Disposals of treasury shares	—	(281)	340	(51)	(7)	—
Cancellation of treasury shares	—	—	130,419	(130,419)	—	—
Dividends	—	—	—	(35,571)	—	—
Share-based payments	—	127	—	—	—	—
Transfers	—	—	—	151	—	—
Total transactions with owners of the parent	—	(154)	102,973	(165,890)	(7)	—
As of 30 June 2018	103,001	177,064	(32,978)	864,746	1,469	137,035

(Millions of yen)

	Equity attributable to owners of the parent					Total equity
	Other components of equity				Total	
	Fair value movements on available-for-sale financial assets	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
As of 1 April 2017	14,629	—	—	116,002	1,271,810	1,271,810
Comprehensive income						
Profit for the period	—	—	—	—	42,468	42,468
Other comprehensive income	(330)	—	1,343	41,053	41,053	41,053
Total comprehensive income	(330)	—	1,343	41,053	83,520	83,520
Transactions with owners of the parent						
Acquisition of treasury shares	—	—	—	—	(708)	(708)
Disposals of treasury shares	—	—	—	(54)	0	0
Cancellation of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	—	(35,105)	(35,105)
Share-based payments	—	—	—	—	135	135
Transfers	—	—	(1,343)	(1,343)	—	—
Total transactions with owners of the parent	—	—	(1,343)	(1,396)	(35,678)	(35,678)
As of 30 June 2017	14,299	—	—	155,658	1,319,652	1,319,652
As of 1 April 2018	18,289	—	—	147,945	1,268,289	1,268,289
Change in an accounting policy	(18,289)	18,289	—	—	—	—
As of 1 April 2018 (after adjustment)	—	18,289	—	147,945	1,268,289	1,268,289
Comprehensive income						
Profit for the period	—	—	—	—	54,559	54,559
Other comprehensive income	—	7,289	158	16,302	16,302	16,302
Total comprehensive income	—	7,289	158	16,302	70,861	70,861
Transactions with owners of the parent						
Acquisition of treasury shares	—	—	—	—	(27,786)	(27,786)
Disposals of treasury shares	—	—	—	(7)	0	0
Cancellation of treasury shares	—	—	—	—	—	—
Dividends	—	—	—	—	(35,571)	(35,571)
Share-based payments	—	—	—	—	127	127
Transfers	—	6	(158)	(151)	—	—
Total transactions with owners of the parent	—	6	(158)	(159)	(63,230)	(63,230)
As of 30 June 2018	—	25,584	—	164,088	1,275,921	1,275,921

(5) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended 30 June 2017	Three months ended 30 June 2018
Cash flows from operating activities		
Profit before tax	48,471	64,495
Depreciation and amortisation	15,996	16,080
Impairment losses and reversal of impairment losses	25,953	3,004
Finance income and expense	(4,941)	(947)
(Increase) decrease in inventories	18,807	2,424
(Increase) decrease in trade and other receivables	(19,763)	(12,780)
Increase (decrease) in trade and other payables	(43,499)	(5,862)
Other	24,044	(4,962)
Cash generated from operations	65,068	61,453
Income tax paid	(5,576)	(24,274)
Net cash flows from operating activities	59,492	37,179
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,388)	(5,035)
Proceeds from sales of property, plant and equipment	149	14,255
Purchase of intangible assets	(3,650)	(4,979)
Proceeds from sales of available-for-sale financial assets	6,954	—
Acquisition of subsidiaries, net of cash acquired	(55,367)	—
Interest and dividends received	477	738
Other	(2,202)	(2,534)
Net cash flows used in investing activities	(56,026)	2,446
Cash flows from financing activities		
Acquisition of treasury shares	(708)	(27,786)
Dividends paid to owners of the parent	(35,105)	(35,571)
Other	(340)	68
Net cash flows used in financing activities	(36,154)	(63,289)
Effect of exchange rate changes on cash and cash equivalents	6,182	1,675
Net increase (decrease) in cash and cash equivalents	(26,506)	(21,990)
Cash and cash equivalents at the beginning of the year	340,923	331,731
Cash and cash equivalents at the end of the period	314,417	309,741

(6) Notes to condensed interim consolidated financial statements

Notes on going concern assumption

Not applicable.

Significant accounting policies

The significant accounting policies adopted for the condensed interim consolidated financial statements are the same as those applied for the consolidated financial statements for the fiscal year ended 31 March 2018 with exception of the items described below.

Astellas Pharma Inc. and its subsidiaries (collectively, the “Group”) calculated income tax expense for the three months ended 30 June 2018 based on the estimated average annual effective tax rate.

The Group has newly adopted the following standards from the three months ended 30 June 2018:

IFRSs		Summaries of new or amended IFRS standards and interpretations
IFRS 9	Financial Instruments	Amendments related to classification and measurement of financial assets and financial liabilities, impairment, and hedge accounting
IFRS 15	Revenue from Contracts with Customers	Comprehensive framework for revenue recognition

The nature and the effects of the changes in the significant accounting policies relevant to the condensed interim consolidated financial statements are given below. With the application of IFRS 9 and IFRS 15, the Group adopts the method whereby the cumulative effect of initially applying these standards is recognised at the date of initial application as a transition measure. There is no impact on the beginning balance of retained earnings for the three months ended 30 June 2018.

(IFRS 9 “Financial Instruments”)

1) Initial recognition and measurement

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

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

2) Financial assets

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

(a) Financial assets measured at amortised cost

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

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

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

(b) Financial assets at FVTOCI (debt instruments)

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

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

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

(c) Financial assets at FVTOCI (equity instruments)

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

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

(d) Financial assets at FVTPL

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

After initial recognition, the financial assets are measured at fair value, and any gain or loss resulting from changes in fair value, dividends and interest revenue are recognised in profit or loss.

3) Impairment of financial assets

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

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

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

4) Financial liabilities

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

(a) Financial liabilities at FVTPL

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

After initial recognition, the financial liabilities are measured at fair value, and any gain or loss resulting from changes in fair value and interest expense are recognised in profit or loss.

(b) Financial liabilities measured at amortised cost

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

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

5) Derecognition

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

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

There is no material impact on the Group's condensed interim consolidated financial statements due to the application of IFRS 9. With the application of IFRS 9, the financial assets which were previously classified as available-for-sale financial assets are classified as financial assets at FVTOCI from the three months ended 30 June 2018.

(IFRS 15 "Revenue from Contracts with Customers")

Revenue is recognised based on the following five-step:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

1) Sales of pharmaceutical products

Revenue from sales of pharmaceutical products is recognised when control of the promised pharmaceutical product is transferred to the customer by the Group. The Group determines that control of a pharmaceutical product is usually transferred to the customer upon delivery. If the transaction price in a contract includes a variable amount, rebates, discounts and other consideration payable to a customer, the variable consideration is estimated by using either of the expected value method or the most likely amount method and is reduced from consideration received from the customer.

2) Royalty income

Revenue from royalty income is generated from contracts under which third parties have been granted rights to produce or market pharmaceutical products or rights to use technologies. Royalty income includes upfront payments and milestone payments received and running royalties. According to the nature of the related performance obligation, revenue is recognised at a point in time when the performance obligation is satisfied or revenue is recognised over time as the performance obligation is satisfied.

There is no material impact on the Group's condensed interim consolidated financial statements due to the application of IFRS 15. With the application of IFRS 15, part of trade-related provisions which were previously included in "Provisions" are included in "Other non-current liabilities" and "Other current liabilities" as refund liabilities from the three months ended 30 June 2018.